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# Commercial Insurance

## Market Outlook

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## Signs of Market Softening, But Concerns Remain

Over the past several years, the commercial insurance sector has faced consistent headwinds due to rising claim frequency and severity, social inflation, evolving cyber risks, and continued losses from catastrophic natural disasters—all contributing to a prolonged hard market. During this time, carriers responded by tightening underwriting standards, reducing capacity and increasing premiums across most lines of coverage.

However, 2024 showed signs of market moderation, with certain insureds beginning to benefit from more favorable conditions for certain lines of insurance. In the first quarter of 2024, the U.S. commercial insurance sector registered its best underwriting result in over 15 years, generating an underwriting gain of \$9.3 billion, rebounding from an \$8.5 billion loss during the same period in 2023. Strong premium growth and easing inflation have improved profitability, and industry return on equity (ROE) is forecasted to be 9.5% in 2024, significantly higher than 3.4% in 2023. As a result, premium increases have moderated across most lines, with insureds seeing single-digit increases.

Several factors are driving softening market conditions. As inflation eased—down to 2.4% in September 2024 from a high of 9.1% in June 2022—claims cost growth slowed (i.e., as inflation slows, it reduces pressure on insurers). Additionally, the strong premium growth over recent years allowed insurers to keep pace with escalating claims costs, especially those linked to natural disasters, further supporting overall profitability.

Initial expectations for the market in 2025 are largely positive. Many policyholders with favorable risk profiles may experience relatively stable or competitive rates in certain lines of coverage. Further, reinsurance capacity is cautiously expected to increase by the end of 2024, and primary insurers will likely be more willing to offer lower premiums and broader coverage. However, several challenges have the potential to destabilize the market. Natural disasters like hurricanes Helene and Milton in the third and fourth quarters of 2024 caused billions in damages and created future pricing uncertainty. Additionally, geopolitical conflicts, like the ongoing Russia-Ukraine conflict, could disrupt global supply chains and reignite inflationary pressures, impacting claims costs and insurance rates. Beyond that, evolving risks related to artificial intelligence (AI) and increased regulatory scrutiny could create a challenging market for insurers and insureds alike.

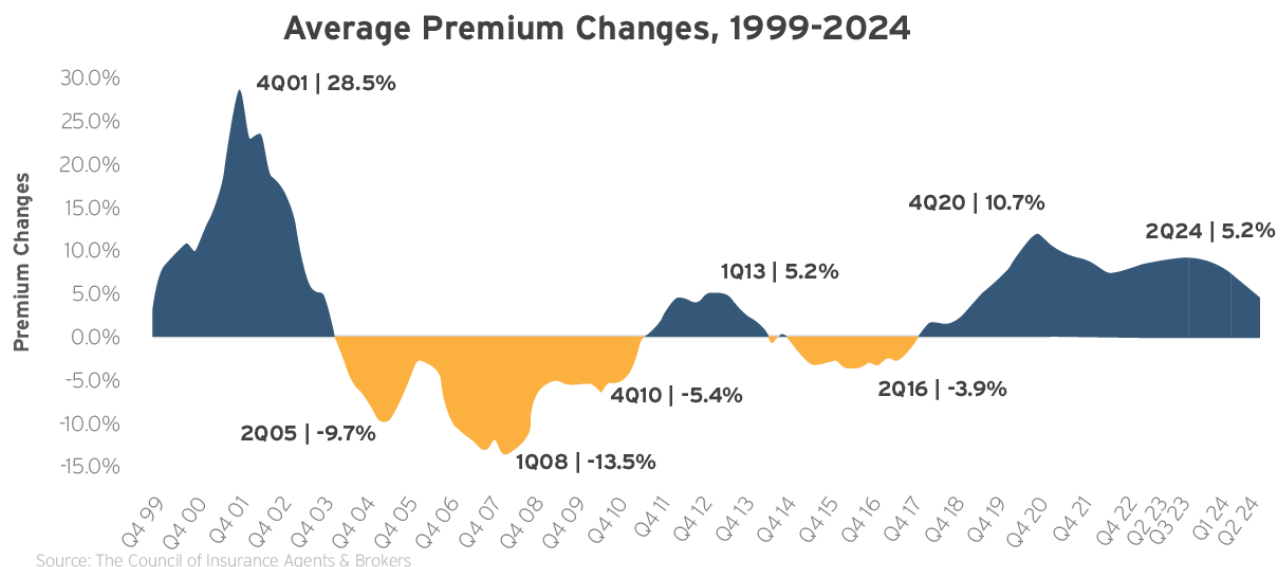
For business owners, successfully navigating evolving market conditions requires consultation with insurance professionals who understand your industry and risk profile. These experts can provide valuable insights and the tools to adapt to changing circumstances, secure appropriate coverage and effectively position your business during renewals. By partnering with these professionals, you can benefit from targeted risk management strategies, proactive planning and tailored advocacy to meet your needs.

Rest assured, the team at ACO Insurance is here for you.

## The Insurance Market Cycle: Hard Versus Soft Markets

The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. These cycles affect the availability, terms and price of commercial insurance, so it's helpful to know what to expect in both a hard and soft insurance market.

A **soft market**, which is sometimes called a buyer's market, is characterized by stable or even lowered premiums, broader terms of coverage, increased capacity, higher available limits of liability, easier access to excess layers of coverage and competition among insurance carriers for new business. On the other hand, a **hard market**, sometimes called a seller's market, is characterized by increased premium costs for insureds, stricter underwriting criteria, less capacity, restricted terms of coverage and less competition among insurance carriers for new business.



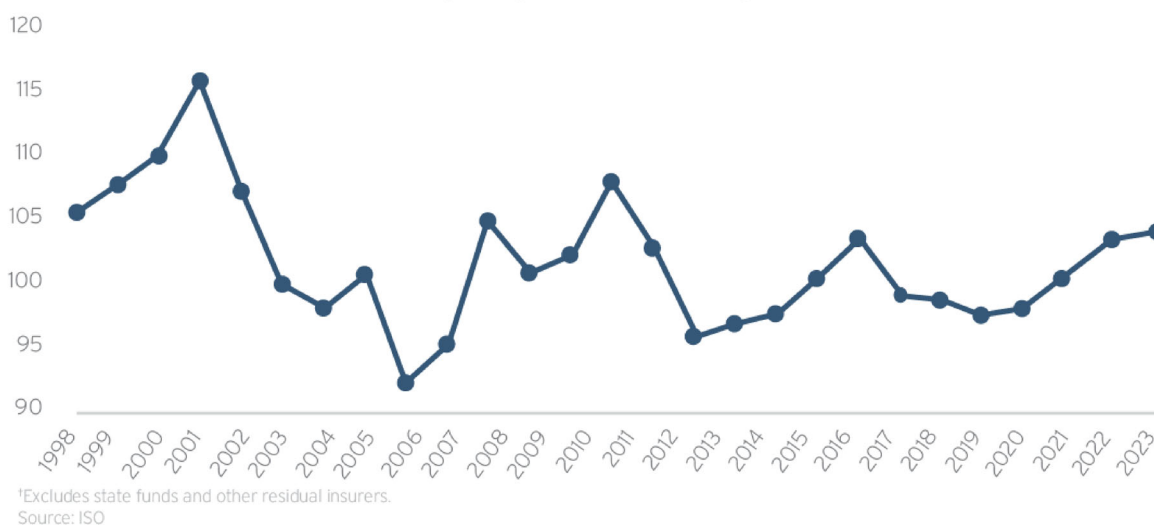
From the late 1980s to the early 2000s, businesses across most lines of insurance enjoyed stable premiums and expanded terms of coverage in what was one of the longest soft markets in recent memory. While the commercial insurance market hardened for a short period of time after the terrorist attacks of Sept. 11, 2001, the last sustained hard market occurred in the 1980s. However, after years of gradual changes, the market largely firmed from the late 2010s to 2023, leading to increased premiums, reduced capacity and a hard market for many policyholders.

Going into 2025, the market is finally expected to soften for certain lines of coverage, building off the momentum and easing conditions created in 2024. Experts believe 2025 will be characterized by looser underwriting and broader coverage (notably for directors and officers liability and cyber insurance insureds), pointing to a gradual market softening. Still, certain trends and uncertainty could create volatility, and some lines of insurance remain challenged.

Many factors affect insurance pricing, but the following are some of the most common contributors to market changes:

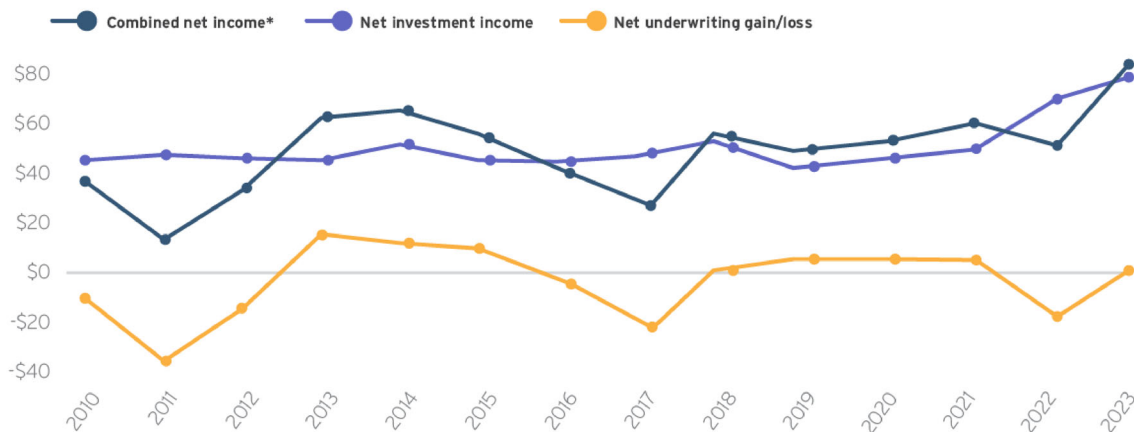
- **Catastrophic (CAT) losses**—Floods, hurricanes, wildfires and other natural disasters are increasingly common and devastating. Years of costly disasters like these have compounded losses for carriers, driving up the cost of coverage overall, especially when it comes to commercial property policies.
- **Inconsistent underwriting profits**—Underwriting profits refer to the difference between the premiums a carrier collects and the money paid out in claims and expenses. When an insurance company collects more in premiums than it pays out in claims and expenses, it will earn an underwriting profit. Conversely, an insurance company that pays more in claims and expenses than it collects in premiums will sustain an underwriting loss. The company's combined ratio after dividends is a measure of underwriting profitability. This ratio reflects the percentage of each premium dollar an insurance company puts toward spending on claims and expenses. A combined ratio above 100 indicates an underwriting loss.

### Combined Ratio for Property and Casualty Insurance, 1998-2023



- **Mixed investment returns**—Insurance companies also generate income through investments. Commercial insurance companies typically invest in various stocks, bonds, mortgages and real estate investments. Due to regulations, insurance companies invest significantly in bonds. These provide stability against underwriting results, which can vary from year to year. When interest rates are high and returns from other investments are solid, insurance companies can make up underwriting losses through their investment income. However, when interest rates are low, carriers must pay close attention to their underwriting standards and other investment returns.

## Operating Results for Property and Casualty Insurance, 2010-2023 (Billions)



\*Excludes state funds and other residual insurers. \*Net underwriting gain/loss plus net investment income.  
Source: NAIC, S&P and Insurance Information Institute

- **The economy**—The economy also affects an insurance company’s ability to write new policies. During periods of economic downturn and uncertainty, some businesses may purchase less coverage or forgo insurance altogether. Additionally, a business’s revenue and payroll, which factor into how premiums are set, may decline. This creates an environment where there is less premium income for carriers.
- **The inflation factor**—Prolonged periods of inflation can make it challenging for insurance carriers to maintain coverage pricing and subsequently keep pace with more volatile loss trends. Unanticipated increases in loss expenses can result in higher incurred loss ratios for insurance carriers, particularly as inflation affects key cost factors (e.g., medical care, litigation and construction expenses).
- **The cost of reinsurance**—Generally speaking, reinsurance is insurance for insurance companies. Carriers often buy reinsurance for risks they can’t or don’t wish to retain fully. It’s a way for carriers to protect against extraordinary losses. As a result, reinsurance helps stabilize premiums for regular businesses by making it less risky for insurance carriers to write a policy. However, reinsurers are exposed to many of the same events and trends affecting insurance companies and make pricing adjustments of their own.

## Additional Factors Influencing Insurance Rates

In addition to the above, here are other key factors that may influence your insurance rates:



**The coverage you’re seeking**—The forms of insurance you’re seeking, as well as the details of such coverage (e.g., limits of liability and value of the insured property), affects the price of your insurance.



**The size of your business**—As a general rule, the more employees your business has and the larger your revenue is, the more you pay for your insurance.





**The industry in which you operate**—Certain industries carry more risk than others. In general, businesses in these sectors are more likely to file insurance claims. As such, businesses involved in risky industries tend to, on average, pay more in insurance premiums.



**The strength of the leadership team**—Strong leadership fosters a culture of accountability and compliance, which can lead to fewer incidents and claims; this, in turn, can potentially result in more favorable premiums.



**The company's financial strength**—Financially stable companies are seen as less risky and more capable of maintaining safety measures and promptly addressing potential hazards.



**The location of your business**—The location of your business will also influence your insurance rates. If your business is in an area prone to certain natural disasters, carriers may determine that your facility is more at risk for property damage. This increased risk translates to higher premiums.



**Your claims history**—Your business's claims history, often referred to as loss history, also has an impact on insurance rates. If your business has an extensive claims history, then insurance carriers tend to consider your company more likely to file future claims. This means that your business is viewed as risky to insure, subjecting you to higher commercial insurance premiums.



**Your risk management practices**—Now more than ever, conducting a careful assessment of your business'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 and minimizes the potential losses your business could experience from an unexpected event.



