

Financial Institutions

# MID-YEAR MARKET UPDATE



**Gallagher**

Insurance | Risk Management | Consulting



Financial Institutions

## INTRODUCTION

As we move through the midpoint of 2025, the insurance market for financial institutions remains dynamic, driven by evolving risks such as economic uncertainty, regulatory change, cybersecurity threats, and social inflation. This market update examines key coverages critical to financial institutions and provides an outlook on industry segments including banks, insurance companies, and asset management firms, reflecting the competitive yet challenging landscape shaped by robust capacity, rising claims severity and continually emerging risks.

## INDUSTRY SEGMENT-SPECIFIC RISK MANAGEMENT CONSIDERATIONS

### Banking

To date in 2025, banks have been navigating a complex landscape shaped by economic, regulatory and technological shifts. Uncertainty around trade tariffs and GDP growth rates are prompting banks to set aside more reserves for potential loan losses, anticipating increased defaults in a potentially weaker credit environment. This is particularly important for midsize and regional banks with higher exposure to commercial real estate (CRE) loans, which has led to increased underwriting scrutiny from the insurance market.

Regulatory uncertainty remains a significant headwind. With shifts in structure and policy within many regulatory bodies, including the Consumer Financial Protection Bureau (CFPB), and an anticipated more “business-friendly” environment, we may see an easing of merger constraints. These changes are currently contributing to some unknowns around M&A approval processes and timing. With a potential increase in consolidation among small and midsize banks, we could potentially see an increase in M&A litigation, which correspondingly could lead to higher insurance rates, retentions and other less favorable market conditions in this area.

The adoption of generative AI is accelerating, with leading banks shifting from experimental use cases to top-down strategies, potentially enhancing operational efficiency and compliance processes. However, this raises concerns about data governance and cybersecurity, as regulators emphasize operational resilience against third-party risks and technology outages. It is critical to understand the anticipated direction so that insurance policies can be adapted to this growing exposure.

Finally, we’d be remiss if we didn’t mention climate risk, including more severe storms and catastrophe (CAT) events. From a property perspective, there is heightened focus on climate risk to banks from two viewpoints: as it affects their own locations/property portfolio and as it affects their customers/lending portfolio.

Credit risk, market risk and operational risk are all focal points relative to climate change. Real estate loans in coastal or wildfire-prone areas face higher defaults and possible devaluation; climate-related disruption can impact asset prices, which can directly impact collateral values tied to a bank’s loans; disruption to bank operations from extreme weather like wind, flood or fire is presently occurring. To help mitigate these risks, banks are adopting more stringent due diligence in loan underwriting and seeking risk assessment tools to help predict climate scenarios that may affect their assets.

### Insurance company

Thus far in the year, insurance companies have seen increased challenges from technological transformation, rising claim costs and also climate change.

The increasing frequency and severity of natural catastrophes, such as Hurricanes Helene and Milton in 2024 and, more recently, the California wildfires, continue to broadly strain carriers specializing in property. While catastrophic events resulting in a significant amount of uncovered losses, such as the thousands of North Carolina homeowners impacted by inland flooding during Hurricane Helene, could result in E&O claims and added pressure to broaden coverage for additional perils. This situation may potentially result in adverse renewal terms for the Directors & Officers (D&O) and Insurance Company Professional Liability (ICPL) policies purchased by insurance companies.

On the other hand, social inflation, driven by aggressive plaintiff litigation, third-party litigation funding and nuclear verdicts, continues to increase casualty claim severity and resolution times. This results in carriers facing pressure to implement higher reserves and stricter underwriting terms and conditions, which can result in increasing rates, retentions, claims frequency and underwriting scrutiny for ICPL & D&O policies.

## Asset management

Asset management firms, too, have negotiated a similar landscape with headwinds including regulatory shifts, economic volatility and technological disruptions. All of which carry significant insurance and risk management implications, necessitating tailored strategies to mitigate exposures.

Increased regulatory scrutiny, particularly from the SEC, poses challenges but will continue to shift as the new administration implements policy changes. An area of particular interest is the potential SEC rollback on hedge fund data submissions of counterparty risk and investment performance, which may reduce transparency, increasing litigation risk from investors.

Additionally, geopolitical tensions, trade tariffs and recession concerns create market volatility, impacting portfolio valuations and investor returns for asset management firms, which again could lead to increased litigation risk.



## COVERAGE ANALYSIS FOR FINANCIAL INSTITUTIONS

### Directors and Officers (D&O) liability

The D&O market for financial institutions is showing signs of flexibility, particularly for public companies, though not at the rate seen in other industry groups. Rate changes for financial firms range from -5% to +5%, with some industry segments experiencing greater rate adjustments. For example, Asset management companies are benefiting from a more competitive rate environment, driven largely by robust capacity in the market, with numerous carriers eager to write business, leading to potential improvements in pricing, terms and conditions. Banks, on the other hand, still see more scrutiny from an underwriting standpoint, with a carryover from the banking crisis of 2023. Particular attention is paid to a bank's financials, loan portfolio, customer base and management team from an underwriting perspective.

Despite favorable underwriting conditions, challenges do persist, including ongoing claims related to regulatory issues and financial performance. Underwriters are focusing on claims history and cybersecurity planning, with a keen interest in understanding how organizations are using technology, particularly AI, in their operations. This focus is expected to continue, influencing underwriting decisions and coverage terms. Likewise, climate change is a key factor here as well, with Environmental, Social and Governance (ESG) disclosures being another focal point.

