

Ⓢ Strength. Knowledge. Direction.®

2022 MARKET FORECAST

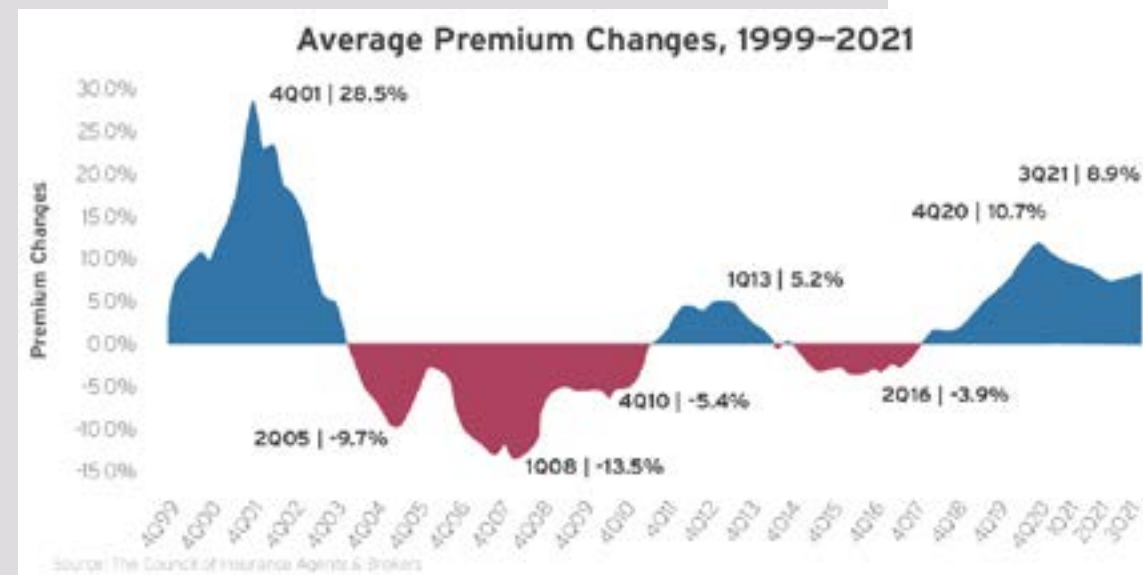
MARKET INSIGHTS FROM KAPNICK INSURANCE



A LETTER FROM OUR CEO

The past few years have been challenging for both businesses and the insurance industry. The increased frequency and severity of claims, social inflation, the COVID-19 pandemic, medical inflation, trends in cybercrime, the cost of reinsurance, natural disasters and investment returns have all fundamentally reshaped the insurance market as we know it.

While challenging market conditions remain, there are some positive indicators for businesses. In the second half of 2021, the scale of rate increases decelerated. **While insurance prices are still above their historical averages, we expect to see a continual softening of the insurance market for many lines.**



Going into 2022, we expect a less challenging insurance environment than we saw in 2021 for many insurance buyers. Now more than ever, it's essential for businesses to take a proactive approach to bolstering their risk management efforts and securing adequate insurance coverage.

Most importantly, **you are not in this alone. Kapnick can help.**

To help you navigate the insurance market, you need:

- An expert who understands your business, helps you plan for unique risks and advocates on your behalf.
- An expert who can tell your story to insurance carriers in a way that will best position your business come renewal time.
- An expert who understands the dynamics of the current insurance market cycle and how to navigate a hard market successfully.
- An expert who fully understands your industry, the dynamic insurance landscape and how to provide targeted loss control solutions.

As always, Kapnick Insurance is here to sit on the same side of the table as our clients, providing the best-in-class advocacy, guidance, and expertise your business needs.

2022 MARKET OUTLOOK FORECAST TRENDS

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 per organization. These forecasts should be viewed as general information and not insurance or legal advice.

LINE OF COVERAGE	PRICE PREDICTION FORECAST
COMMERCIAL PROPERTY	Overall: Flat to +10%
GENERAL LIABILITY	Overall: Flat to +10%
COMMERCIAL AUTO	Overall: +5 to +15%
WORKERS' COMPENSATION	Overall: -5 to +5%
CYBER LIABILITY	Overall: +15 to +50%
DIRECTORS AND OFFICERS LIABILITY	Private/nonprofit entities: +5 to +15% Public companies: +5 to +25%
EMPLOYMENT PRACTICES LIABILITY	Overall: +5 to +15%

CLAIMS TRENDS

Insurance experts often examine how outside influences and trends affect the insurance marketplace, and businesses should follow suit to determine what factors impact their insurance coverage. For 2022, there are a number of sweeping market developments to consider.

