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COMMERCIAL INSURANCE
EMPLOYEE BENEFITS
PERSONAL INSURANCE
RISK MANAGEMENT
SURETY

EDUCATION

Markets in Focus

Insurance Pricing & Market Update
Q2 2023

Introduction

Administrators, educators and parents have known for the past three years that remote learning at the K-12 level left far too many students behind. A recent study found that, due to remote learning or the lack thereof, K-12 students in high- and middle-income countries lost 35% of the progress they would have made in an average school year.[1] Many parents and teachers would consider that statistic an underestimation.

In contrast, within higher education, it appears a hybrid or blended learning experience is here to stay.[2] There are students who relish the on-campus experience as well as those whose primary concern is to obtain a degree as quickly and efficiently as possible working online, many of whom are also juggling family commitments and job pressures. Higher education institutions need to accommodate both, stretching their resources even further.

Rule changes proposed by the Biden Administration in mid-2022 to revise Title IX of the 1972 Education Amendments would expand the Act's discrimination protections to persons on the basis of sexual orientation and identity. Certain other elements of the proposed rule could impact education institution budgets (given the likely higher volume of cases) and their liability exposure.[3]

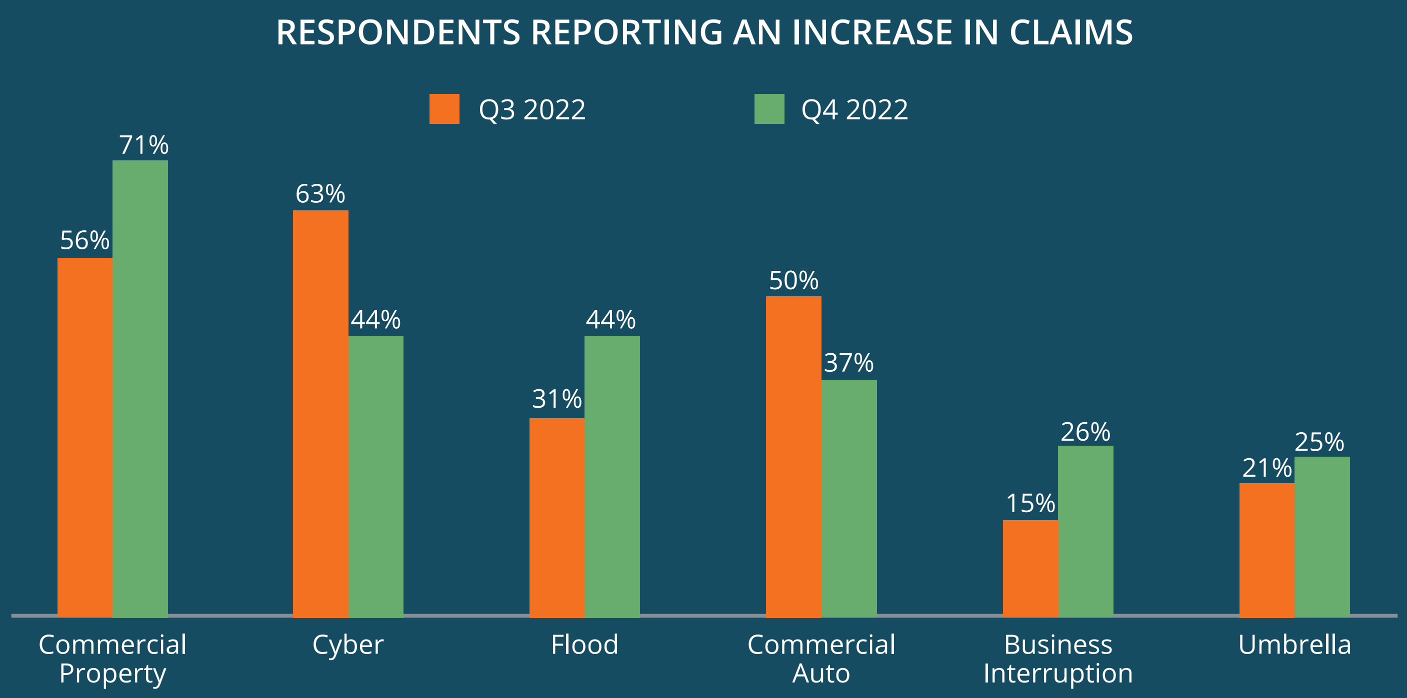
+ Schools would be allowed (and some might say, therefore, expected) to investigate sexual misconduct without a formal complaint being filed and to investigate harassment and assaults that occur off-campus.
+ The rule would cover "hostile environment" allegations.
+ Complainants could utilize the complaint process without filing official reports and also seek remedy after they've left the institution.
+ Schools would be required to provide more extensive, ongoing communication to the parties in a case.
+ Many of the procedural steps found in the current rule would be removed, leaving schools with the flexibility to use their own policies and apply their own standards, possibly leading to more legal challenges.