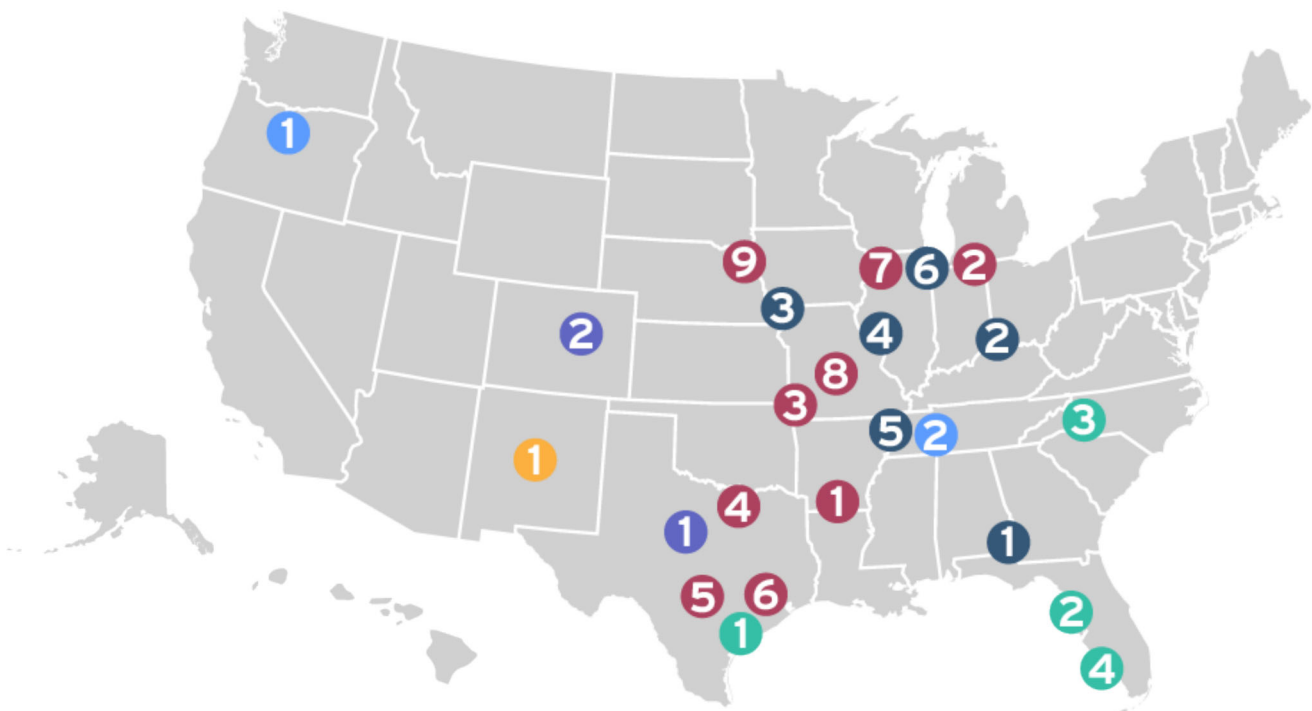
## Trends to Watch in 2025

Insurance experts often examine how outside trends, reforms and movements in the larger economy affect the insurance marketplace, and businesses should follow suit to determine the factors that may impact their coverage. For 2025, there are a host of sweeping market developments to consider.

## Extreme Weather Events

Extreme weather events—such as hurricanes, tornadoes, hailstorms and wildfires—continue to make headlines as they become increasingly devastating and costly. What’s worse, these events aren’t limited to one geographic area; they impact businesses across the United States.

## U.S. 2024 Billion-dollar Weather and Climate Disasters



### Hailstorms

- 1 Texas Hail Storms  
May 6-8, 2023
- 2 Colorado Hail Storms and Southern Severe Weather  
May 31-June 1

### Hurricanes

- 1 Hurricane Beryl  
July 8-9
- 2 Hurricane Debby  
August 5-9
- 3 Hurricane Helene  
September 24-29
- 4 Hurricane Milton  
October 9-10

### Severe Weather

- 1 Southern  
February 10-12
- 2 Central and Eastern  
February 27-28
- 3 Central and Eastern  
March 12-14
- 4 Southern and Eastern  
April 8-11
- 5 Southern  
May 11-13
- 6 Southern Derecho  
May 16-17
- 7 Central, Southern, and Eastern  
May 18-22
- 8 Central and Eastern  
June 12-14
- 9 Central and Northeastern  
June 24-26

### Tornadoes

- 1 Southern Tornado Outbreak and East Coast Storm  
January 8-10
- 2 Central Tornado Outbreak and Eastern Severe Weather  
April 1-3
- 3 Central and Southern  
April 26-28
- 4 Central, Southern, and Southeastern  
May 6-9
- 5 Central  
May 25-26
- 6 Central and Eastern Tornado Outbreak and Severe Weather  
July 13-16

### Wildfires

- 1 New Mexico Wildfires  
June-July

### Winter Storms

- 1 Northwest  
January 12-14
- 2 Central, Southern, and Northeastern  
January 14-17

In 2024 (as of Oct. 31), there were 24 weather and climate disasters in the United States where losses exceeded or were expected to exceed \$1 billion. According to the National Oceanic and Atmospheric Administration, this included 17 severe storm events, four hurricanes, one wildfire and two winter storms.

Severe convective storms were a primary driver of losses from natural disasters, especially at the beginning of the year. The United States experienced a significant number of tornados, hailstorms and straight-line wind events, which resulted in over \$30 billion in insurance claims. Further, the first half of 2024 was the second costliest on record in terms of losses from severe thunderstorms, and total losses hit \$42 billion globally—87% higher than the 10-year average. Other notable events include the Texas panhandle wildfire—the state’s largest wildfire on record, which resulted in 426,600 hectares of fire damage—and two headline-stealing hurricanes: Hurricane Helene and Milton.

After making landfall as a Category 4 storm in Florida’s Big Bend region, Hurricane Helene sped inland with a path of devastation, bringing historic flooding, resulting in millions of power outages and causing more than 90 deaths in multiple states. Coming ashore as the strongest hurricane on record to hit the Big Bend region of Florida, Helene traveled an estimated 600 miles from Florida’s Gulf Coast through Georgia, North and South Carolina, and Tennessee. Initial reports suggested that nearly 162,000 commercial properties with estimated loss exposure of \$425.9 billion lay in the projected path.

Hurricane Milton was equally devastating. The fifth hurricane to make landfall in the United States in 2024, Milton struck Siesta Key, Florida, on Oct. 9 as a Category 3 hurricane. With maximum sustained winds over 120 mph, Milton caused extensive storm surge and inland flooding damage. This was exacerbated by the fact that many areas hit by Milton were still recovering from damage caused by Hurricane Helene. Preliminary estimates place combined insured losses from Helene and Milton between \$35 billion and \$55 billion. However, attributing losses to each hurricane is challenging due to their close timing and overlapping impact zones, and it’s important to consider that final loss estimates could change.

Regardless, many weather experts believe severe storms, extreme temperatures, wildfires and flooding are the new norm. As these catastrophes become more frequent, the insurance industry must adopt innovative solutions to keep up with weather-related losses. Moving forward, businesses can expect to encounter additional emphasis on weather readiness from carriers.

## Geopolitical Upheaval

This past year saw the continuation of severe geopolitical upheaval and international disruptions, particularly those relating to the ongoing Russia-Ukraine conflict, shifting trade dynamics between China and the United States, rising tensions amid the Israel-Hamas war and growing nation-state cyberthreats. These global events have had far-reaching impacts, prompting new tariffs, export restrictions, economic sanctions and coverage exclusions. Further, such events have exacerbated existing technological challenges, inventory backlogs, material shortages and supply chain issues.

Notably, the evolving conflict between Russia and Ukraine has severely hindered grain shipments from Black Sea ports. While a few of these ports remain fully operational, safe passage through the Black Sea isn’t guaranteed, further increasing disruption risks. Similarly, Houthi attacks off the coast of Yemen have disrupted shipping routes through the Gulf of Aden and the Suez Canal, which has impacted the supply of certain consumer goods (e.g., textiles, garments and furniture).

Disruptions like these have global consequences that can affect the price, availability and quality of products. In some instances, replacement items or construction materials are harder and more expensive to come by, which can significantly increase replacement costs. Experts suggest that supply chain disruptions could increase replacement costs for affected goods by an average of 7%. As these challenges persist, businesses should consider proactive measures like monitoring trade policies and exploring domestic production options to mitigate supply chain risks.

One of the most significant concerns associated with geopolitical upheaval is the extent to which losses stemming from international disruptions are covered by commercial insurance policies. In some cases, insurers are restricting coverage for insureds operating in regions engaged in conflicts or with high political instability. Some insurers have pulled out of these markets altogether or reduced capacity, making it difficult for certain businesses to secure adequate coverage.

Insurers are reevaluating their risk assessments and pricing models to account for geopolitical tensions, especially when it comes to cyber, political risk and marine insurance. As a result, insureds need to review their policies carefully and be mindful of potential exclusions. For example, war exclusions are common for both commercial property and cyber coverage. Although these exclusions are fact-specific and often vary between policies and carriers, they generally state that damages from “hostile or warlike actions” by a nation-state or its agents won’t receive coverage. Such exclusions were created to help protect carriers against potentially systemic losses that may arise amid attacks by governments, their militaries or associated groups.

To navigate these exclusions and reduce ambiguity on protection for nation-state cyberattacks, certain insurance marketplaces and carriers have recently revised their policy language surrounding war exclusions, thus providing more clear and consistent guidelines for what is and isn’t covered. Some carriers have also become more apprehensive about selecting policyholders, adopted extensive application processes, and introduced additional cybersecurity documentation requirements as a prerequisite for coverage.

Looking ahead, it’s essential for carriers and brokers to openly communicate with insureds about policy definitions and specific coverage capabilities regarding cyberwarfare. Such communication will help ensure both parties are on the same page, minimizing potential issues when claims arise. Furthermore, businesses should take a proactive approach to mitigating possible nation-state cyberthreats by implementing effective loss control measures (e.g., conducting risk assessments, reviewing digital supply chain exposures, addressing foreign attackers in cyber incident response plans, leveraging proper security software and following applicable government guidance).

## Social Inflation Concerns

Social inflation refers to societal trends that influence the ever-rising costs of insurance claims and lawsuits above the general economic inflation rate. According to the National Association of Insurance Commissioners, the “social” aspect of this term represents shifting social and cultural attitudes regarding who is responsible for absorbing risk (i.e., the insurer or the plaintiff). As the commercial insurance sector shifts, it’s essential to understand what’s currently driving social inflation.

### Third-party Litigation Funding

One of the factors driving social inflation has to do with third-party litigation funding (TPLF). This is when a third party provides financing for a lawsuit. In exchange, the third party receives a portion of the

settlement. In the past, the steep cost of attorney fees would often discourage plaintiffs from taking a lawsuit to trial. But, through TPLF, most or all of the costs associated with litigation are covered by a third party, which has increased the volume of cases being pursued or taken further through the legal process. Not only is TPLF becoming more common, but it also increases the cost of litigation, sometimes to seven figures. This is because plaintiffs can take cases further and seek larger settlements.

### Plaintiff-friendly Legal Decisions and Large Jury Awards

The public sentiment toward large businesses and corporations is deteriorating, and anti-corporate culture is more prevalent than ever. Several factors contribute to this increasing distrust, including the highly publicized issues related to the mishandling of personal data and social campaigns. This has considerably impacted how a jury perceives businesses in court, so organizations are held to a higher standard for issues related to how they conduct their business. Juries are increasingly likely to sympathize with plaintiffs, especially if a business's reputation has been tarnished in some way in the past. As a result, plaintiff attorneys are likely to play to a jury's emotions rather than the facts of the case.

Compounding this issue, there's an increasing public perception that businesses—particularly large ones—can afford the cost of any damages. This means juries are likely to have fewer reservations about awarding damages. In the current environment, nuclear verdicts (jury awards of \$10 million or more) have become more common.

### The Ongoing Impact of Social Inflation

Social inflation continues to have a broad impact on the commercial insurance industry as 2025 approaches, driving increases in liability claims, legal costs and underwriting losses. In the last 10 years, social inflation has led to a 57% increase in U.S. liability claims. Further, due to social inflation, the cost to litigate a claim has risen substantially, with some figures indicating that legal defense expenses for businesses in the United States have increased by an average of 10% annually from 2018-23.

In 2023 alone, there were 27 court cases with awards of over \$100 million. Higher legal defense costs and the overall liability environment can have significant repercussions for organizations and may even influence where a business chooses to operate. In some cases, these costs are passed down to consumers.

Social inflation has also contributed to overall underwriting losses. In particular, the U.S. commercial casualty market reported that overall losses grew at an average annual rate of 11%, totaling \$143 billion in 2023. Additionally, over the past five years, U.S. liability lines subject to bodily injury claims have experienced \$43 billion in underwriting losses.

Social inflation concerns have forced insurers to scale back capacity and limit coverage for businesses in industries prone to large court verdicts (e.g., trucking). Making matters worse, the unpredictability and cost of excess liability coverage have driven many insurers to exit the market, leaving some businesses vulnerable to devastating financial consequences in the face of a large settlement.

Still, insurers are cautiously optimistic going into 2025, especially given predicted premium and ROE growth. However, emerging risks—such as litigation related to opioids, microplastics, and per- and polyfluoroalkyl substances (or PFAS)—could create further uncertainty for insurers, so businesses must be tactful as they navigate ongoing social inflation pressures.



## AI Developments

AI technology, which has surged in popularity in recent years, encompasses machines and devices that can simulate human intelligence processes. Applications of this technology are widespread, but some of the most common include computer vision solutions (e.g., drones), natural language processing systems (e.g., chatbots), and predictive and prescriptive analytics engines (e.g., mobile applications). According to the International Data Corporation, the market for AI technology and other cognitive solutions is projected to exceed \$60 billion by 2025, up from \$1 billion in 2015. In light of this growth, businesses must understand the benefits and ramifications of such technology.

AI systems can potentially improve loss control measures and claims management practices for several lines of commercial coverage. For example, AI can be utilized as a valuable safety tool to help mitigate workers' compensation exposures and associated losses by way of providing prompt diagnoses when employees get injured on the job, generating customized treatment plans to improve recovery outcomes, selecting ideal health care providers, detecting injury patterns and anomalies, determining fundamental causes of workplace incidents and suggesting methods to prevent future losses, and reducing overall claim complexity. In addition, AI tools can help companies boost operational efficiencies through automated workflows, promote greater decision-making capabilities with predictive insights and conduct more effective due diligence processes in the boardroom. This technology could, in turn, reduce companies' corporate exposures and related liability concerns. Further, carriers across coverage segments can leverage this technology to detect insurance fraud, assess policyholders' unique risks and provide 24/7 assistance throughout claims processes.

Nonetheless, AI technology also carries risks for the commercial insurance space. For one, AI models may perpetuate or amplify biases in training datasets, leading to inequitable outcomes. Since this technology still relies on human algorithms, any inaccuracies or mistakes made during the initial input process could perpetuate companywide biases and produce serious errors amid corporate decision-making, exposing businesses to various lawsuits and related claims. The U.S. Equal Employment Opportunity Commission (EEOC) recently released detailed guidance for businesses regarding AI-related biases and errors in the workplace.

Using this technology in certain organizational settings may also pose ethical concerns regarding data privacy and protection. Generative AI is trained on data input, increasing the potential for breaches and unauthorized access to sensitive information. The way it collects, processes and shares data may also result in improper use of personal information, leading to regulatory fines and penalties.

What's more, federal and state legislation surrounding AI technology is frequently changing, which means that companies that neglect to ensure compliance with applicable laws could face substantial legal penalties. On May 17, 2024, Colorado enacted Senate Bill 24-205, becoming the first state to pass comprehensive AI regulation. The law, effective on Feb. 1, 2026, will require businesses to use reasonable care to avoid discrimination when using AI for consequential decision-making (such as hiring, termination and other employment decisions). Insureds can expect similar legislation in other states to become more commonplace.