### Professional liability/Errors and Omissions (E&O)

The professional liability market remains firm, with Bankers Professional Liability (BPL) rates starting around flat to +10% or +15%, and Insurance Company Professional Liability (ICPL) flat to about +15%. These rates are driven by capacity in the market, with a limited number of carriers writing primary coverage, focusing on claims history and financial performance. Asset management segments continue to see healthy competition, particularly for risks without claims. The market is still characterized by a willingness among carriers to negotiate terms, though, providing opportunities for insureds to secure favorable conditions. A number of interrelated factors come into play in this space, including regulatory enforcement — both historical and shifting due to the new administration; new crypto-related rules and ESG disclosure requirements; economic volatility and recession risk; cyber risk and use of AI. All of these are expected to persist as focal points for underwriters evaluating risk.



### **Financial institution bond**

The financial institution bond market continues to be a loss leader, with claims related to social engineering and fraudulent transfer coverage being prominent causes of loss. Despite these challenges, there are opportunities for negotiation, particularly when exploring competition in the market. Insurers are persistent in asking questions to quantify risk, especially in the context of the remote work environment and its impact on fraud issues. Renewal rates typically range from flat to 5%, with changes in deductibles driven by claims activity and organizational growth.

Attention should be paid to structuring limits for social engineering fraud and coordinating with cyber liability policy language. This focus on risk management practices is crucial for securing favorable terms and conditions.

### **Cyber liability**

The cyber liability market for financial institutions remains competitive, with flat to slightly falling renewals. Despite continued claims activity, renewal rates for good risks range from -10% to flat, largely dependent on organizational cyber hygiene. Underwriters focus on controls such as multi-factor authentication, endpoint detection, and employee training. Ransomware and social engineering claims continue to be prevalent, with recent incidents involving several insurance companies highlighting the ongoing threat. Privacy statute litigation and comprehensive state privacy laws are also driving claims, leading to exclusionary language in policies.

The cyber insurance market remains complex, with policies constantly evolving to address new and emerging claims. Particular attention should be paid to the increased use of AI and how policy language may or may not respond. Emerging standalone products for AI liability are becoming available in the market to address this growing risk and we expect to see continued development here.

### **Employment Practices Liability (EPL)**

The EPL market for financial institutions has seen some rate moderation, with most risks experiencing flat to 10% rate increases. Bifurcated retentions continue to be a trend, with higher retentions for claims involving highly compensated employees. This trend has hit hard with financial institutions, given the propensity for higher compensation levels within many segments of this industry. Recent renewals have shown a slight shift, with more EPL policies experiencing rate increases of a couple of points rather than the full 10%.

### **Fiduciary liability**

The financial institution market for fiduciary coverage remains competitive, with rates flat to +5%. The market continues to be driven by factors such as social inflation and litigation costs, with carriers focusing on claims history and financial performance. ERISA-related litigation, such as excessive fee lawsuits and evolving US Department of Labor (DOL) rules, has led to insurer scrutiny and pricing for uncertainty.

### **Property**

The property insurance market for financial institutions is largely following broader market trends, with rate changes driven by natural catastrophe exposure. Financial institutions with significant property exposures are experiencing rate adjustments that reflect these broader market dynamics. The focus remains on ensuring adequate coverage for catastrophic events, with carriers scrutinizing property valuations and demanding adjustments to reflect current inflationary economic conditions.

Despite these challenges, the property market is seeing some stabilization, with renewal rates reflecting a more competitive environment. Insurers are increasingly willing to negotiate terms, particularly for institutions with limited CAT exposures. This competitive landscape is providing opportunities for financial institutions to secure some favorable terms and conditions, especially when exploring alternative markets and leveraging competition among carriers.

### **Casualty**

The casualty market, including general liability, commercial auto and umbrella/excess liability, continues to be influenced by social inflation and litigation costs. Rate increases for financial institutions are prevalent, particularly for segments with higher auto exposures or more customer interactions. However, the market is seeing a shift towards more moderate rate changes, with opportunities for premium savings through strategic program structuring.

Auto liability is seeing the highest rate changes, while workers compensation remains an exception within the casualty lines, offering opportunities for premium savings. Workers compensation rate changes range from -5% to flat, with carriers more apt to structure programs in unique ways that can provide insureds premium relief. This trend is expected to continue into 2025, with most insureds seeing rate increases of 5-10% for other casualty lines.

## CONCLUSION

Overall, the insurance market for financial institutions through the first half of 2025 has been marked by competition and complexity, with market capacity driving rate relief in some lines, countered by rising claim severity, social inflation and regulatory/economic uncertainty driving challenges in others. Financial institutions must prioritize tailored coverages and robust risk management to address the myriad of headwinds that persist. Engaging experienced brokers such as Gallagher will be key to securing cost-effective, comprehensive protection in this ever-evolving landscape.



**Eileen Yuen**  
Managing Director, Financial  
Institutions Practice  
(973) 921-8283  
eileen\_yuen@ajg.com



**Don Frank**  
Operations Director, Financial  
Institutions Practice  
(856) 675-2374  
don\_frank@ajg.com