The current inflationary environment is posing a challenge in education, and the effects are evident in several critical risk areas. The United Educators *2022 Top Risks Report* publications for higher education and independent K-12 schools identify key challenges common at both levels: declining enrollment, difficulty with recruitment and hiring, operational pressures caused by financial constraints, and deferred facility maintenance. These all stem from the current economic situation in the U.S. Inflation, and its impact on budgeting is a contributing factor, if not the primary cause, of these challenges.

The inflationary environment is posing a CHALLENGE IN EDUCATION

Finally, while many professions are exploring positive applications of emerging AI writing programs, including ChatGPT from OpenAI, educators are understandably taken aback by reports that AI-generated content has been used to pass medical licensing exams, MBA exams and law school classes. Currently, these cases are outliers, and conscientious reviewers should be able to detect this subterfuge. For now, students abuse this technology at their own risk because the tools are far from perfect and programs are being developed and introduced to detect AI writing.[4] But as the technology improves and students discover workarounds to detection, AI-generated writing will pose a greater challenge in academia, especially in K-12 settings where the writing is less complex. Education system leaders should be prepared to revise how they measure and test student knowledge, and written papers may need to be replaced by proctored or oral testing in some cases.

MARKET OUTLOOK



Source: https://www.ciab.com/download/36848/?tmstv=1677010755

PROPERTY

+ In the last decade, the Property insurance markets have been significantly shaped by catastrophic weather events. Hurricane Katrina, 18 years ago in 2005, holds the title as the costliest hurricane on record, with a total insured loss of $90 billion in 2021 dollars. Hurricane Ida is the second costliest hurricane, with an estimated insured loss of $36 billion, while Hurricane Ian is forecasted to have an insured loss amounting to between $40-60+ billion.[5]

+ In Q4, rates continued to rise; however, due to the ramifications of alterations in property reinsurance, terms and rates could see a sharp increase in Q1, with prices rising over the course of 2023. This acceleration will be caused by a heightened focus on inflationary worries like valuation in addition to drastic modifications in E&S reinsurance structures, including more expensive loss-free business and greater retentions.[6]

> **Terms and rates could see A SHARP INCREASE IN Q1**

+ As inflation and rates increase, it is essential for the insured to assess their stated values and adjust them, if necessary, in order to accurately depict replacement costs and current rental/business income.[7] This is due to the escalating cost of losses.

GENERAL PRICING ESTIMATES	
Non-CAT exposed property with favorable loss history	15% to 30% increases
CAT exposed property with favorable loss history	20% to 35% increases
Property with unfavorable loss history and/or a lack of demonstrated commitment to risk improvement (unresolved recs, pattern of same issues, etc.)	15%+ increases for non-CAT 20% to 60% increases for CAT exposed accounts and higher depending on frequency/severity of losses

CASUALTY

General Liability:

+ There have been subtle increases in pricing for the Casualty market, even though primary General Liability rates have remained fairly stable for risks that have had minimal losses. Insurers are seeking more information on past losses and the steps taken to protect against any similar losses reoccurring.

+ Depending on an organization's risk profile and loss history, Commercial General Liability markets are likely to experience a slight increase in premiums along with stricter terms and conditions.

Sexual Abuse and Molestation:

+ Even though the majority of higher education institutions have not had to face any national scandals, it is proving difficult for them to secure insurance coverage for sexual harassment, and assault and abuse due to the media attention and public outcry that some universities have experienced in response to these kinds of claims.[8]

+ K-12 schools and Higher Education Institutions continue to be affected by States with legislative changes to "Look Back Periods". The expanded period of time to report prior incidents related to Sexual Harassment, Assault, and Abuse often span 30+years now making it difficult for Institutions to locate policies to properly respond. Carriers and Insureds have had some success working with The Insurance Archeology Group (iagltd.com), Insurance Archeology Services (insurance-archaeology.com) and Arcina Risk Group (arcinarisk.com/what-we-do/insurance-archaeology) to assist in this challenge.

+ Carriers offering General Liability policies specific to Educational Institutions, typically offer a separate insuring agreement with dedicated limits for sexual abuse and molestation. Some carriers are limiting or changing terms restricting coverage as well as placing sub-limits into the excess policies. Underwriters are holding Educational institutions to high standard by requiring strict controls are in place.

+ Carriers are hesitant and limiting Sexual Abuse and Molestation coverage for prior years. Converting Sexual Abuse and Molestation coverage to include more that 3-5 years of prior acts coverage will be difficult.[8]

+ Insurers who still provide this coverage now necessitate that institutions take greater precautions to guarantee they are protecting against sexual misconduct, such as introducing rigorous policies and protocols, delivering training, upholding enforcement across all levels of the institution and carrying out background checks.[8]

Excess Liability:

+ To mitigate potential risks, carriers are restricting their capacity to lower layers from $5M to $15M. This necessitates collaborating with multiple insurance carriers to reach the desired coverage towers, typically leading to higher expenses.