Lastly, cybercriminals have increasingly weaponized AI technology, exacerbating cyber losses and related claims among businesses. Primarily, cybercriminals can utilize this technology to carry out harmful activities (e.g., launching malware and social engineering scams, cracking passwords, finding software vulnerabilities and reviewing stolen data) at a rapid pace and with greater success rates,

allowing them to cause major damage and even evade detection. Considering these issues, it's best for businesses to carefully review the pros and cons of AI technology and establish adequate risk management techniques before implementing such solutions within their operations.

AI liability is a real threat—one that's only going to grow as more businesses across all industries are adopting and deploying AI solutions. Claims can arise for a myriad of reasons, including AI-related errors and biases. For businesses that use AI in autonomous vehicles or to make business decisions, the risks are even more dire, as this technology introduces potential safety, cybersecurity and financial exposures. Given these issues, there is a continued push for innovation related to AI insurance products.

Currently, AI-related insurance focuses on liabilities that stem from the use and development of AI systems (e.g., errors and omissions by AI systems, cybersecurity breaches caused by AI vulnerabilities and product liability claims related to AI-powered products). As AI technology advances and becomes more integrated into various aspects of society, the demand for insurance coverage will likely expand. Potential future coverage areas could include liability for AI-generated misinformation or defamation, coverage for physical damage caused by autonomous systems (e.g., drones or robots), and protection against discrimination or bias resulting from AI decision-making.

## Reinsurance Optimism

Reinsurance refers to an agreement to help insurance carriers transfer a portion of their risk exposure to a third party. Through reinsurance agreements or treaties, primary insurers can mitigate financial risks, improve solvency and expand their underwriting capacity, enabling them to offer more coverage and absorb losses from unforeseen events. The reinsurance sector plays a crucial role in stabilizing the insurance sector by helping primary insurers manage volatility from high-impact losses.

In recent years, however, the reinsurance segment has faced substantial challenges. Specifically, increasing demand for reinsurance products and an increase in CAT losses have led reinsurers to make significant payouts, impacting their overall profitability and creating challenging conditions across multiple lines of coverage. Consequently, many primary insurers have seen their reinsurance costs increase over the last few years, contributing to hardened market conditions.

The commercial property reinsurance space has been hit the hardest by these trends, largely due to the increased frequency and severity of extreme weather events and associated CAT losses. These conditions have contributed to primary insurers increasing rates and limiting capacity for commercial property insureds, highlighting the trickle-down effect of reinsurance challenges.

Going into 2025, expectations are mixed regarding reinsurance pricing trends. According to a recent survey from Fitch Ratings, more than half of respondents expect global reinsurers to raise prices for January renewals. Specifically, 30% of the insurance professionals surveyed predicted price hikes of over 5%, and another 26% forecasted moderate increases. Conversely, 22% of respondents anticipate price decreases, and Fitch Ratings believes that reinsurers are well positioned to maintain strong profitability and, in 2025, expect margins to stay near their 2023-24 peak.

Despite the optimistic outlook, there are concerns from reinsurers that rate increases in 2024 have not been sufficient to address rising loss costs, especially given CAT loss trends. Driven by Hurricanes Helene and Milton, global insured losses for 2024 are expected to exceed \$100 billion for the fifth consecutive year. Given these substantial losses, property catastrophe insurance rates are unlikely to dip for 2025 as

both primary insurers and reinsurers adopt more stringent underwriting practices to manage sustained risks in the reinsurance market.

## Economic Pressures

Surging inflation has been a persistent concern in the commercial insurance space over the last few years, resulting in eroding investment income, higher administrative costs among carriers, increased claim expenses and rising premiums. Such inflation reached a peak in 2022, evidenced by the highest consumer price index (CPI) in 40 years.

Although inflation began to cool throughout 2023 and 2024, and the CPI rose just 2.4% year over year in September 2024, core CPI forecasts a possible stabilization near 2.5% by mid-2025. Outside factors—like strong wage growth in service industries, rising oil and shipping costs and consistently high housing costs could still exert upward pressure on inflation.

### Medical Inflation

Medical inflation, encompassing costs related to medical treatment, hospital visits, medical equipment and health care labor, is projected to rise in 2025, driven by higher prescription drug costs, increased demand for mental health care, and health care wage growth amid labor shortages.

PricewaterhouseCoopers Health Research Institute projects medical costs to increase to the highest levels seen in 13 years—8% in the group market and 7.5% in the individual market for 2025. State medical fee schedules can help stabilize costs but may not be sufficient to offset inflation impacts on workers' compensation insurance, where medical severity trends and increased use of high-cost medications are closely monitored.

### Wage Inflation

Wage inflation, which refers to workers' rising salaries, rose 4.8% from March 2023 to March 2024, per U.S. Bureau of Labor Statistics data. Because payroll is leveraged as an exposure base to calculate workers' compensation premiums, wage inflation could prompt increased rates in this space. Further, this form of inflation may increase the risk of payroll miscalculations and create short-term disconnects between wages, benefits and workers' compensation premiums. Most states have an index for wage inflation to ensure premiums and benefits match one other, but errors can occur.

### Federal Reserve Actions and Risk Management

To address inflation concerns, the Federal Reserve increased interest rates between 2022 and mid-2024 to stabilize inflation after it peaked in 2022. These rate hikes were successful, as inflation dropped closer to the Fed's target, reaching 2.4% by September 2024. Considering improving inflation metrics, the Fed made a 0.5% rate cut in September 2024, with financial markets anticipating additional cuts. Despite recent cuts, some financial pressures remain as rates stay relatively high, impacting debt costs and credit availability.

As such, businesses should have adequate risk management measures in place. These measures may include establishing concrete financial plans to maintain profits, scaling back certain operations, promoting steady cash flow with shorter payment terms for customers, ensuring proper debt management, fostering strong connections with stakeholders and leveraging effective marketing strategies. Above all, businesses must maintain sufficient insurance and secure financial protection against possible losses, as certain commercial exposures tend to rise during such a downturn.



## Remote Work

In recent years, many employers have revamped their remote and hybrid work arrangements. Whether it's to reduce operating costs, create a better work-life balance for employees or maintain workplace policies that arose from the COVID-19 pandemic, telecommuting has largely become the new normal—or at least more commonplace—for many businesses across different industries.

These arrangements can lead to increased productivity, fewer costs (particularly as it pertains to real estate, absenteeism and relocation), and improved flexibility and workplace perks. Although implementing a work-from-home program can provide a wide range of benefits for businesses, allowing staff to work remotely also comes with unique risks and challenges employers may still need to navigate in 2025.

### Cybersecurity Risks

Employees working from home may lack the same security protections they have in-office, leaving them more vulnerable to cyberattacks. This could result in data breaches with costly consequences for an organization. Employers can mitigate these risks by implementing policies for VPN use, requiring multifactor authentication and providing company devices with up-to-date security software. Educating remote employees on safe practices—such as avoiding public Wi-Fi for work—can also reduce cyber risk.

### Workers' Compensation Liability

Remote work also presents potential workers' compensation concerns. When injuries occur in the home instead of on-site, there often isn't a witness to verify that the incident occurred while the employee was performing company duties and not while working on personal tasks around the home. Complicating matters, when employees live and work across state lines, determining the jurisdiction for workers' compensation claims and ensuring compliance with varying state laws becomes increasingly complex. To address these issues, employers should ensure their policies cover home office injuries and clarify what qualifies as a work-related injury under workers' compensation laws.

### Privacy and Compliance

There are also several compliance considerations to keep in mind. Employees should be made aware of their privacy rights when working from home. Just because work is performed on a home computer doesn't mean it's exempt from being monitored or inspected by the employer. Employers should communicate any monitoring policies transparently and, when necessary, secure employee consent to ensure compliance with privacy laws.

## 2025 Market Outlook Forecast Trends

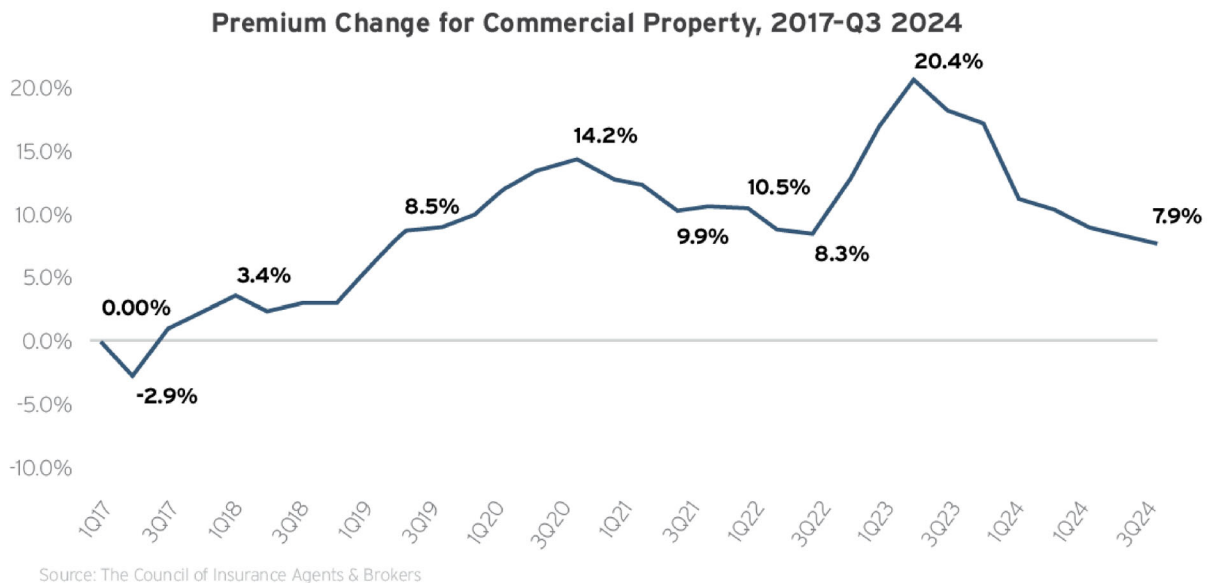
Price forecasts are based on industry reports and Zywave surveys for individual lines of insurance. Forecasts are subject to change and are not a guarantee of premium rates. Insurance premiums are determined by a multitude of factors and differ between businesses. These forecasts should be viewed as general information, not insurance or legal advice.

LINE OF COVERAGE	PRICE FORECAST
Commercial property	<b>Non-CAT:</b> Flat to +10% <b>CAT-exposed:</b> +5% to +15% (More favorable increases are predicted for high-quality CAT-exposed risks)
General liability	<b>Overall:</b> +1% to +9%
Commercial auto	<b>Overall:</b> 5% to 15%
Workers' compensation	<b>Overall:</b> -2% to +2%
Cyber	<b>Overall:</b> -5% to +5%
D&O	<b>Private and nonprofit entities:</b> -5% to flat <b>Public companies:</b> -10% to flat
EPL	<b>Overall:</b> -5% to +5%

## Commercial Property Insurance

In recent years, the commercial property insurance market has been characterized by rising premiums and years of double-digit rate increases. 2023 was one of the more challenging years on record, and the segment saw average rate hikes above 20% for the first time in more than 20 years.

Moving into 2025, the market appears to be stabilizing, and most renewals with favorable loss histories will see single-digit rate increases; non-catastrophe (CAT) exposed assets with good loss histories can expect flat to 10% rate increases. While some complex risk profiles are still difficult to place and challenges remain in high-risk areas with persistent capacity and pricing pressures (e.g., wildfire zones), the double- or triple-digit rate increases the commercial property insurance segment saw in 2023 are less common.



This improvement is largely due to improved capacity, healthier returns on capital, and a renewed focus on data and risk quality. Although the market appears to be more stable and competitive, updated CAT models may affect the risk appetite of insurers and lead to pricing fluctuations. In general, insureds in wildfire and hurricane-prone areas should expect fewer coverage options and higher rates in 2025; however, difference-in-condition and parametric policies may help mitigate risk and address coverage gaps.

2025 Price Prediction:

<p><b>Non-CAT:</b> Flat to +10%</p>	<p><b>CAT-exposed:</b> +5% to +15% (More favorable increases are predicted for high-quality CAT-exposed risks)</p>
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## Developments and Trends to Watch

- **Natural disasters**—The frequency and severity of natural disasters have continued to pose concerns throughout the commercial property insurance market. Through October 2024, this year saw 24 weather and climate disasters with losses exceeding \$1 billion, according to the National Oceanic and Atmospheric Administration. These included 17 severe storms (e.g., tornados, windstorms and hailstorms), four tropical cyclones, one wildfire and two winter storms. Altogether, these events resulted in 418 deaths and significant damage. Severe convective storms have significantly contributed to overall losses from natural disasters. These storms occur when warm, moist air rises rapidly, resulting in the formation of tornadoes, hail, severe thunderstorms and strong winds. As of the third quarter of 2024, insured losses from natural disasters reached approximately \$108 billion, with severe convective storms being the primary cause. Hurricane Helene incurred insured losses estimated between \$10 billion and \$15 billion, making it the costliest event in the year’s first nine months. Furthermore, projected losses from Hurricane Milton are expected to range from \$30 billion to \$60 billion. Overall, total insured losses for 2024 are anticipated to exceed \$140 billion, indicating another year of significant financial impact from natural disasters.
- **A stable reinsurance market and increased capacity**—In previous years, the surge in extreme weather events, substantial underwriting losses and prolonged inflation proved especially challenging for the commercial property reinsurance segment. These trends generated some degree of market uncertainty and earnings volatility, prompting some reinsurers to reduce or even eliminate capacity for CAT exposures. The 2023 market cycle was quite chaotic, as primary insurers faced significant increases in reinsurance costs, higher attachment points and more restrictive terms. However, the reinsurance market stabilized in 2024 and is expected to recover close to pre-COVID-19-pandemic highs. This surge has been fueled by increased involvement from capital markets through instruments such as insurance-linked securities, CAT bonds and sidecar arrangements, resulting in significant growth in available capacity. Additionally, higher retentions by policyholders—as they take on the financial responsibility of smaller, more frequent claims—have contributed to lower losses for reinsurers. The increased access to reinsurance capital has enabled direct insurers to offer more stable and increased capacity for renewals or new business. High-risk accounts are taking advantage of increased capacity through shared and layered programs from international markets like London and Bermuda. Effectively, insurers have more capital available and are willing to take on portions of larger, more complex risks, making it easier for some insureds to secure coverage.
- **Insurance-to-value (ITV) considerations**—ITV calculations are critical, as they help insureds determine the appropriate amount of property coverage by assessing an asset’s actual, market and replacement value. Securing an accurate ITV calculation has been challenging; a property’s value is often affected by factors like inflation and material costs, both of which have been volatile in recent years. However, inflation appears to be cooling, per a September 2024 report from the U.S. Bureau of Labor Statistics. The consumer price index came in at 2.4%—the lowest inflation rate since February 2021. Given these market changes, it’s crucial that insureds are diligent in ITV calculations. An accurate ITV calculation represents as close to an equal ratio as possible between the amount of insurance a business obtains and the estimated value of its commercial building or structure, thus ensuring adequate protection following potential losses. According to recent industry research, many businesses’ ITV calculations are off by more than 30%, presenting major coverage gaps. To

avoid inaccurate valuations and insufficient coverage, insurance experts recommend using the replacement value of a property when conducting ITV calculations. This value is an estimate of the current cost to replace or rebuild a property. The replacement value of a property depends on characteristics such as material and labor expenses, architect services, debris removal needs and building permit requirements. Common approaches to accurately estimating this value include getting a property appraisal from a third-party firm, leveraging fixed-asset records that have been adjusted for inflation or relying on a basic benchmarking tool (e.g., dollars per square foot).