**NEARLY
90%
OF COMPANIES ARE HAVING
A HARD TIME FILLING
OPEN POSITIONS**

LABOR SHORTAGES

The past year has seen labor shortages across industry lines. According to a recent study from the Society for Human Resource Management (SHRM), nearly 90% of organizations are having a hard time filling open positions. Looking forward, organizations will need to remain innovative in meeting their employees' shifting expectations and attracting talent.

SUPPLY CHAIN ISSUES

Supply chain disruptions have impacted a number of industries, especially manufacturing, construction and retail trade industries. Several economic experts believe these supply chain issues will continue into at least the first half of 2022, making it important for organizations of all sectors to be prepared and have contingency plans to help them stay operational amid any disruptions.

INFLATION

While it's currently making the most significant impact on the property and auto insurance markets, prolonged inflation will likely begin to affect additional segments—such as the workers' compensation and liability insurance spaces—over time.

12-MONTH PERCENTAGE CHANGE, CONSUMER PRICE INDEX



EXTREME WEATHER EVENTS

Extreme weather events—like hurricanes, tornadoes, hailstorms and wildfires—continue to make headlines as they become increasingly devastating and costly. Making matters worse, these events aren't limited to one geographic area or weather event, impacting businesses and residents across the United States.



ADDITIONAL FACTORS THAT INFLUENCE YOUR INSURANCE RATES



THE COVERAGE YOU'RE SEEKING

The forms of insurance you're seeking, as well as the details of the coverage (e.g., limits of liability and value of insured property), will affect your insurance pricing.



YOUR CLAIMS HISTORY

Your business's claims history, often referred to as your loss history, will also have an impact on insurance rates. If your business has an extensive claims history, then insurance carriers will tend to consider your company more likely to file future claims.



THE SIZE OF YOUR BUSINESS

As a general rule, the more employees your business has and the larger your revenue is, the higher rates you will pay for your insurance.



YOUR RISK MANAGEMENT PRACTICES

Now more than ever, conducting a careful assessment of your organization's unique exposures and establishing effective, well-documented risk management practices can make your establishment more attractive to insurance carriers. After all, having a robust risk management program in place reduces the likelihood of costly claims occurring, as well as minimizes the potential losses that your business could experience from an unexpected event.



YOUR INDUSTRY

Certain industries carry more risk than others and are more likely to file insurance claims. As a result, businesses involved in riskier industries tend to, on average, pay more in insurance premiums.



YOUR LOCATION





If your business is located in an area prone to certain natural disasters, insurers may determine that your facility is more at risk for property damage. This increased risk will translate to higher insurance premiums.

Leaders who proactively address risk losses and manage exposures will be better prepared for a hardening market than those who do not. Furthermore, those who educate themselves on the trends that influence their insurance will better understand what can be done to influence their insurance rates.

PROPERTY & CASUALTY



2022 PRICE PREDICTION FORECAST

- 
General Liability Insurance
 OVERALL: **Flat to +10%**
- 
Workers' Compensation Insurance
 OVERALL: **-5% to +5%**
- 
Commercial Auto Insurance
 OVERALL: **+5% to +15%**
- 
Commercial Property Insurance
 OVERALL: **Flat to +10%**

GENERAL LIABILITY

In 2022, we predict flat to modest rate increases for general liability coverage for most policyholders. Renewal results will likely depend on exposures, class, and lost history. Unfortunately, policyholders who operate in sectors with elevated general liability exposures (e.g., real estate, construction, manufacturing, retail, hospitality and contracting) may experience higher increases, more restrictive underwriting standards, as well as some difficulties securing or maintaining higher coverage limits.

WORKERS' COMPENSATION INSURANCE

Unlike other commercial insurance coverages, the market for workers' compensation insurance has remained stable across most states and industries, performing as an outlier by producing profitable underwriting results. According to the National Council on Compensation Insurance (NCCI), the private carrier combined ratio for workers' compensation in 2020 carriers was 87, up from 85 in 2019, marking the seventh consecutive year of underwriting profit, which should result in fewer increases.

COMMERCIAL AUTO INSURANCE

Over the past decade, the commercial auto space has been challenging. Looking ahead, industry experts predict that this hard market will continue to be a concern in 2022 and beyond. As such, we predict that the majority of businesses with commercial auto exposures—regardless of their industry or vehicle class—will have a more difficult renewal process by way of greater premium rates, lowered capacity and more stringent

policy requirements or restrictions. Further, insureds with larger fleets or a poor loss history may experience more significant rate increases.