+ The growing problem of social inflation is leading to ever-increasing losses; this self-perpetuating cycle of larger verdicts has created an expectation of larger settlements.[9] As a result, third-party litigation funding is becoming increasingly popular as investors seek to take advantage of this legal environment.[9]

+ Generally, **Educators' Legal Liability** (ELL) policies offer coverage for the institution as well as its trustees, directors and officers.[10] There is also an option for institutions to provide coverage for employees, volunteers, and in some cases students or interns who are performing their duties or obligations as part of the institution.

  – Dependent on the policy terms, an ELL policy can be used to protect against possible claims of discrimination, professional mistakes by educators, hiring practices, revenge, sexual harassment in the workplace, refusal of tenure and Title IX violations.[10]

GENERAL PRICING ESTIMATES	
General Liability	Up 5% to 10%
Educators' Legal Liability with favorable loss history	Up 5% to 15% Up 10% to 25% with poor loss history
Umbrella & Excess Liability – Middle Market	Up 10% to 25% +
Umbrella & Excess Liability – Risk Management and other Complex/Hazardous Exposures	Up 25% to 150%

Auto:

+ Recently, the commercial auto industry has experienced a great deal of difficulty, including costly settlements, increased litigation expenses, and claim payments that exceed profits. This has been especially difficult for those responsible for managing significant vehicle fleets. To combat this, many auto carriers have been investing in telematics and fleet monitoring technology to decrease their loss ratios.[11]

Workers' Compensation:

+ Workers' Compensation coverage has proven to be profitable for insurers. While pricing can be influenced by modification factors and prior losses, competition between carriers for accounts with good to excellent loss records will keep prices competitive.

GENERAL PRICING ESTIMATES	
Workers' Compensation	Flat to Down 5%
Auto	Up 10% to 25% Up 30%+ if large fleet and/or poor loss history

Cyber:

+ Cyber criminals have increasingly targeted universities due to the large quantity of personal identifiable information available (PII), research materials collected and other confidential data (especially financial) stored for these institutions. Additionally, many educational facilities are under high scrutiny due to the likelihood of phishing and ransomware attacks.

+ The frequency of cyber claims has fallen almost 20% from the previous quarter, and nearly 30% from the beginning of 2022.[12]

+ Despite the fact that cyber claims were occurring more frequently and more severely, insurers were still typically providing cyber coverages at relatively inexpensive to moderate prices and may not have been accurately pricing the cyber risks many businesses faced.[12]

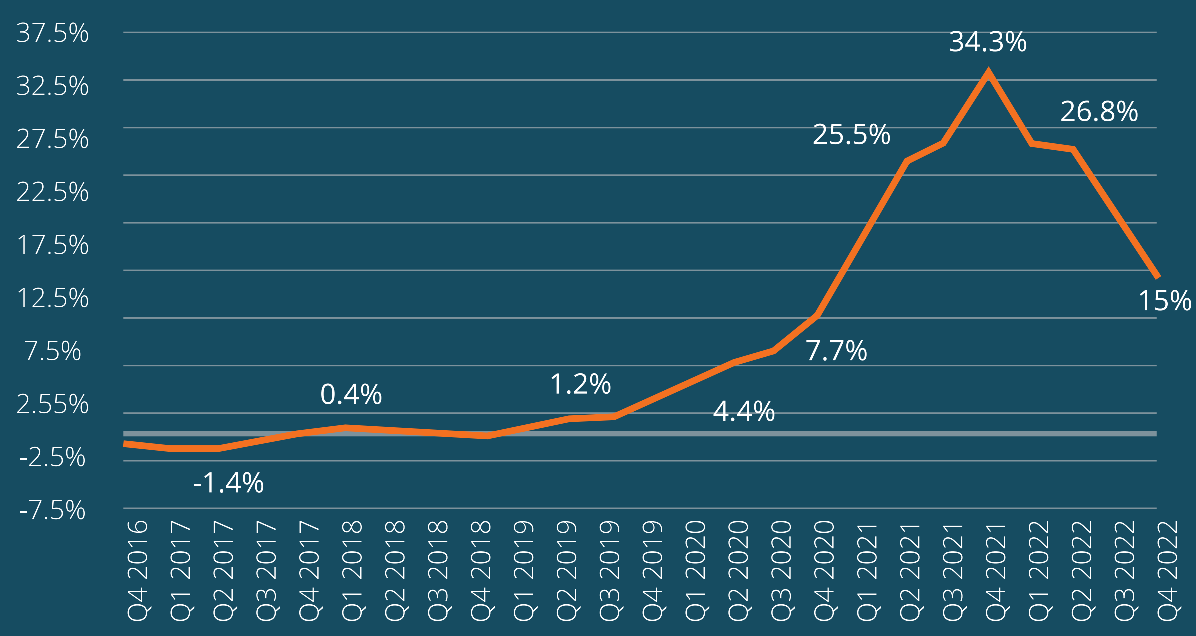
  – It is possible that premiums have reached a more suitable level for the possible losses, which can be considerable, after multiple quarters of steep rises.