- **Continued interest in alternative risk financing**—Given how challenging the commercial property insurance market has been in recent years due to factors such as inflation and pervasive natural disaster concerns, there’s been continued interest in alternative risk transfer options. These can provide more customized solutions and, in some cases, cost savings. There are several options available to risk managers, including the following:
  - **Captives**—Captives are insurance companies formed by one or more parent companies to insure their own risks rather than relying on third-party insurers. They are a form of alternative risk transfer used by major corporations, nonprofit organizations and medium-sized businesses to achieve better control over their insurance needs, manage costs and gain potential tax benefits. By creating a captive, a company can often lower its total cost of risk through more tailored risk management and claims handling processes. Captives can be formed to handle various types of risks, depending on the exposures of the parent organization.
  - **Parametric coverage**—As natural disasters become more severe, parametric coverage has risen in popularity. Contrary to the reimbursement method of standard commercial policies, parametric insurance offers protection based on a predetermined, measurable characteristic tied to a covered event. Under such coverage, the amount a policyholder is compensated isn’t decided by the exact cost of damages sustained but by the calculated intensity of the covered event itself. For instance, if a hurricane caused damage to a commercial property, a parametric policy might reimburse a set dollar amount linked to the storm’s wind speeds. Key advantages of this coverage include the ability to remedy possible property insurance gaps posed by large-scale natural disasters, more timely payouts (often less than three weeks) using simplified proof-of-loss protocols, and greater policy flexibility and transparency. According to industry data, submission volume in the parametric segment has jumped by 500% over the last year, with the market projected to nearly triple in value and exceed \$29 billion by 2031.
  - **Structured fronting**—Structured fronting is an insurance solution that allows insureds to manage their own risk. In these arrangements, policies are written by an insurer, but most or all the risk is passed on to the insured or another third party (e.g., a captive or reinsurer). This allows insureds to meet regulatory obligations tied to having a licensed insurer issue a policy. Structured fronting offers policyholders flexibility in managing coverage and risk retention, allowing them to customize their insurance arrangement to better align with their risk management goals.

## Tips for Insurance Buyers

- Conduct a thorough inspection of your commercial property and the surrounding area for specific risk management concerns. Implement additional mitigation measures as needed.
- Work with insurance professionals to 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 should adjust your organization's commercial property limits to avoid underinsuring your property and facing coinsurance penalties. This may entail updating your total insurable values as needed and conducting accurate ITV calculations.
- Gather as much data as possible regarding your existing risk management techniques. Be sure to work with your insurance professionals to present loss control measures you have in place.
- Analyze your organization's natural disaster exposures. If your commercial property is located in an area that is more prone to a specific type of catastrophe, implement mitigation and response measures that will protect your property as much as possible if such an event occurs (e.g., installing storm shutters on windows to protect against hurricane damages or utilizing fire-resistant roofing materials to protect against wildfire damages).
- Develop a documented business continuity plan (BCP) that will help your organization remain operational and minimize damages in the event of an interruption. Test this BCP regularly with various possible scenarios. Make updates when necessary.
- Report commercial property claims to your insurance carrier as soon as possible and, if applicable, take action to limit the damage caused by these claims.
- Address insurance carrier recommendations. Insurers will be looking at your loss control initiatives closely. Taking the appropriate steps to reduce risks whenever possible can make your business more attractive to underwriters.
- Keep your commercial property in good condition at all times and address building issues that could lead to insurance claims immediately.



## General Liability Insurance

Following years of rising claim frequency and severity, as well as poor underwriting results, the general liability insurance market showed signs of improvement in 2024. Rate increases for general liability customers moderated, and many insureds saw premium hikes below 10%—a vast improvement over the double-digit rate increases from previous years. For most policyholders, price increases in 2024 remained in the 4%-5% range.

However, like other segments in the commercial insurance space, hard market conditions are expected for businesses that operate in riskier industries or have poor loss histories. Some sectors, like construction, affordable housing and hospitality, remain especially challenging due to their inherent risks and high exposure to litigation.

In addition, hedge funds and other financiers are more often investing in law firms that specialize in liability lawsuits, fueling a litigious environment with substantial financial backing. These firms use aggressive advertising on billboards, social media and TV commercials to promote awareness of potential payouts. Alongside these marketing tactics, well-funded firms employ litigation strategies designed to extend the legal process, such as filing extensive motions, pushing for broad discovery and strategically delaying proceedings. This approach often drives up claim costs, increases the likelihood of trials, and leads to larger verdicts and settlements. Consequently, claims that might have once been resolved informally are now more frequently taken to court, with rising numbers of individuals seeking compensation after accidents or injuries. Together, these trends are contributing to a surge in liability lawsuits and adding upward pressure on insurance costs.

For 2025, insurers will continue to focus on underwriting profitability and risk management. While capacity is healthy, general liability insurers will continue to be cautious about who they insure and at what price. Renewal results will likely depend on policyholders' unique exposures, class and loss history. To secure favorable rates and terms, insureds should focus on demonstrating strong risk management practices.

### 2025 Price Prediction:

+1% to +9%

## Developments and Trends to Watch

- **Litigation concerns**—The United States is an increasingly litigious society, leading to a growing number of lawsuits following liability incidents (actual or alleged) and, in turn, greater settlements and verdicts from such legal action. This trend, driven by social inflation (growth in insurance claim costs due to a more litigious environment and changing attitudes towards lawsuits), has driven up the frequency and severity of claims in the commercial general liability market. Key factors contributing to this environment include increased attorney advertising, third-party litigation funding (TPLF), and the rise of nuclear verdicts and settlements—awards that exceed \$10 million.

Attorney advertising has become more widespread, spanning television, print and social media, and highlights opportunities to pursue legal action across various scenarios—thus fueling litigation



against businesses. Moreover, the global TPLF industry, which allows third parties to invest in lawsuits by financing attorneys or plaintiffs in exchange for a share of any settlement, is projected by industry experts to reach \$30 billion by 2028. By providing financial backing to cases that might otherwise be too costly to pursue, TPLF enables more cases to proceed, often extending litigation and increasing the likelihood of trials, which frequently lead to larger verdicts and higher claim costs.

Nuclear verdicts are also on the rise, particularly in the case of class-action lawsuits. According to independent public relations firm Marathon Strategies, between 2020 and 2022, the average nuclear verdict nearly doubled from \$21.5 million to \$41.1 million, while the sum of these verdicts jumped from \$4.9 billion to \$18.3 billion in the same time frame. Plaintiffs' attorneys have become more adept at maximizing jury awards, leveraging tactics like reptile theory and anchoring. Reptile theory is a trial strategy designed to appeal to a juror's primal instincts of safety, positioning defendants as a threat to the community, while anchoring involves suggesting high—and often unreasonable—initial damages amount to influence the final award. These tactics have proven especially effective with younger jurors, such as millennials and Generation Z, who tend to be more skeptical of corporations and sympathetic to plaintiffs.

Altogether, increased litigation, rising verdicts and surging social inflation issues have largely contributed to elevated general liability insurance claim costs. In some cases, such litigation has posed underinsurance concerns for businesses, leaving them with coverage gaps and substantial out-of-pocket expenses amid associated claims. This challenging legal environment is expected to persist, making it essential for businesses to proactively manage their risks and secure appropriate coverage in 2025.

- **Biometric data losses**—Many businesses are increasingly using biometric data, such as facial geometry, iris scans, fingerprints and voiceprints, to enhance account authentication measures, deploy stricter access controls, create personalized marketing materials, and monitor employees' workplace attendance and activities. While biometric data can allow organizations to maintain greater operational visibility and provide stakeholders with more individualized experiences, it also carries risks related to data privacy and personal security.

The regulatory landscape for biometric data collection is constantly evolving, paving the way for potential challenges for businesses. While no overarching federal law applies specifically to biometric data in the United States, some aspects of federal legislation regulate certain sectors and individuals (e.g., the Health Insurance Portability and Accountability Act and the Children's Online Privacy Protection Act). More comprehensive data privacy laws have emerged at the state level, and at least 10 states have recently proposed such laws.

Even though it may be challenging, organizations must comply with applicable data privacy laws. Failure to adhere to relevant legislation when collecting biometric data could be deemed wrongful, leaving noncompliant organizations subject to legal penalties ranging from thousands to millions of dollars in fines and strict sanctions. Compounding these expenses, organizations that engage in improper biometric data collection, processing, sharing or storage practices could also be susceptible to costly litigation brought on by disgruntled stakeholders, especially if their data gets compromised.

Many businesses subject to biometric data lawsuits seek coverage under the "personal and advertising injury" provisions of their general liability policies, as they traditionally cover privacy

violations. However, many insurers frequently contest these claims, resulting in inconsistent court outcomes. In response to this uncertainty, the Insurance Services Office recently updated its commercial general liability exclusions, adding “biometric information” to the list of protected data and introducing endorsements that exclude coverage for violations of certain biometric data laws.

Considering these risks, employers should prioritize compliance and risk mitigation next year to effectively navigate the risks of biometric data collection. Businesses should seek legal counsel, review their policy language and consider alternative insurance options (e.g., cyber coverage), which may offer more tailored protection against biometric data losses.

- **Active assailant exposures**—An active assailant incident occurs when an individual or group of individuals enter a populated area to kill or attempt to kill their victims, generally through the use of firearms. These events—sometimes called active shooter incidents or mass shootings—have skyrocketed in the United States. According to the most recent data from the FBI, there were 229 active shooter incidents from 2019-23—an 89% increase from the previous five-year period. These incidents have also grown in severity; 3 out of the 5 deadliest mass shootings in U.S. history occurred in the past decade.

Active assailant incidents can carry numerous consequences and often result in fatalities, serious injuries and prolonged emotional trauma among those involved. Additionally, such incidents can leave lasting impacts on organizations. Specifically, businesses that encounter active shooter incidents could face substantial recovery expenses, regulatory penalties and liability concerns. Courts increasingly hold businesses accountable if an organization doesn’t take the appropriate steps to protect against an active assailant, potentially finding them negligent and in breach of their duty of care should they be subject to lawsuits. In response to this risk, some businesses have started to more carefully evaluate their active assailant exposures, implement loss control measures and create incident response plans.

In response to these growing risks, businesses are turning to specialized insurance policies designed to cover losses related to active shooter incidents. While these policies vary in design, they often include coverage for property damage, business interruption, third-party liability, crisis management, psychological counseling, funeral expenses, risk assessment, training and medical expenses. This type of coverage is especially critical, as standard general liability policies often exclude coverage for certain types of violent acts or claims related to mental anguish or emotional trauma. Therefore, standalone active assailant coverage or specific policy endorsements may be essential for financial protection.

- **Perfluorosulfonic acids (PFAS) exposure**—PFAS consist of a large grouping of over 7,000 chemicals that have been widely manufactured and distributed across the United States since the 1940s. Because PFAS don’t break down easily within the environment or the human body, these substances are known as “forever chemicals.” PFAS can be present in various products, including food packaging, nonstick cookware, household cleaners, firefighting agents, textiles, furniture and auto parts. Over the past few years, PFAS have been the subject of growing scrutiny stemming from recent developments regarding the health and safety of these substances and their environmental impacts. Namely, PFAS have been linked to several health conditions, including certain cancers and immune dysfunction. As more information regarding the risks of PFAS comes to light, regulatory issues involving these substances have ensued.

Although two main types of PFAS (i.e., perfluorooctanoic acid and perfluorooctane sulfonate) have already faced regulatory action—resulting in these substances no longer being manufactured in the United States since 2015 and 2002, respectively—the federal government recently implemented multiple efforts to limit PFAS usage and exposure in the coming years and beyond. Such efforts include creating national water quality standards related to PFAS contamination, designating certain PFAS as hazardous substances, enhancing PFAS reporting requirements, limiting PFAS discharge from industrial sources, and conducting and publishing toxicity assessments for various PFAS. Apart from federal legislation, several states currently have standards restricting PFAS contamination in soil and groundwater. Additionally, New York and New Jersey have already listed PFAS as hazardous substances within their regulatory regimes.

This legislation has contributed to a rise in litigation and subsequent liability concerns for businesses that are found responsible for causing PFAS contamination amid their operations. For instance, multiple manufacturers have faced lawsuits due to their operations resulting in contaminated soil or drinking water and allegedly leading to health complications in individuals located near their worksites. While recent PFAS litigation has been directed primarily at manufacturers, it's certainly possible that businesses across additional industries could encounter lawsuits related to the use of these substances in their products and packaging, prompting liability claims and associated losses. What's worse, many carriers have begun excluding coverage for PFAS-related losses from their general liability policies. As regulatory pressures and litigation concerns related to such chemicals press on into 2025, businesses that manufacture PFAS, sell products containing these substances or utilize packaging with PFAS may experience elevated liability exposures. Further, businesses facing PFAS-related incidents could be more susceptible to coverage exclusions and out-of-pocket losses.

Claims stemming from PFAS incidents pose unique challenges for general liability insurers and insureds, particularly given that coverage is typically triggered when the injury or damage happens, not when a claim is filed. Because PFAS exposure often happens gradually and over an extended period, it can take years or even decades for claims to arise. Legacy policies issued before the mid-1980s may provide broader coverage for PFAS claims, given they often lack pollution exclusions; however, this would require insureds to locate so-called "lost policies" in order to address PFAS liabilities. Policies written more recently are likely to have absolute pollution exclusion, which can make it difficult to secure coverage for PFAS claims.

## Tips for Insurance Buyers

- Work with risk management experts to educate yourself on key market changes affecting your rates and how to respond using loss control measures.
- Adopt proactive safety and risk management measures to minimize incidents that could lead to lawsuits, such as employee training and stringent safety protocols. Create an active assailant response plan that includes evacuation procedures, staff training and communication protocols to mitigate and protect employees.
- Keep detailed records of your company's protocols and risk management measures to streamline the claims or litigation process. Documentation, such as written policies, training logs, inspection records and incident reports, can serve as valuable evidence that your business has taken reasonable steps to reduce risk.