COMMERCIAL PROPERTY

While the commercial property insurance market has seen quarterly rate increases since Q3 2017, we are hopeful that there are signs of more moderation in 2022 for both rate increases and policy restrictions, especially compared to the trends of 2021.

We predict that some insureds will experience single or double-digit rate increases, lowered available capacity, higher sub-limits, and various policy restrictions or exclusions—especially regarding losses tied to weather events or the COVID-19 pandemic. Policyholders who conduct high-risk operations with poor loss control practices or are located in natural disaster-prone areas may encounter more severe rate changes, higher retentions and decreased coverage limits.

HOW KAPNICK CAN HELP

- Provide education on key market changes affecting your rates and how to respond using loss control measures.
- Begin the renewal process early. Many commercial property insurers are seeing an increased submission volume. Timely, complete, and quality submissions are vital to ensure your application will be reviewed by underwriters.
- Determine whether you will need to adjust your retentions or limits to manage costs.
- Provide risk assessments to ensure your establishment has measures in place to reduce the potential for customer or visitor injuries (e.g., maintaining safe walking surfaces and promoting proper housekeeping), recommend safety training and injury-prevention methods.
- Recommend telemedicine options, and workplace wellness initiatives aimed at preventing or treating chronic health conditions and improving the overall well-being of your staff. These initiatives can help reduce the risk of your workforce developing co-morbidities.

PREMIUM CHANGE FOR COMMERCIAL PROPERTY INSURANCE, 2013-2021



1980

WAS THE LAST SUSTAINED HARD MARKET

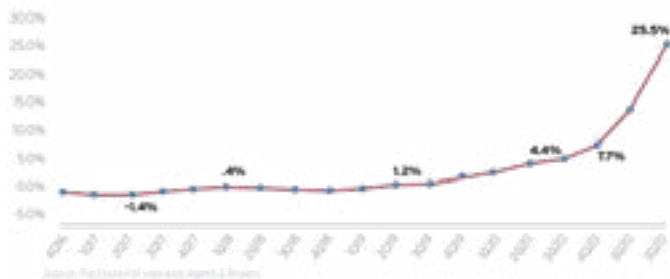
COMMERCIAL AUTO PREMIUMS HAVE INCREASED OVER THE LAST

41
QUARTERS



SPECIALTY RISK

PREMIUM CHANGE FOR CYBER INSURANCE, 2016(Q4)-2021(Q2)

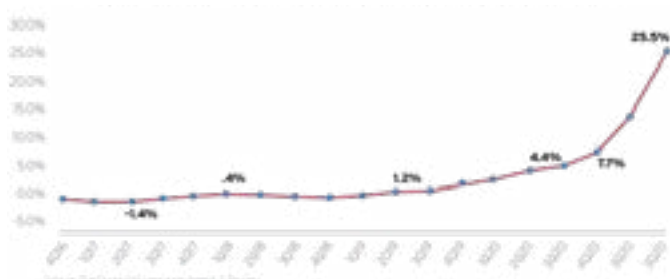


2022 PRICE PREDICTION FORECAST

Cyber Insurance
OVERALL: **+15% TO +50%**

Directors and Officers Insurance
PRIVATE/NONPROFIT ENTITIES:
+5% TO +15%
PUBLIC COMPANIES
+5% TO +25%

PREMIUM CHANGE FOR D&O INSURANCE, 2017-2021



CYBER LIABILITY INSURANCE

Across industry lines, cyberattacks—namely, ransomware attacks and business email compromise scams—have surged in both cost and frequency. This increase in attacks has, in turn, resulted in a rise in cyber liability claims and subsequent underwriting losses.

We expect that most organizations will experience higher cyber liability insurance rates in 2022, with many insureds seeing double-digit rate increases in addition to exclusions or sub-limits for losses stemming from specific types of cyber incidents (e.g., ransomware attacks). Organizations with proper cybersecurity protocols and employee training will have a significantly easier time obtaining coverage.

DIRECTORS AND OFFICERS (D&O) LIABILITY INSURANCE

Although D&O insurance carriers offered mostly favorable pricing for businesses throughout much of the past 10 years, there has recently been a shift in the market by way of elevated rates and reduced capacity. Amid a new decade, the D&O market has only continued to harden, with double-digit rate increases becoming the norm for many insureds. We expect that many businesses will experience rate increases, access to fewer markets, lower available limits, more robust underwriting and higher retentions during 2022.