+ When it came to Cyber coverage, carriers kept their rigorous underwriting and risk management standards in place.[12]

  – Underwriters have continued to strengthen their questions regarding cyber practices, along with detailed applications for clients to complete.

+ In Q4 2022, the average increase in cyber premiums dropped. This was a significant decrease compared to the highest rate increases at the end of 2021, indicating that the cyber premium line may have started to stabilize by Q3 or Q4.[12]

PREMIUM CHANGE FOR CYBER, Q4 2016 - Q3 2022



Source: CIAB

Major Claims in the Sector

ABUSE

The family of seven-year-old autistic twins in Santa Monica, California, is set to receive **$45 million** from the Santa Monica-Malibu Unified School District as compensation after it was discovered that one of the twins' behavioral aids had inflicted physical abuse on them. The lawsuit claimed that a district employee had inflicted corporal punishment, including physical restraint, physical abuse and intentional battery, upon the children.[13]

COVID-19

Seven colleges or universities will pay settlements from **$1.5 million to $5 million** due to allegations that they overcharged students in 2020 when classes were disrupted by the COVID pandemic.[13] A number of students will receive a minimal sum of money through these settlements.

EMPLOYMENT PRACTICE LIABILITY INSURANCE – EPLI

A jury awarded a former UC Irvine (UCI) doctor **$17 million** after he filed a lawsuit against the Regents of the University of California, claiming he had been wrongfully harassed and terminated.[13]

LIABILITY AND AUTO

In 2022, a college golf team traveling in a college-owned vehicle was hit head-on. This resulted in several fatalities and severe injuries to those who survived. The estimated claim expenses and payments are in excess of **$10 million**.

Guidance

BEGIN THE RENEWAL PROCESS EARLY

The **General Liability, Cyber, Excess/Umbrella** and **Property** markets are constrained and more challenging to navigate in the disciplined market. With an outcome of increasing prices across all lines of business and in every industry sector, brokers are being swamped with submissions from their insureds who want to minimize these additional costs.

PARTNER WITH INDUSTRY EXPERTS

It is important to work with your broker's industry experts who truly understand the business and the market for placing the specific risk. Collaborating with a team who can best represent your risk and partner with your operations is more important than ever during this disciplined market we are experiencing.

HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

The frequency and severity of cyber claims are constantly on the rise, resulting in more underwriter scrutiny of companies' cybersecurity hygiene. **The importance of highlighting any additions in cybersecurity staffing or updated systems protocol cannot be overstated.**

ENGAGE LOSS CONTROL AND CLAIMS TEAMS

Frequent communication with your broker's loss control team is a top priority, especially when a claim arises. Engaging your loss control team in the event of a claim can help reduce the impacts to your business financially and operationally. We work with you to understand your financial goals and operational challenges so we can identify, develop and deliver Risk Control Solutions that strategically mesh with your objectives.

1 https://www.edweek.org/leadership/global-academic-loss-persists-nearly-three-years-into-the-pandemic/2023/01.
2 https://www.usnews.com/higher-education/online-education/articles/discover-current-online-learning-trends.
3 https://www.insidehighered.com/news/2022/06/24/biden-expands-protections-sexual-harassment-lgbtq-students.
4 https://www.businessinsider.com/openai-launched-program-to-detect-ai-writing-chatgpt-2023-1.
5 Facts + Statistics: Hurricanes | III
6 Property REDY® Index January 2023 - News - Tools & Intel | CRC Group
7 Property Market Update - Q4 2022 (amwins.com)
8 For colleges, insurance against sexual misconduct is becoming harder to get | Higher Ed Dive
9 Excess & Umbrella REDY® Index January 2023 - News - Tools & Intel | CRC Group
10 Educators Legal Liability | United Educators (ue.org)
11 What is a nuclear verdict and should you care? | CaseGlide
12 https://www.ciab.com/download/36848/?tmstv=1677010755
13 2023 Large Loss Report (ue.org)

MORE THAN JUST INSURANCE

Based in North America, Parker, Smith & Feek is an integrated financial services company focused on protecting the assets of its widely varied client base through insurance, risk management and wealth management solutions. As an employee-owned company, Our 2,000-plus associates are empowered to provide customized solutions for their clients' unique needs.

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