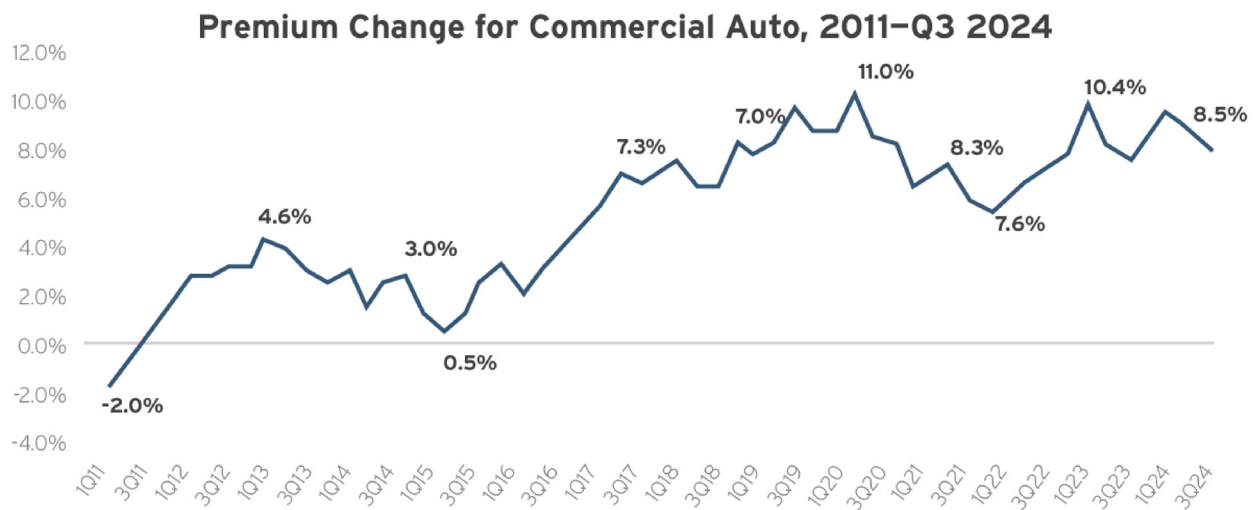
- Communicate transparent data collection practices to employees and customers, ensuring they understand how their biometric data will be used and stored.
- Create workplace policies and procedures aimed at minimizing PFAS exposures. Consult legal counsel to ensure compliance with applicable PFAS legislation.
- Examine your general liability coverage with trusted insurance professionals to ensure your policy terms and limits match your insurance needs, and consider adding endorsements where needed.

## Commercial Auto Insurance

For much of the past decade, the commercial auto insurance market has been especially challenging for both insurers and insureds, characterized by significant underwriting losses, plummeting profitability and continued rate hikes. In 2024, commercial auto insurance premiums had some of the highest increases across all lines of insurance, with average increases between 9% and 9.8% in the first two quarters of the year. What’s more, as of 2024, insurers have experienced combined loss ratios above 100% for 12 of the past 13 years, and insurers are paying out more in claims and expenses than they are earning in premiums.

This trend is expected to continue into 2025. Various factors have led to such difficult market conditions, including widespread driver shortages, nuclear verdict concerns, inflation issues and distracted driving challenges. Altogether, these cost-driving trends have pushed claims frequency and exacerbated overall loss severity throughout the segment.

As a result, policyholders with large commercial fleets and additional auto exposures have had greater difficulty securing excess layers of coverage alongside elevated program pricing. In response, some businesses are adapting their operations in an attempt to lower their insurance expenses (e.g., changing their radius of operation by shifting from long-haul to local trucking or using smaller box trucks instead of tractors for long-distance hauling). Considering these developments, most insureds—regardless of industry or vehicle class—can expect to encounter ongoing premium hikes going into 2025. Further, policyholders with sizeable fleets or poor loss history may be more susceptible to double-digit rate jumps, reduced capacity and possible coverage restrictions.



Source: Council of Insurance Agents & Brokers

2025 Price Prediction:

+5% to +15%



## Developments and Trends to Watch

- **Nuclear verdict concerns**—Social inflation refers to the rising cost of insurance claims due to increased litigation, broader definitions of liability and more friendly legal environments. It has affected many lines of commercial coverage in recent years, with the commercial auto insurance market being one of the hardest hit. This sector is particularly susceptible to nuclear verdicts (e.g., extremely high jury awards) due to the serious nature of accidents involving large commercial vehicles like trucks. According to the American Transportation Research Institute, trucking verdicts have increased by more than 50% each year for the past decade, with nuclear verdicts in the sector doubling during this time frame. From 2019-23, the average statutory closed claim payment for commercial auto liability cases increased by 39%. The upward frequency of claims and the rise in litigation costs, average settlements and third-party litigation funding continue to create an uphill battle for insurers and their book of business. In total, the Insurance Information Institute reported that the culmination of social inflation and nuclear verdicts has led to a \$30 billion surge in commercial auto claim costs since 2012. Moreover, driven by social inflation, liability claims in the United States have increased by 57% in the last 10 years. On average, social inflation rose by 5.4% annually from 2017-22, peaking at 7% in 2023 to reach a 20-year high.

Due to the rise in nuclear verdicts, attorneys are more inclined to go to trial, which typically extends litigation and significantly raises the cost of defending a claim. Third-party litigation funding is also contributing to this trend. This funding occurs when a third party provides financial support for a lawsuit and, in exchange, receives a portion of the settlement. In the past, the steep cost of attorney fees would often scare plaintiffs away from taking a lawsuit to trial. But now, with litigation funding, a third party covers most or all costs associated with the litigation, leading to more cases being pursued. Not only is litigation funding becoming more common, but it also increases the cost of litigation overall—sometimes to seven figures. This is because plaintiffs can take cases further and seek larger settlements. The ongoing surge in nuclear verdicts has caused many commercial auto insurance carriers to either decrease their risk appetites and restrict coverage offerings or exit the market altogether. Consequently, insureds affected by nuclear verdicts are less likely to have sufficient coverage for these events, potentially leading to financial devastation when they occur. While tort reform at the state level could provide some relief from litigation challenges (i.e., caps on noneconomic damages), commercial auto insurance buyers should expect the current environment around nuclear verdicts to persist in 2025.

- **Physical damage claims**—The overall cost associated with vehicle collisions has climbed significantly in recent years. While the financial impact of individual accidents can vary based on the severity of a collision, steep repair costs continue to drive up the cost of claims overall. Technological advancements have made vehicles safer and more efficient. However, as commercial vehicles are outfitted with a variety of sophisticated components (e.g., backup cameras and blind-spot cameras), they are becoming increasingly expensive to repair. According to a report from AAA, vehicles equipped with driver assistance systems often cost twice as much to repair as those that aren't. As such, losses associated with a collision are much more substantial, leading to rate increases and creating numerous challenges for insurers. Continued supply chain issues have also contributed to higher repair costs. Notably, repair shops are experiencing delays in obtaining parts (e.g., microchips), driving up repair times and downtime for commercial fleets. Given the cost and time it takes to repair vehicles, a collision can be especially expensive for a commercial fleet. More often,

the threshold for declaring a vehicle a total loss is reached more quickly, especially considering that the combined cost of repairs and a vehicle's salvage value commonly exceeds the actual cash value of the vehicle as a whole. In response to these challenges, some companies are likely to continue streamlining practices related to preventive maintenance, towing, rental car provision and parts ordering.

- **Driver shortages**—While labor shortages have become a top concern for many industries in recent years, the transportation sector has been particularly impacted by a lack of commercial drivers. While an estimated 3.05 million truck drivers were employed in the United States in 2023, the American Trucking Associations (ATA) estimates a shortage of roughly 60,000 drivers in 2024, with the shortage expected to grow to 82,000 by the end of the year. What's worse, the ATA anticipates that rising freight demand and an aging workforce could cause the driver shortage to skyrocket to 160,000 open positions by the end of the decade.

To help minimize this shortage, a growing number of businesses have adjusted their driver recruitment and retention strategies. This has included offering higher wages, improving working conditions, providing professional growth opportunities and tapping into underrepresented demographics (e.g., women) to expand their talent pools. Yet, many businesses have still had to lower their driver applicant standards to fill open positions. These drivers often have fewer years of experience and shorter driving records. Such factors can make these new employees more likely to be involved in accidents on the road, contributing to an increase in commercial auto losses and related claims. In order to combat risks stemming from inexperienced drivers, the federal government introduced the DRIVE Safe Integrity Act in May 2023. This bipartisan legislation aims to enhance safety and training standards for both new and current drivers, as well as promote the adoption of a permanent apprenticeship program for young commercial drivers who are just starting their careers in transportation. Even with these regulatory efforts underway, it's clear that it's increasingly important for employers to establish their own initiatives to educate new drivers and encourage them to prioritize safety behind the wheel next year and beyond, thus minimizing accidents and associated losses.

- **Fleet electrification**—Electric vehicles (EVs) continue to gain traction in the U.S. auto market, including among commercial fleets. According to a recent report, there were over 1 million EVs in commercial and government fleets as of 2021—an increase of over 233% from 2019 estimates. By 2030, experts estimate there will be over 4 million EVs in U.S. fleets. The increased adoption of EVs in the commercial auto space may be attributed to decreased battery costs, expanded charging infrastructure, government incentives, sustainability initiatives and regulatory pressures. However, EV adoption isn't without its share of challenges. In one Accenture survey, 35% of respondents cited high up-front costs and an unclear return on investment as challenges toward fleet electrification. That same survey found that 30% of respondents didn't currently have any EVs in their fleet. Infrastructure upgrades could also slow down EV initiatives for some fleets, as the change may require electrical system upgrades, specialized charging equipment and updates to the organization's IT systems. Further, because EVs tend to cost more than standard automobiles, their insurance rates are usually higher. However, other factors unique to EVs could also make insuring them costlier. Such factors include:
  - **Cyberthreats**—Like most new cars and trucks, EVs offer connected car technologies such as Wi-Fi, data sharing and semiautonomous systems that leave them vulnerable to



cyberthreats. However, the public charging stations EVs rely on to recharge their batteries add another layer of risk. Charging stations may serve as an entry point for malware attacks, data theft, system outages, bugs and glitches. What's more, once a data breach occurs in a single vehicle, it may be easier for a malicious party to access the rest of the fleet.

- **Battery problems**—There are several risks associated with EV batteries that can potentially impact commercial fleets. For example, battery manufacturing defects can lead to large-scale vehicle recalls, putting fleet owners at an increased risk of business delays. Additionally, under certain conditions, lithium-ion batteries that power EVs can ignite or explode. Battery fires burn longer and hotter, release more toxic fumes and liquids, and spread faster over a larger area than traditional fires. Such an incident would create a whole new set of insurance challenges.
- **Pedestrian accidents**—One selling point of EVs is they run quieter than gasoline-powered vehicles. Unfortunately, this lack of audible engine noise may also put pedestrians at greater risk of being hit if they fail to hear an approaching EV.

While uncertainty about new EV technologies will likely drive up insurance premiums initially, expectations are that prices will stabilize over the long term.

## Tips for Insurance Buyers

- Examine your risk management practices relative to your fleet and drivers. Enhance your driver safety programs by implementing or modifying policies on safe driving.
- Design your driver training programs to fit your needs and your business's exposures. Establish effective onboarding and educational initiatives for new drivers. Regularly retrain drivers on safe driving techniques.
- Ensure you are hiring qualified drivers by using motor vehicle records (MVRs) to vet a driver's past experience and moving violations. Disqualify drivers with an unacceptable driving record. Review MVRs regularly to ensure that drivers maintain good driving records. Define the number and types of violations a driver can have before losing their driving privileges.
- Evaluate and integrate advanced vehicle technology solutions, such as telematics, GPS tracking and dash cameras, to bolster your current loss control practices.
- Implement an employee retention program to maintain experienced drivers.
- Prioritize organizational accident prevention initiatives and establish effective post-accident investigation protocols to prevent future collisions on the road.
- Examine your Federal Motor Carrier Safety Administration BASIC scores to identify gaps in your fleet management programs, if applicable.
- Comply with applicable commercial driving legislation, particularly as it pertains to road safety, vehicle maintenance and drug testing policies.
- Determine whether you should make structural changes to your commercial auto policies by speaking with trusted insurance professionals.

## Workers' Compensation Insurance

In 2024, the workers' compensation insurance segment experienced another year of strong performance, continuing a decade-long profitability trend for insurers. Overall, workers' compensation insurance has been a bright spot in recent years during an otherwise challenging market across various lines of insurance. New market entrants and fierce competition have led to years of declining rates for insureds. Further, stable loss trends and healthy reserves—around \$18 billion—have supported underwriting profitability.

However, several emerging trends may indicate a challenging outlook for the workers' compensation market in 2025. Despite nine consecutive years of underwriting profits and an impressive combined ratio averaging 91% from 2015 to 2023 (which fell to 88% in 2023), Fitch Ratings suggests that the prolonged period of reserve redundancy and low claims frequency is beginning to soften.

Insurers have benefited from unusually strong workers' compensation reserves, yet recent indicators reveal a gradual decline in reserve strength and a more cautious approach to reporting incurred losses. Insurers are also setting lower initial loss ratio estimates for recent accident years (2022-23), likely in response to a weakening pricing environment and lower incurred but not reported (IBNR) losses.

Although workers' compensation reserves remain a strength in the industry—estimated to be between 8% and 12% redundant at the end of 2023—this buffer is decreasing compared to previous years. If competitive pressures continue or trends in loss severity change, the sector may need to recalibrate. This could impact underwriting profitability and bring the market closer to breakeven or worse outcomes.

Additionally, concerns surrounding medical and wage inflation and shifts in the workplace demographic could drive up claim costs in the future. Medical treatments are becoming more expensive, and wage growth could increase indemnity payments, further straining costs. An aging workforce and evolving job roles also bring new risks and complexities that could impact claim severity and frequency.

While rates are still expected to decrease overall in 2025, the future is largely uncertain. Insurers will need to carefully manage these rising costs and evolving risks to maintain profitability. As a result, insureds should prioritize risk management and safety initiatives to control workers' compensation costs and reduce their exposure to potentially higher rates in the future.

### 2025 Price Prediction:

-2% to +2%

## Developments and Trends to Watch

- **Inflation issues**—The last couple of years have been met with growing inflation concerns, impacting individuals and industries across the board. The commercial insurance market is no exception to these concerns. In the realm of workers' compensation, this segment is primarily affected by the following types of inflation:

- **Medical inflation**—Medical inflation refers to rising costs for medical resources (e.g., physician services, health care facilities and supplies, and pharmaceuticals). These costs—which the National Library of Medicine asserts comprise the largest share (60%) of workers’ compensation expenses—are typically determined a year in advance based on projections by Medicare and private insurance contracts.

For 2025, employer-sponsored health care coverage is set to increase by 9%, exceeding \$16,000 per employee. Further, the Centers for Medicare and Medicaid predict health care spending will rise by 5.4% each year through 2028, presenting ongoing medical inflation concerns. Wages in the health care sector are increasing amid worker shortages, which could drive prices up even further. Moreover, rising health care costs related to hospital expenses, physician services and prescription drugs could cause the cost of treating work-related injuries to balloon in 2025, impacting overall claim severity and workers’ compensation expenses.