EMPLOYMENT PRACTICES LIABILITY (EPL) INSURANCE

For 2022, we anticipate the EPL rate environment to improve slightly over 2021. Yet, we predict that most policyholders will still experience rate increases in 2022 due to a trend of higher frequency and severity of claims in recent years, as well as increased legislative activity at both the state and federal levels.

2022 PRICE PREDICTION FORECAST

Employment Practices Liability Insurance
OVERALL: **+5% TO +15%**

For 2022, we anticipate the EPL rate environment to improve slightly over 2021.

HOW KAPNICK CAN HELP

- Work with your insurance professionals to understand the different types of cyber coverage available and secure a policy that suits your unique needs. Carefully determine whether your organization should purchase standalone cyber liability coverage.
- Examine your D&O program structure and limits alongside your industry peers to ensure they are appropriate and take market conditions and trends into account.
- Implement measures to foster an inclusive workplace and ensure diverse representation within your senior leadership team. Promote diversity, acceptance and inclusion in the workplace through staff education and training. Take any accusations or reports of discrimination seriously.
- Review your employee handbook and related policies. Ensure you have all appropriate policies in place, including language on discrimination, harassment and retaliation. Document all evaluations, employee complaints and situations that result in employee termination.



EMPLOYEE BENEFITS



NEARLY
32%

of unemployed have remained out of work due to concerns over COVID-19 exposure on the job

In 2022, our experts anticipate the continuation of many of the benefit trends and human capital concerns that developed throughout 2021: labor shortages and a focus on employee retention, mental health resources, and solutions for rising prescription drug costs.

LABOR SHORTAGE & EMPLOYEE RETENTION

The past year has seen labor shortages across industry lines. According to a recent study from the Society for Human Resource Management (SHRM), nearly 90% of organizations are having a hard time filling open positions. A variety of factors have contributed to these widespread labor shortages, including concerns over COVID-19 exposures, salary issues, and caretaking responsibilities.

To help combat these labor shortages and attract skilled job candidates, organizations have had to make a number of workplace adjustments.

The SHRM study found:

- **57%** of organizations have started offering referral bonuses to fill open positions.
- **43%** have increased pay.
- **23%** have provided sign-on bonuses for these positions.
- In addition to monetary offerings, **23%** of organizations have begun offering extra workplace benefits, discounts or other incentives (e.g., flexible hours, caretaking support, more advanced technology and remote options) to attract employees.

With labor shortages, employee retention becomes a top concern. If employers are experiencing high turnover, chances are they're experiencing high losses as well. Research suggests that it can cost as high as 50% or more of an employee's annual salary to replace a current employee. The costs of reviewing applications, processing candidates, conducting interviews, training and purchasing equipment for new hires aren't only monetary; they also cost time and productivity and can negatively impact company culture.

27%

of unemployed have remained out of work because of salary issues

OVER
20%

OF UNEMPLOYED INDIVIDUALS WITH CARETAKING RESPONSIBILITIES HAVE STAYED OUT OF A JOB BECAUSE THEY LACK ACCESS TO RELIABLE CARE.

Source: SHRM

MENTAL HEALTH

Among other pandemic mental health issues, the latest Mental Health Index revealed that chronic pandemic-induced stress and anxiety have released a nine-month surge in post-traumatic stress disorder (PTSD). In addition to these reports, employees continue to face other common mental health issues elevated by work:

- Most employees are experiencing burnout.
- Employees aren't receiving the support they need to manage stress.
- Workplace stress is severely impacting employees' mental health.

Employee mental health can also impact employers' talent efforts. Employees are looking for an employer that focuses on mental health, so companies that don't ramp up mental health efforts could struggle to attract or stand to lose more talent in 2022.

PRESCRIPTION DRUG TRENDS

The Centers for Medicare & Medicaid Services (CMS) projects that from 2012 to 2022, annual expenditures on prescription drugs will grow by 75% to \$455 billion—other experts predict that figure could be even higher.

Furthermore, the CMS projects that from 2015 to 2024, prescription drug spending will grow, on average, 6.3% annually, which is slightly higher than its projections for health spending (which will increase at an average rate of 5.8% per year). The CMS notes that during this time, new specialty drugs will enter the market and there will be fewer generic drugs launched.