It’s worth noting that the segment is better equipped to handle inflation issues than other commercial lines of coverage due to several years of profitability. Many states also have fee schedules for workers’ compensation coverage, which are predetermined expenses for medical resources. These fee schedules are intended to keep treatment costs for injured employees and associated claim expenses more affordable. Regardless, elevated workers’ compensation costs brought on by medical inflation are likely to persist in the coming years.

- **Wage inflation**—Amid rising cost-of-living expenses and ongoing labor challenges, many businesses have increased their workers’ pay to boost attraction and retention efforts, resulting in wage inflation. Because payroll is leveraged as an exposure base to calculate workers’ compensation premiums, wage inflation could prompt increased rates. After all, higher wages are tied to greater benefits, and benefits and premiums must remain in balance to ensure workers are adequately reimbursed for lost income following occupational illnesses or injuries. Most states have an index for wage inflation to ensure premiums and benefits keep up with each other, but it’s still possible for errors to occur. For 2025, the impact of wage inflation will depend on how well the market balances the positive impact on premiums against the rising claims costs driven by higher medical expenses.

Altogether, while the market has been resilient, the combination of medical and wage inflation could create upward pressure on claims costs and premiums in 2025, with the extent of profitability depending on how well insurers manage these rising costs and evolving risks.

- **Legislative trends**—Various legislative trends have the potential to impact the workers’ compensation market in 2025. The following are some key highlights:
  - **Employee mental health challenges**—According to the Centers for Disease Control and Prevention, mental health concerns are on the rise. One in 5 U.S. adults experience mental illnesses—such as anxiety, depression and post-traumatic stress disorder (PTSD)—each year, but just one-third of these individuals seek help. What’s worse, the National Safety Council confirmed that instances of both moderate and severe mental health distress (especially when left untreated) have been linked to a greater risk of

workplace incidents. This is likely because employees facing mental health challenges are often less engaged and aware of potential safety hazards, resulting in poor decision-making, which can lead to costly workplace injuries.

In response to rising concerns, many states have or are in the process of enacting legislation that would expand workers' compensation coverage to include job-related mental health conditions, particularly PTSD and trauma-related disorders. This legislation has been on the rise since the beginning of the COVID-19 pandemic, during which some employees (e.g., health care workers and first responders) encountered a decline in their mental health due to larger workloads and more stressful or dangerous job conditions. In 2024, the National Council on Compensation Insurance tracked 64 bills related to workers' compensation and mental health, with a significant portion related to PTSD compensability. Such legislation is likely to continue to be created next year.

It's important to keep in mind that coverage capabilities and eligibility requirements vary between states. The majority of current laws are focused on health care workers and first responders, such as police officers and firefighters, but there is a push to expand benefits to other professions. Most of this legislation places the burden of proof on impacted employees, meaning workers must provide clear evidence that their conditions resulted from their jobs to obtain coverage. This can be challenging, as mental health injuries are often harder to quantify and directly link to specific work duties.

- **Marijuana**—Marijuana legislation in the United States is evolving, presenting several unique challenges for the workers' compensation market. While it remains illegal on the federal level, there's a growing push for state legalization of both medical and recreational marijuana. This creates a conflicting regulatory environment for employers, insurers and workers. As of 2024, many states have enacted or are considering enacting new legislation related to marijuana use. In fact, according to the Pew Research Center, 74% of Americans live in a state where recreational or medicinal marijuana is legal.

As it stands, the workers' compensation system faces a confusing legal framework where marijuana is both prohibited and accepted, depending on the context. This raises important questions about how workers' compensation programs may respond following a claim related to marijuana use. Some states—including Kansas, Missouri and South Carolina—have proposed marijuana legislation that explicitly prohibits workers' compensation reimbursement. Other states, like Massachusetts and New Jersey, have considered allowing reimbursement under certain circumstances. This variation between states could create inconsistencies across state lines and increase the compliance burden for multistate employers.

Complicating matters, there's constant debate around the positives and negatives of marijuana as it pertains to worker health and safety. On the one hand, marijuana advocates argue that it can be an effective medical treatment, particularly for pain management, which can reduce the need for opioids and other drugs. Conversely, concerns persist related to marijuana's effect on injury rates. One study found that the number of workplace injuries increased among employees aged 20-34 following

recreational marijuana use. In contrast, previous research has found injury rates among older workers typically decline after recreational marijuana is made legal in their states.

Together, these factors create a complex regulatory environment that's only made more nuanced with the ongoing discussion around marijuana's benefits and drawbacks. Employers need to balance compliance considerations, workers' rights, employee access to medical treatments and workplace safety in a rapidly changing environment.

- **Independent contractors**—In March 2024, the U.S. Department of Labor issued a final rule that provides criteria for determining a worker's status under the Fair Labor Standards Act. In general, this rule has made it more difficult to classify workers as independent contractors through the "economic reality" test set forth by the legislation, further complicating discussions around gig worker rights.

The distinction between traditional employees and independent contractors is especially important in regard to workers' compensation coverage. Notably, independent contractors are typically excluded from traditional workers' compensation protection, and while gig workers often set their hours and choose what jobs to take, their work commonly exposes them to the same kind of safety risks faced by traditional employees. As a result, many argue independent contractors should have access to workers' compensation protections, and there has been a push for expanded coverage in some states.

For instance, in 2024, Washington passed legislation that would extend survivor death benefits to dependents of transportation network company drivers. Other states, like California, have elected to place the burden of providing benefits on the contracting company itself (California's Proposition 22 mandates that rideshare companies provide specific benefits to drivers).

However, expanding coverage could impact the financial stability of the system, requiring premium adjustments to account for a larger risk pool. As the nature of work shifts, the workers' compensation system is being forced to adapt, and ongoing legislative and regulatory efforts will likely continue to redefine protections for gig workers.

- **Shifting workforce demographics**—Businesses of all sizes and sectors have been impacted by substantial labor shortages over the last several years. There are a range of factors currently contributing to such shortages. Specifically, multiple workforce movements have occurred since the beginning of the pandemic, motivating a considerable number of employees to leave their positions in search of new roles that better suit their changing job priorities (e.g., greater work-life balance, higher pay, additional benefits and increased flexibility) or exit the labor market altogether. In response, many businesses have resorted to hiring more inexperienced and entry-level employees. Additionally, employees in the baby-boom generation are working far longer than their predecessors, with many holding off on retirement until they reach their 70s. According to the Bureau of Labor Statistics, the share of workers ages 75 and older in the labor force is projected to grow by 96.5% over the next decade. These trends have shifted overall workforce demographics, resulting in a larger proportion of both new and aging employees and elevating related occupational safety and workers' compensation exposures.



Regarding new employees, these workers are more susceptible to on-the-job injuries, with a recent industry report finding that 34% of occupational injuries stem from employees who have been in their roles for less than one year. These incidents have led to nearly 7 million missed workdays and contributed to one-third of total workers' compensation claim expenses. While new workers play a major role in claim frequency, older employees heavily influence claim severity. According to the industry report, workers aged 60 and older account for just 13% of occupational injuries, but these injuries are often much more severe and take longer to recover from. Consequently, average workers' compensation claim costs for employees in this age group are 15% higher than those aged 34-49 and 140% greater than those aged 18-24. As these employees occupy a rising proportion of the labor market, employers are more likely to face exacerbated claim expenses. Considering these challenges, adopting effective employee retention strategies and providing routine, in-depth safety training for all workers have become top priorities for many businesses.

- **Technology and workplace safety**—Artificial intelligence (AI) technology has the potential to change many aspects of the workplace, especially as it pertains to preventing and managing occupational injuries. Thus, implementing this technology could have a significant impact on organizations' workers' compensation programs. In particular, it can utilize advanced imaging, scanning and data analysis techniques to provide fast diagnoses when workers get injured on the job, deliver more in-depth insights regarding employees' conditions, and promptly review medical records and injury characteristics to generate customized treatment plans. Further, AI tools can be paired with wearable devices and sensors to offer real-time monitoring of injured employees, automate certain rehabilitation components and adjust treatment plans as needed based on workers' recovery progress. In turn, this technology can help expedite and enhance injured employees' recovery outcomes, therefore mitigating related workers' compensation losses.

AI solutions can also promote cost-effective claims management by leveraging sophisticated coding capabilities and predictive analytics to determine primary causes of workplace incidents and suggest methods for preventing future incidents, detect injury trends and patterns, recommend top-performing health care providers, identify possible treatment anomalies and cost drivers, and reduce overall claim complexity. In fact, the latest industry data revealed that using AI technology can help employers lower their workers' compensation claim expenses by up to 45%. Looking ahead, businesses can't afford to ignore the benefits of incorporating this technology within their workers' compensation programs.

## Tips for Insurance Buyers

- Implement safety and health programs to address common risks, especially when using a loss-sensitive workers' compensation program.
- Conduct routine safety training for employees of all ages and experience levels.
- Consider implementing various digital solutions, such as wearable safety technology and AI tools, to help prevent incidents, treat employee injuries and navigate the claims process within your workers' compensation program.
- Regularly review your experience modification factor (mod) with your insurance professionals to fully understand how it impacts your premiums. A mod is an indicator of your claims history compared to similar businesses, and even small changes can have a big effect on your costs.

- Establish workplace wellness initiatives aimed at preventing or treating chronic health conditions and improving the overall well-being of your staff. Additionally, consider incorporating mental health resources and support options within employee wellness offerings.
- Develop an effective return-to-work program that properly supports employees in the process of healing from a work-related illness or injury and resuming job duties following their recovery.
- Develop policies and procedures aimed at helping remote employees make their workspaces more ergonomic and prevent injuries while working from home.
- Ensure accurate payroll projections. Correct wage information is critical for accurate premium calculations, especially amid rising inflation concerns. Errors in payroll projections could present serious consequences, such as inadequate rates, insufficient benefits or a lack of ample coverage following costly claims.
- Pay close attention to applicable state-regulated and carrier-negotiated fee schedules for workers' compensation coverage. They allow employees to receive much-needed health care for work-related illnesses and injuries without significantly driving up claim costs, even with medical inflation issues on the rise.
- Have clear processes established for handling workers' compensation claims as diligently and efficiently as possible. Effective claim management protocols can often help mitigate claim severity and prevent similar losses from occurring in the future.

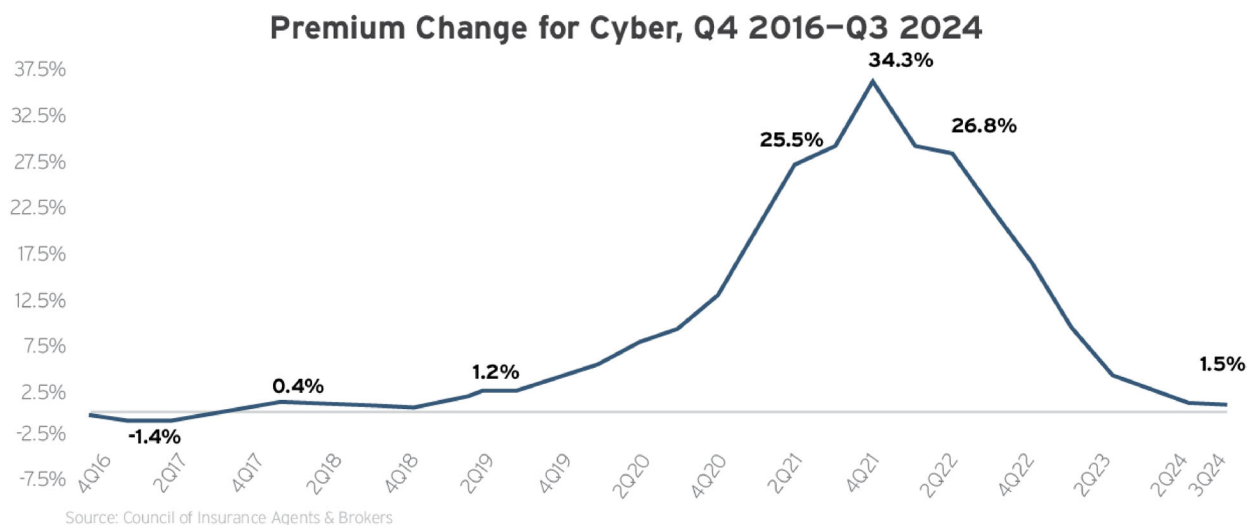


## Cyber Insurance

Despite an ever-evolving threat landscape, growing attacker sophistication, and frequent and severe cyberattacks, the cyber insurance segment softened in 2024. Most policyholders encountered modest, single-digit rate increases.

This market improvement was driven by several factors, including increased competition among carriers, a surplus of capacity and a steadfast focus on cyber hygiene among insureds (i.e., fewer claims mean lower loss ratios). Rate improvement was particularly noticeable among accounts that could demonstrate year-over-year improvement in their cyber risk management practices.

Overall, 2024 continued to be a buyer's market in the cyber insurance space, especially considering the expanded presence of surplus lines carriers and strides made in policy design (e.g., increased customization, improved coverage options and nuanced underwriting practices).



Still, with the fast-changing nature of cyberthreats, cyber insurance can be an especially volatile and dynamic segment, and frequent market changes can make pricing predictions difficult to pin down. The CrowdStrike and Change Healthcare incidents highlighted the greater impact of just one cyberattack across multiple organizations and business sectors. Given the potential impact of systemic events like these, it's possible insurers will implement stricter underwriting guidelines in 2025 and may be less aggressive when it comes to lowering rates. Higher-risk industries (e.g., health care) are already being treated more cautiously. While current price predictions indicate lower rates, mileage may vary from policyholder to policyholder.

In 2025, insurers will continue to emphasize cybersecurity controls, leveraging advanced risk management assessment tools (e.g., AI-powered data analytics) to predict losses and price policies more accurately. More than anything, a strong cybersecurity posture and a deep understanding of the current threat landscape will best equip policyholders to navigate the coming year's cyber insurance market. This means that insureds who fail to adopt proper cybersecurity protocols or experience a rise in cyber losses may encounter ongoing premium hikes and coverage restrictions for the foreseeable future.

## 2025 Price Prediction:

-5% to +5%

### Developments and Trends to Watch

- **Ransomware threats**—Ransomware attacks involve cybercriminals compromising devices or servers and demanding that large payments be made before restoring the technology (as well as any data stored on it). These cyberattacks impact businesses of all sizes and sectors, especially small- and medium-sized organizations. What’s worse, they often carry costly losses as a result of substantial payment demands, technology and data recovery efforts, business interruption and regulatory consequences. Ransomware attacks have skyrocketed over the past decade, and blockchain analysis firm Chainalysis reported that 2024 could be the largest grossing year yet for ransomware payments. Notably, in what’s being touted as the highest ransomware payment on record, cybercrime group Dark Angels received a ransomware payment of \$75 million—nearly double the highest amount from 2023. What’s more, the frequency of these attacks continues to rise, and ransomware incidents were up 18% during the first five months of 2024. Perhaps most concerning still is the evolving nature of ransomware attacks. Historically, ransomware attacks focused primarily on data extortion and profit; however, cybercriminals are targeting critical infrastructure more frequently. One such attack that stole headlines in the early part of 2024 was the Change Healthcare incident. Not only was sensitive patient information compromised during this ransomware attack, but Change Healthcare was unable to deliver essential services—all despite paying a \$22 million ransom.

Moving into 2025, it’s expected that health care providers, schools, government agencies and other infrastructure-related organizations will be increasingly targeted in ransomware attacks. Given the essential nature of these operations, attackers believe victims in these sectors are more likely to pay a ransom to avoid prolonged disruption. Beyond this, criminals are also targeting so-called “big game” organizations they perceive to have the financial ability to pay higher ransoms. Ransomware will continue to be a pervasive issue for insurers and insureds alike in 2025, especially as cybercriminals evolve their tactics. For example, while it’s true major players in the ransomware criminal network like ALPHV/BlackCat and LockBit have declined as a result of law enforcement crackdowns, new groups have emerged to take their place. Moreover, some threat actors are employing a ransomware-as-a-service (RaaS) business model where cybercriminals sell or rent ransomware out to buyers (also called affiliates) and share the profits of an attack. RaaS is particularly concerning as it enables malicious parties who otherwise have no technical know-how to execute a ransomware attack.

- **AI exposures**—While AI technology can certainly offer benefits in the realm of cybersecurity—streamlining threat detection capabilities, analyzing vast amounts of data and automating incident response protocols—it also has the potential to be weaponized by cybercriminals, therefore exacerbating cyber losses and related claims among businesses. Cybercriminals can utilize AI technology to create and distribute malware, crack passwords, deploy social engineering scams, identify software vulnerabilities, and analyze stolen data. This technology can enable such activities

to be carried out faster and with greater success rates, which allows cybercriminals to cause major damage and even evade detection. One of the most significant risks associated with AI technology in the hands of cybercriminals is the ability to formulate persuasive phishing messages with minimal effort, making these scams much more prevalent. For example, cybercriminals can use AI-powered chatbots to impersonate legitimate sources, such as banks and other businesses, to trick unsuspecting individuals into sharing sensitive information. To help combat losses stemming from weaponized AI technology, some businesses have begun implementing more comprehensive cybersecurity measures, particularly as they pertain to threat identification and data protection initiatives (e.g., updated security software, advanced access controls, and routine employee training). Heading into 2025, businesses should be particularly mindful of emerging AI-driven threats like deepfake scams, where synthetic audio or video is used to impersonate executives or employees in order to commit financial fraud or initiate data breaches. Additionally, AI-powered automated attacks, such as rapid vulnerability scanning and exploitation, can overwhelm traditional defenses, making it crucial for businesses to adopt advanced threat detection tools and robust incident response strategies.

- **Supply chain vulnerabilities (third-party vendors)**—More often, instead of targeting an organization explicitly, cybercriminals are executing attacks against a business’s suppliers and vendors. Due to the interconnected nature of modern businesses, cybercriminals know that an attack on a third-party partner can have a significant downstream impact. What’s more, vendors and suppliers often don’t have the same level of cybersecurity as a target organization, making them an easier point of entry for a malicious party. Supply chain exposures can stem from a variety of parties and practices within an organization, including third-party services or vendors with access to information systems, poor information security practices by suppliers, compromised organizational software or hardware, software security vulnerabilities in supply chain management or among third-party vendors, or inadequate third-party data storage measures. Supply chain attacks prey on organizations’ inherent trust in their partners; once a partner is breached, a cybercriminal can move laterally through a network to gain deeper access to data, deploy malware or steal sensitive information. Supply chain attacks are an increasing challenge for insureds, and Gartner predicts that 45% of organizations will experience attacks on their software supply chain by 2025. Fortunately, there are some steps an organization can take to help decrease its supply chain cyber risk. These include incorporating cyber risk management into vendor contracts, minimizing the access third parties have to organizational data and monitoring suppliers’ compliance with supply chain risk management practices.
- **Data collection concerns**—A growing number of businesses have begun leveraging biometrics, pixels and other tracking technology to gather personal information from stakeholders for various HR, advertising and marketing processes; however, doing so poses several data privacy concerns. For instance, businesses that don’t comply with applicable international, federal and state legislation (e.g., The General Data Protection Regulation, the Health Insurance Portability and Accountability Act, the Biometric Information Privacy Act and the California Privacy Rights Act) when collecting, processing and storing stakeholders’ data could face substantial regulatory penalties, costly lawsuits and associated cyber losses. Compounding concerns, cyber insurance carriers are increasingly excluding coverage for losses caused by the wrongful collection of data, leaving businesses largely unprotected against this exposure. It’s critical for businesses that leverage tracking technology to maintain compliance with relevant data privacy laws and prioritize obtaining stakeholders’ consent before using their personal information, thus keeping associated cyber losses

to a minimum. Heading into 2025, businesses should be aware of heightened regulatory scrutiny and evolving privacy laws around data collection, especially as more states and countries strengthen their data privacy frameworks.

### Tips for Insurance Buyers

- Work with your insurance professionals to understand the different types of cyber coverage available and secure a policy that suits your unique needs. Start renewal conversations early.
- Take advantage of loss control services offered by insurance carriers to help strengthen your cybersecurity measures.
- Focus on employee training to prevent cybercrime from affecting your operations. Employees should be aware of the latest cyberthreats (e.g., AI-powered attacks, cyberwarfare, ransomware and business email compromise scams) and how to mitigate them.
- Keep organizational systems secure by utilizing a virtual private network, installing antivirus software and endpoint detection and response solutions, implementing firewalls and email authentication technology, restricting employees' administrative controls and encrypting all sensitive data.
- Store backups of critical data in a secure, offline location to minimize losses in the event of a ransomware attack.
- Update workplace software regularly to ensure its effectiveness, and consider using a patch management system to assist with updates.
- Establish an effective, documented cyber incident response plan to remain operational and minimize damages in the event of a data breach or cyberattack. Test this plan regularly by running through various scenarios with staff. Make updates to the plan as needed.
- Conduct thorough cyber risk assessments of third-party vendors before entering a partnership. Review their cybersecurity practices, ask about their data protection protocols and ensure they meet your company's standards for safeguarding sensitive information.
- Consult insurance professionals and legal counsel to determine your organization's regulatory exposures regarding applicable data protection and cybersecurity laws. Make compliance adjustments as needed.
- Develop workplace policies prioritizing cybersecurity, including an internet usage policy, a remote work policy, a bring-your-own-device policy and a data breach response policy.
- Be sure to consider potential nation-state threats when establishing your organization's cybersecurity policies and protocols.

## D&O Insurance

After sustained periods of volatility driven by technological advancements, evolving cyber risks, environmental, social and governance (ESG) developments, and litigation shifts, the directors and officers liability (D&O) insurance market has moderated in recent years. Since 2022, the sector has softened, characterized by abundant capacity, competitive pricing and declining premiums.

This trend continued in 2024, and favorable conditions were largely spurred on by new entrants to the D&O market, increasing competition. According to industry sources, the average cost of \$1 million in D&O coverage decreased by 5.2% in the second quarter of 2024 compared to the second quarter of 2023. Further, 68% of primary policies received a price decrease and had an average decline of 9.7% in the second quarter of 2024. It's worth noting that while mature companies saw rate decreases in 2024, premium reductions for initial public offerings (IPO) companies were often more significant, as insurers have been willing to compete aggressively for IPO business.

Across the board, fierce competition has led to an abundance of capacity, particularly for high-layer and excess insurance, where insurers are eager to deploy capital. Risk tolerance remains relatively high, and insurers are willing to negotiate lower retention levels, especially where companies had accepted higher retention during the hard market.

That said, experts are predicting a slowdown in the market for 2025, and newly public and mature companies may experience gradual premium increases moving forward. There's general concern that price decreases have gone too far and may not be sustainable in the long term, necessitating market correction. What's more, several risk trends have the potential to contribute to further shifts in the market for 2025. This concern is driven by rising litigation costs, a surge in derivative action lawsuits—where shareholders challenge the decisions of directors and officers—and the growing complexity of D&O risks. In particular, the increasing use of artificial intelligence (AI) and growing cybersecurity concerns could lead to a rise in D&O litigation and claims. These factors could drive up premiums and lead to tighter underwriting standards. So, while the D&O market currently favors insureds, the market may be losing momentum, and organizations should carefully monitor key trends and adapt their D&O policies accordingly.

### 2025 Price Prediction:

**Private/nonprofit entities: -5% to flat**

**Public companies: -10% to flat**

## Developments and Trends to Watch

- **AI exposures**—AI technology can simulate various cognitive functions typically associated with the human mind, such as observing, learning, reasoning, problem-solving and engaging in creative activities. As it pertains to the boardroom, many corporate leaders have begun leveraging AI systems to create organizational files and reports, analyze company data and, in some cases, make important business decisions. According to a recent study, more than two-thirds (69%) of public companies now utilize AI tools in their due diligence processes.



Even though AI has the potential to help board members boost efficiencies, enhance objectivity and promote improved decision-making capabilities with predictive insights, it also carries unique risks. Namely, if AI systems are implemented incorrectly or rely on inaccurate human inputs, these tools could end up perpetuating biases, producing widespread errors, posing ethical concerns about data privacy and protection, and minimizing overall corporate transparency. In some cases, an organization's board may not be fully aware of how and where AI is used in the business, particularly regarding its application among third-party vendors. Stakeholders may hold senior leaders accountable for AI-related failures in these instances, prompting costly lawsuits and subsequent D&O losses.

There's also growing concern of "AI washing," where an organization misrepresents its use of AI-powered products or services to attract investors. In recent years, some organizations have faced scrutiny over such practices, raising doubts about AI transparency. What's more, legislation on AI technology and its use in the boardroom is constantly changing. As it stands, several federal regulations and multiple state and local laws address AI in the workplace, with a handful of additional government initiatives currently underway. This legislation primarily requires businesses to establish policies that clearly define AI technology's roles and responsibilities in their corporate decision-making operations and ensure proper oversight of such tools to reduce the risks of potential biases, errors or privacy issues. A notable piece of legislation—the European Union's Artificial Intelligence Act—was approved by the European Parliament in March 2024 and is being touted as the world's first comprehensive AI law. This act categorizes AI into four levels of risk and imposes stringent requirements for each level. Companies violating the act could face significant fines, potentially influencing global AI standards.

Considering these evolving regulatory concerns, board members who neglect to comply with applicable AI legislation could face significant legal penalties and associated D&O losses. Above all, because this is a relatively novel topic in the D&O space, the use of AI in the boardroom could ultimately lead to confusion about who is responsible for related losses and liabilities. This may make it difficult to determine how companies' D&O coverage will respond to AI-related claims, possibly resulting in compounded risks and insurance gaps. As such, businesses must stay informed on AI trends, adjust policies as necessary and work closely with insurance experts to manage these emerging risks effectively.

- **Litigation shifts**—The D&O market has historically been quite litigious. From 2018-21, publicly traded companies and their senior leaders faced a surge in litigation and related D&O claims, often as a result of alleged breaches of U.S. Securities and Exchange Commission (SEC) requirements or challenges related to IPOs and special purpose acquisition company (SPAC) transactions. This wave of litigation largely subsided throughout 2022 and 2023, but significant concerns may resurface in 2025, especially as they relate to securities class action (SCA) lawsuits. These lawsuits arise when a group of shareholders claims financial losses due to violations of securities laws by the company or its senior leaders, particularly related to inaccurate financial statements and disclosures.

Over the past decade, SCA filings have nearly doubled, peaking at 268 cases in 2019 (not including merger and acquisition-related filings or derivative cases). Although the number of these lawsuits dropped significantly around 2022 and 2023, estimates suggest there were over 200 SCA filings in 2024, which exceeds the number of filings from 2023. By the end of 2024, the number of SCA filings

could reach its highest point since 2020, potentially due to heightened regulatory scrutiny from the SEC. The agency has taken a more proactive and aggressive approach, increasingly scrutinizing disclosures and practices related to emerging risks (e.g., AI). Additionally, the SEC has not been shy about taking action against companies it feels have inadequately handled cybersecurity breaches and implemented new cybersecurity disclosure rules at the end of 2023 to bolster corporate accountability. These rules require companies to report material cyber incidents within four days and disclose their risk management processes, including their boards' role in oversight.

Cyberattacks remain a prevalent concern for businesses across all sectors, sometimes leading to litigation against senior leaders and related D&O claims. Decisions made by senior leaders are often intensely scrutinized following cyberattacks, potentially resulting in D&O losses from allegations that they lacked adequate measures to protect stakeholders' personal or financial information, failed to implement controls to detect and prevent cyberattacks, or did not report incidents promptly. Amid increasing ransomware threats and rising digital warfare exposures, cybersecurity has become a worldwide D&O concern; almost two-thirds (62%) of global directors consider cyberattacks, data loss and digital crime among their top D&O risks, according to a recent survey.

- **ESG issues**—ESG activism has also made a noticeable impact on the D&O market. Senior leaders have been held more accountable for upholding their companies' commitments to environmental and social initiatives by stakeholders, regulators and the public, fueling increased litigation against such leaders and associated D&O claims. Due to the ongoing rise in natural disasters, deforestation, and water and biodiversity degradation, climate change has been the focus of ESG-related litigation, with much of it alleging that senior leaders have not fully disclosed the material risks of climate change or promoted eco-friendly operations. Notably, the SEC issued its final climate risk disclosure in March 2024. This rule requires registrants to provide detailed climate-related disclosures in their annual reports, particularly concerning climate-related risks that are reasonably likely to impact operations, greenhouse gas emissions and board oversight. Additionally, several international leaders and organizations (e.g., the European Union and the International Sustainability Standards Board) proposed similar requirements in 2023.

However, these standards have faced some pushback; there's been considerable anti-ESG backlash at both state and federal levels. While anti-ESG sentiment can at least partly be attributed to political polarization, one common argument against ESG activism is its perceived impact on shareholder value. Those against ESG activism believe that incorporating ESG practices into investment decisions sacrifices potential financial returns in favor of environmental goals. Put simply, opponents of ESG initiatives view them as government overreach, and this anti-ESG sentiment may be having a broader effect on regulatory action. In 2024, the SEC quietly disbanded its Climate and ESG Task Force, which was started in March 2021 to proactively identify ESG-related misconduct. The disbandment suggests a change in priorities for the SEC or perhaps a response to growing anti-ESG sentiment. Despite the anti-ESG backlash, insureds with robust ESG programs might receive more favorable coverage and lower premiums, especially considering that insurers increasingly consider ESG factors in their underwriting process.

It's worth noting that while some federal priorities may be shifting, insurers still often view companies with solid ESG practices as lower risk, leading to more advantageous coverage and premium structures.