6.3%

annual prescription drug spending is projected to grow, by 2024

HOW KAPNICK CAN HELP

Looking forward, organizations will need to remain innovative in meeting their employees' shifting expectations and attracting talent. A thoughtful and holistic strategy can play a critical role. To compete in the current market, organizations should understand their strengths, weaknesses, and gaps in order to develop practical and successful strategies. Kapnick can help.

■ **Evaluate benefits offerings.** Reviewing your organization's offerings is essential to creating a culture that supports overall employee health. Employers should especially consider voluntary benefits and workplace well-being strategies.

■ **Offer flexible scheduling.** To help employees better balance their work and personal lives, employers across the country are embracing workplace flexibility, allowing employees to move their schedules around or accomplish job functions on their own time or during core work hours.

■ **Utilize RxKap.** In an effort to provide financial relief for prescription medications, Kapnick has partnered with Famulus Health to bring you RxKap. RxKap is a free prescription drug savings program that offers everyone (clients and prospects, those with health insurance and without) access to significantly lower cash prices for much needed prescriptions. Visit Kapnick.com/rxkap for more info.

■ **Address workplace stress.** In addition to the pandemic, common job stressors include a heavy workload, intense pressure to perform at high levels, job insecurity, long work hours and excessive travel.



VOLUNTARY BENEFITS



Now, more than ever, it's essential to take a holistic approach to a comprehensive benefits program that considers various needs, work-life stressors, and risk preferences for your employees beyond their traditional medical coverage.

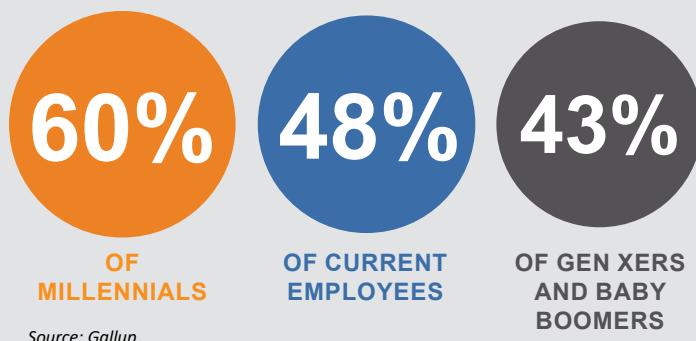
huge proportion of employers are currently offering them, the increase is still significant and demonstrates employers' willingness to invest in benefits that can combat the lingering effects of the COVID-19 pandemic.

In fact, employers who do not offer such holistic benefits say they are likely to add them in the future. Membership discounts (25%), pet insurance (19%), financial counseling (15%), critical illness (13%) and student loan repayment assistance (11%) are additional perks that employers are exploring.

IMPORTANCE OF TELEMEDICINE

Nearly a third of employers (32%) consider telemedicine an important or crucial component of their health care offerings. An additional 48% of employers believe it's a good way to supplement existing health benefits. In any case, telemedicine is proving to be a major health care factor, so employers should expect this sector to grow quickly in the near future.

PERCENT OF EMPLOYEES WHO WOULD QUIT FOR A NEW JOB THAT OFFERED BENEFITS BEYOND MEDICAL INSURANCE:



Dental and vision remain two of the most common voluntary benefits. However, employers are beginning to expand offerings. These include cancer insurance (32%), critical illness insurance (33%) and financial counseling (12%). While not a

HOW KAPNICK CAN HELP

Voluntary benefits can fill in gaps left by traditional medical offerings by providing additional options like dental and vision insurance. Voluntary benefits are almost exclusively paid for by employees, and they are offered "a la carte," so employees can choose the options that best fit their needs and lifestyles. Clients can decide which benefits to offer their employees depending on workplace culture, number of interested employees or what best complements other core offerings.



WELL-BEING

Creating, promoting, and facilitating a successful employee wellness campaign isn't as simple as starting a program and sending out a few emails. Employers often face a variety of challenges when it comes to their wellness programs, some of which can discourage them from offering or continuing to offer initiatives at all.

Prioritizing health and wellness will prove essential for employers in 2022 and beyond. Employees expect more from their employers than ever before, particularly when it comes to receiving mental health support and feeling valued.

One way that employers can do that is by providing holistic wellness programs that go beyond focusing on physical well-being, such as Kapnick Strive. Successful employers will be those that expand mental health resources in addition to promoting healthy lifestyles. Employers that don't rise to the occasion and provide employees with the support they need will likely face what experts are calling the "turnover tsunami," expected later in the year. Employees are voluntarily leaving their jobs at a staggering rate. This means that employers that want to attract and retain their top talent, improve employee engagement, and support employees need to act fast.