- **Macroeconomic factors to watch**—The current economic climate is complex and characterized by both uncertainty and resilience. Bankruptcy and insolvency risks are prevalent, with Chapter 11 filings rising nearly 52% from 2023 to 2024, driven by factors like higher interest rates and inflation. The commercial real estate market continues to struggle, and \$1.7 trillion of industry debt is expected to mature between 2024 and 2026. Refinancing this debt at higher interest rates could further strain the sector and the D&O insurers that operate within it. Further, geopolitical issues (e.g., the war in Ukraine and tensions in the Middle East) may put increased pressure and scrutiny on directors and officers of global companies, requiring them to demonstrate robust risk preparedness.

Merger and acquisition (M&A) activity has slowed, which might reduce immediate demand for D&O insurance, leading to increased competition and lower premiums. However, insurers may shift their focus to other risks, reassessing their risk appetite and pricing strategies accordingly. Despite these challenges, the U.S. economy has shown signs of resilience. Fears of a recession have largely subsided, and gross domestic product (GDP) growth has remained strong; the Organisation for Economic Co-operation and Development projects U.S. GDP growth of 2.6% in 2024 and 1.6% in 2025. What's more, the U.S. stock market index has reached record highs, signaling economic optimism, though market volatility may still contribute to investor concerns and litigation. While the D&O market is still considered soft, given its abundant capacity, declining premiums, and broader coverage, evolving risks could prompt a shift to risk-based pricing, rewarding insureds with strong loss control initiatives and favorable claims histories.

## Tips for Insurance Buyers

- Examine your D&O program structure and limits alongside your insurance professionals to ensure they are appropriate and take market conditions and trends into account.
- Consult insurance brokers, loss control experts and underwriters to gain a better understanding of your D&O exposures and cost drivers in the market.
- Work with your senior leadership team to carefully review the risks of leveraging AI technology in the boardroom and applicable legislation. Establish clear policies and procedures regarding the proper use of AI tools in corporate decision-making processes.
- Make sure your senior leadership team carefully assesses potential exposures and maintains compliant, honest practices in IPOs and SPAC transactions. Pay close attention to SEC requirements for such transactions.
- Ensure your senior leaders follow safe financial practices (e.g., timely payments, educated investments, accurate documentation and reasonable reimbursement procedures). Be transparent with stakeholders about your organization's economic state to avoid misrepresentation concerns.
- Be sure your senior leadership team is actively involved in monitoring your organization's unique cyber risks, implementing proper cybersecurity practices to help prevent potential attacks (especially in the realm of remote work arrangements), ensuring compliance with all applicable data security standards and establishing an effective cyber incident response plan to minimize any damages in the event of a cyberattack.

- Prioritize establishing eco-friendly initiatives among your senior leadership team. However, ensure that these initiatives remain realistic to avoid greenwashing concerns. Greenwashing occurs when organizations falsely market their products or services as environmentally friendly without actually committing to conducting sustainable practices. Furthermore, be sure your senior leadership team conducts their due diligence and provides proper reporting as it relates to climate change concerns.

## Employment Practices Liability Insurance

Following years of challenging market conditions and strict underwriting scrutiny, most employment practices liability (EPL) insurance buyers with good claims history enjoyed modest premium increases in 2024. According to Zywave's Commercial Property & Casualty Insurance Pricing Survey—which surveyed brokers from across the United States—EPL brokers experienced a less challenging pricing environment in 2024. Many respondents reported price increases of 5% or less. Overall, pricing in the EPL market remained stable in 2024, largely due to increased competition and healthy growth. Capacity is improving, and the EPL insurance market size is projected to reach \$4.94 billion by 2031.

Experts are cautiously predicting these trends will continue in 2025; however, several factors could contribute to market volatility. For example, the increased use of artificial intelligence (AI) in hiring scenarios could lead to more claims. A report from the Society for Human Resource Management found that nearly 1 in 4 organizations were using AI or automation to support HR workflows. While many employers feel AI can be used to reduce biases during the hiring process, the U.S. EEOC isn't convinced. In its Strategic Enforcement Plan (SEP) for 2024-28, the EEOC outlined key priorities for addressing employment discrimination. One area of focus in the SEP was the use of AI, which the EEOC believes can introduce bias and discrimination into HR processes.

Beyond AI concerns, the new EEOC guidance on workplace harassment, pay transparency considerations and the enforcement of the Pregnant Workers Fairness Act (PWFA) are expected to significantly influence the EPL insurance market in 2025. With stricter regulations and heightened scrutiny in these areas, employers could face increased risks of litigation and regulatory action, leading to a rise in EPL claims. As a result, insurers may tighten underwriting guidelines, potentially increasing premiums or limiting coverage for higher-risk industries. Businesses will likely need to enhance their compliance efforts and workplace policies to mitigate risks, making EPL coverage more critical than ever for safeguarding against costly employment-related claims.

### 2025 Price Prediction:

-5% to +5%

## Developments and Trends to Watch

- **AI issues**—In an effort to streamline their employment processes, some businesses have turned to AI systems. These systems leverage programmed algorithms and data sets to deliver automated employment decisions, all without the need for human intervention. While these systems can certainly offer various benefits to the businesses that use them, they may also pose EPL exposures. For instance, AI systems—although intended to provide impartial results—may contribute to discriminatory employment decisions if the algorithms and data sets entered within these systems are biased toward specific groups. Depending on how frequently AI technology is used, biased decisions could occur on a mass scale, presenting multiple avenues for discrimination-based litigation and associated EPL claims. In the past few years, several major companies, such as Google and Amazon, have been held responsible for AI system failures that demonstrated gender biases. The EEOC's first AI-based discrimination settlement took place in 2023, in which a company in New



York agreed to pay \$365,000 after a lawsuit filed on behalf of more than 200 job applicants alleged that the company's AI-powered hiring system was set up to reject candidates above a certain age automatically.

Considering these developments, businesses must assess their AI technology for possible biases to mitigate litigation risks and EPL losses. In fact, New York City passed the first law requiring employers to conduct annual bias audits of automated employment decision-making tools in 2023. Since then, comprehensive AI legislation has been passed in Colorado, and additional laws have been introduced in five states, including California, Georgia, Hawaii, Illinois and Washington. In general, such AI legislation regulates employer use of AI tools to make or assist an employer in making employment decisions (such as hiring or termination) and mitigate the risk of "algorithmic discrimination." This type of discrimination generally occurs when the use of an AI system leads to the differential treatment or impact of individuals based on a protected characteristic (e.g., age, race, disability, religion or sex). In addition to state laws focusing on regulating AI, the White House issued an executive order addressing a range of issues arising from the use of AI in the private sector, including the potential for discrimination. Additionally, the EEOC issued guidance on preventing discrimination against job seekers and workers through the use of AI tools. Further, on Sept. 24, 2024, the United States Department of Labor (DOL) announced the publication of an AI & Inclusive Hiring Framework (the Framework). The Framework, which was developed by the Partnership on Employment & Accessible Technology (PEAT), draws from the National Institute of Standards and Technology's AI Risk Management Framework and focuses on identifying, measuring and managing AI risk. The Framework includes 10 focus areas employers can use to minimize the risk of algorithmic discrimination.

Considering these various legal developments, in 2025, employers should continue to monitor state and federal restrictions on the use of AI in the employment context. Employers who use AI to make or assist in making employment decisions should ensure that appropriate safeguards are in place to prevent discrimination.

- **Workplace harassment**—On April 29, 2024, the EEOC published its final guidance on harassment in the workplace, which went into effect immediately upon issuance. The guidance, which hadn't been substantially updated in 25 years, explains how the EEOC may enforce equal employment opportunity (EEO) laws against an employer when workplace harassment is alleged or suspected. The EEO laws are a collection of federal laws prohibiting covered employers from discriminating against or harassing individuals based on certain characteristics. These characteristics, also known as protected traits, include race, color, religion, national origin, sex (including sexual orientation, gender identity, and pregnancy, childbirth and related medical conditions), disability, age (40 and older) and genetic information (including family medical history). The final guidance supersedes and consolidates earlier documents issued by the EEOC to guide agency staff members who investigate claims of harassment. The conduct must involve a protected trait, significantly affect employment terms or create a hostile work environment and establish a basis for employer liability.

In particular, the new EEOC guidance includes a number of notable updates from previous guidance, including:

- **Definition of "sexual harassment" broadened to include protections for LGBTQI+ workers**—The definition of "sexual harassment" is expanded to include harassment on

the basis of sexual orientation and gender identity/transgender status. In its updated guidance, the EEOC highlights examples of unlawful harassment under this expanded definition, including the denial of access to a bathroom consistent with an employee's gender identity, the intentional and repeated misgendering of an individual, and the disclosure of an individual's sexual orientation or gender identity without permission (known as outing).

- **Expanded protections for pregnancy-related conditions**—The definition of sexual harassment is also expanded to include pregnancy, childbirth and other “related medical conditions.” The EEOC explains that such conditions include lactation, the use of contraceptives, and the decision to have or not have an abortion.
- **Online harassment and other remote work considerations**—The EEOC guidance clarifies that illegal harassment can occur in a virtual work environment, in the same way as a physical environment, through online communication platforms and systems, including an employer's email system, instant messaging system, electronic bulletin board, instant message system, videoconferencing technology, intranet, public website, social media accounts, and other equivalent services or technologies. The final guidance provides examples of such harassing conduct, including sexist comments made during a video meeting, ageist or ableist comments typed in a group chat, racist imagery that is visible in an employee's workspace while the employee participates in a video meeting, or sexual comments made during a video meeting about a bed being near an employee in the video image.
- **Clarification regarding religious expression protections**—The final guidance provides some clarity in balancing religious accommodations and expanded protections for pregnancy-related conditions and LGBTQI+ workers. Specifically, although employers have an obligation to accommodate an employee's sincerely held religious beliefs in the workplace, the guidance states that employers are not required to accommodate religious expression if such accommodation creates or reasonably could create a hostile work environment.
- **Expansion of pay transparency rules**—Pay transparency laws hope to address pay inequality and promote wage transparency by requiring employers to disclose compensation information and increasing employee access to salary data. These laws vary in their requirements but often require employers to post salary ranges in job postings or disclose salary information to existing employees and job applicants. The EEOC included equal pay initiatives in its SEP for 2024-28. Further, some states and municipalities are implementing pay transparency and wage discrimination legislation of their own.

Colorado started the trend of pay transparency laws when it enacted the first legislation of its kind in 2021. Between 2021 and 2024, additional pay transparency laws took effect in Maryland, Connecticut, Nevada, Rhode Island, Washington, California, New York and several municipalities. More states continued the trend in 2024, with new pay transparency legislation taking effect in Hawaii and the District of Columbia, along with expanded requirements in Maryland. Additional pay transparency laws will take effect on Jan. 1, 2025, in Illinois, Minnesota and Vermont. Employers in these states will need to comply with these new requirements on their effective dates.

- **PWFA enforcement**—On April 15, 2024, the EEOC released a final rule to implement the PWFA. The final rule clarified definitions and limitations under the PWFA and sought to help employers understand their duties under the law. The final regulation became effective on June 18, 2024. Notably, the PWFA requires most employers with 15 or more employees to provide “reasonable accommodations” or changes at work for a worker’s known limitations related to pregnancy, childbirth or related medical conditions (unless the accommodation will cause the employer undue hardship). While the law is still relatively new, the EEOC has already started to file lawsuits related to PWFA enforcement.

Specifically, the EEOC filed its first lawsuit under the PWFA on Sept. 10, 2024, against a nationwide producer of semi-trailers and other commercial trucking equipment, alleging that the company violated the PWFA when it failed to accommodate an employee’s known pregnancy-related limitation and subjected her to an unlawful medical inquiry. The EEOC has made protecting pregnant workers a strategic enforcement priority, and these early lawsuits are a sign that the agency is serious about enforcement. In fact, the EEOC recently said it had received nearly 2,000 charges of potential violations of the PWFA since the law went into effect. Many of these potential violations relate to employers denying basic, “common sense” accommodations. Therefore, employers should prioritize compliance with the PWFA in 2025.

- **Retaliation claims**—Retaliation in the workplace refers to the unlawful discrimination that occurs when an employer takes adverse action against an employee for engaging in a legally protected activity, such as filing a harassment claim or participating in a workplace investigation over alleged misconduct. Retaliation claims can be severe and damaging to a company’s reputation and bottom line. They can also damage employee morale, reduce retention rates and decrease productivity. Moreover, retaliation claims are the most common type of discrimination charge filed by workers with the EEOC and similar state agencies. According to the most recent data from the EEOC, workers filed 46,047 charges of retaliation, representing 56.8% of all charges. What’s more, in 2024 alone, the EEOC filed over 40 retaliation lawsuits under various statutes on behalf of employees. These statistics serve as a reminder to employers that they must continue to take the issue of retaliation seriously going into the new year.

## Tips for Insurance Buyers

- Assess your employee handbook and related policies. Ensure you have all appropriate policies in place, including language on discrimination, harassment and retaliation.
- Implement effective sexual harassment prevention measures (e.g., a zero-tolerance policy and a sexual harassment awareness program), reporting methods and response protocols.
- Promote diversity, acceptance and inclusion in the workplace through routine employee training. Be sure to educate staff on emerging discrimination topics (e.g., pregnancy and size discrimination) and related prevention and response measures. Take any reports of discrimination seriously.
- Document all evaluations, employee complaints and situations that result in employee discipline or termination.
- Consult legal counsel for state-specific employee wage and hour guidance, including those regarding pay transparency and wage discrimination laws.

- Evaluate the algorithms for any AI systems utilized within employment processes to prevent discriminatory decisions and ensure compliance with applicable EEOC and state guidance.
- Investigate all claims of harassment in a prompt manner. Furthermore, be familiar with the EEOC's updated harassment guidance.
- Avoid retaliation claims by ensuring clear, consistent and documented procedures concerning employee feedback, complaint handling and terminations. It's also important to establish transparent policies, train managers regularly on how to handle complaints, and document performance reviews and complaints in a nonpunitive and objective manner.
- Explicitly address accommodations for pregnancy, childbirth and related medical conditions in organizational policies to avoid PWFA claims. Employees should be made aware of these policies, and HR and managers need to be educated on how to effectively execute requests for accommodations.
- Develop strategies to comply with applicable pay transparency laws. Employers can protect themselves and help ensure compliance with applicable laws by understanding pay transparency requirements, regularly reviewing job postings for accuracy and developing methods for disclosing compensation information.

## Moving Forward

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.

The following are five key components of a successful risk management strategy:

- 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.

In addition to implementing the above risk management strategies, working alongside an experienced insurance broker is equally crucial. Qualified insurance professionals can help their 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. A broker will also thoroughly explain your policies, notifying you of any additional considerations to keep in mind.

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



## **For More Information**

This document is not intended to be exhaustive, nor should any discussion or opinions be construed as legal advice. Readers should contact legal counsel or an insurance professional for appropriate advice.

For more details regarding the information contained in this report, contact ACO Insurance today.

In addition to helping you navigate the insurance market, ACO Insurance has resources to assist in your risk management efforts. Business owners who proactively address risk, control losses and manage exposures will be adequately prepared for changes in the market and will get the most out of each insurance dollar spent.