Leveraging employee health and well-being solutions at the workplace can help provide employees with the resources they need to manage their stress and improve their overall health. When employees are happy, healthy and feel supported by their employer, they're more likely to remain at the company, be more productive and encourage others to work for their employer, too.

EMPLOYERS REPORTED THAT THEIR BIGGEST CHALLENGES IN REGARD TO WELLNESS PROGRAMS WERE:



Source: Zywave EBHR Survey

HOW KAPNICK CAN HELP

Most wellness programs fail because they only reward participation. Kapnick Strive is different- we do not confuse effort with results. Our program's flexible incentive models seek to impact your entire employee population, allowing you to adjust the incentive to match the changing needs and outcomes of the program.

While we have various levels available depending on your needs, budget, and goals, our gold level offering includes biometrics paired with aggregate reporting and analytics in order to strategize the best wellness initiatives for your unique organization.

PERSONAL RISK

In 2022, we anticipate moderate increases in premiums in the personal insurance market due to above-average national catastrophes, increased construction costs, and a return to pre-pandemic auto usage.

HOMEOWNER INSURANCE TRENDS

In most markets and with most insurance companies, whether you've had a claim or not, home insurance premiums are rising. This is due to a variety of factors outside of your control including:

The rise of inflation

The biggest cause of increased insurance rates is the rise of inflation. When prices rise, the cost of living and owning a home also increases.

More severe weather nationwide

Much of the country is experiencing more frequent and more extreme weather events than ever before. In 2021, there were 18 weather events in the U.S. that caused over \$1 billion in damage.

Higher construction costs, due to:

- The construction industry is seeing lengthy delays, high prices, and **material shortages**, which all lead to more expensive building and repairs.
- The global supply chain is still recovering from pandemic backups, with building supplies taking weeks or months longer to receive instead of days. These **shipping delays** are also adding to the increased price of materials.
- With the current labor shortages, **higher costs are needed to secure skilled laborers**, which increases the overall cost of construction repairs.

AUTO INSURANCE TRENDS

Like with the construction industry, shortage of raw materials and rising labor prices are driving up the cost of new and used cars. The cost to repair or replace a vehicle has increased, which impacts all insurers and has led to higher premiums nationwide.

Coupled with a return to pre-pandemic auto usage and an increase in fatal accidents, auto insurance rates have trended up.

AN ESTIMATED **20,160** DIED IN **MOTOR VEHICLE CRASHES** IN THE FIRST HALF OF 2021 **UP 18.4% OVER 2020**

93%
OF CONTRACTORS ARE IMPACTED BY THE INCREASED PRICE OF MATERIALS

89%
of contractors are having a hard time finding craft workers

HOW KAPNICK CAN HELP

As with any insurance program, it's important to work with experts who understand your long-term goals and needs to ensure you have the right coverages at the right price. At Kapnick, we're always happy to review your current policy, needs, and goals in order to develop a personal insurance program that protects the life you've worked so hard to build.

KAPNICK CAN HELP

It can sometimes seem as if the forces determining your insurance rates are beyond your control. But, as an insurance buyer, it's important to know how your premiums are calculated, what trends influence the market and what you can do to get the best price.

Your claims history—which you can control—has an enormous impact on whether your rates go up or down. That's where implementing a solid risk management plan will help steer your pricing in a more favorable direction, both now and in future renewal periods.

In addition to implementing the above risk management strategies, working alongside an experienced insurance broker is equally crucial. The experts at Kapnick can help our clients analyze their business, understand their exposures and establish a suite of customized insurance policies that act as a last line of defense against claims. We will also thoroughly explain your policies, notifying you of any additional considerations to keep in mind.

The insurance landscape is complex, and while the predictions found in this outlook are based on expert research, they are subject to change. Fortunately, your partners here at Kapnick are diligently monitoring the market throughout the year and will keep you informed of any changes that might affect your business.

- 1 PINPOINT YOUR EXPOSURES AND COST DRIVERS.**
- 2 IDENTIFY THE BEST LOSS CONTROL SOLUTIONS TO ADDRESS YOUR UNIQUE RISKS.**
- 3 CREATE A SOLID BUSINESS CONTINUITY PLAN TO ACCOUNT FOR DISASTERS AND OTHER UNPREDICTABLE RISKS.**
- 4 BUILD A COMPANY CULTURE FOCUSED ON SAFETY.**
- 5 MANAGE CLAIMS EFFICIENTLY TO KEEP COSTS DOWN.**

2022 MARKET FORECAST

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