

Here's What Public Entities Can Expect as the 2022 Renewal Season Draws Near

Inflation, labor shortages and supply chain issues are among the high-level market drivers impacting the 2022 renewal cycle.

by: [Munich Re](#)



Not since the 1990s have public entities faced such a hard insurance market. The talent gap created by the Great Resignation, increasingly complex supply chain issues and soaring inflation are among the macro factors influencing the property & casualty insurance market and 2022 renewal cycles.

Despite improvements in the combined ratio between 2018 and 2020, the expectation for 2021's final tally is one of deterioration, due in large part to COVID-19, catastrophes and both economic and social inflation.

Local government and municipalities can expect P&C renewals to correspond with geography, exposures and experience.

For property, specifically, insurance-to-value concerns abound across the industry, and rates are increasing but at a slower pace. Casualty rates, like property, are increasing at a slower pace this year, and the dynamics associated with nuclear verdicts in sexual abuse lawsuits, along with cases involving law enforcement, are continuing to put pressure on the entire market.

The renewal rate environment for cyber coverage will be challenging, but slowdowns may come toward the end of 2022.



Lauren Tredinnick
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Higher Inflation, More Pressure on the Market

Analysts were hopeful that, going into 2021, the low interest rate environment induced by the pandemic would bounce back as the spread of COVID-19 waned. "[But] other market factors crept up such as supply chain issues, inflation pressures, and further upheaval of COVID variants further stressed the marketplace," said Lauren Tredinnick, Head of Public Entity National Accounts and Property, Public Entity Risk Solutions (PERS), Munich Re Specialty Insurance. "And all of this puts further stress on underwriting results."

The record-high 7% climb of the Consumer Price Index in 2021 — the largest 12-month gain in nearly four decades, according to January 2022 Department of Labor reports — has set the stage for greater severity in losses and claim dollars.

"Inflation across the economy will further eat into investment margins that have dropped incrementally for the past decade from low-interest-rate environments," Tredinnick said.

"Insurance carriers have to make more prudent underwriting decisions up front because they can't rely on the investment income to outpace the underwriting results."



Now Is the Time to Be Proactive

The frequency and severity of wildfires, hurricanes, tornados and other natural disasters has propelled Nat CAT claim activity to unprecedented levels in recent years and will continue to impact property coverage renewals in 2022.

Leading research institutions anticipated 2021 average insured losses would be in the realm of \$40 billion, adjusted for the Winter Storm Uri effect at the beginning of the year. Instead, insured CAT losses came in between \$110 billion and \$120 billion, approximately three times more than an already high prediction.

Further, the impact of climate change on the marketplace cannot be underestimated, while steadily increasing CAT claim activity will play a key role in underwriting and portfolio steering decisions ahead. "It's important that we start thinking about becoming proactive," Tredinnick said.

Insureds can strengthen property programs by having an insurance-to-value plan in place. "Having updated values is critical for upcoming renewals," Tredinnick said. Rolling plans prepared by inspection services enable insureds to remain current with values and remove pressure from budgets.

Having full inspections done on aging infrastructures will be beneficial to liability coverage as well. "And if you're not the party responsible for maintaining inspections, get in touch with the jurisdiction that is," Tredinnick noted.

Spending the money on thorough appraisals up front will pay dividends on the back end. "Underwriters will have better confidence in your numbers because of a couple things: 1) you're doing the process and 2) you can show that you realize the importance of the process of getting the right values," Tredinnick said.

"No appraisals or late appraisals lead to more conservative assumptions in your rate impact."

Consider compiling comprehensive renewal data as well. "Include detailed scope and location information for all locations on your schedules," Tredinnick said. "The

more detail you can provide upfront, the more reflective your pricing will be of your schedule."

In the same realm as insurance-to-value is the threat of aging infrastructure that places further costs on budget-strapped municipalities. The potential failure of some of these infrastructures could also have an impact on liability lines.

"Local governments will need to have older structures inspected, and build plans around improvements, replacements, or maintenance," Tredinnick said.

Judicial Hellholes, Social Inflation and Nuclear Verdicts

Natural disasters in specific geographic areas will be key factors in property renewal rates for public entities in 2022. Given the rise in social inflation and nuclear verdicts across the U.S., insureds should be preparing for increases in the casualty market.

Jurisdictions around the U.S. where judges and civil cases "systemically apply laws and court procedures in an unfair and unbalanced manner," now have technical reference term: [judicial hellholes](#), as reported by the American Tort Reform Association.

For public entities located in areas that have seen a significant increase in insurance losses due to legislative, judicial and social developments, norms such as tort caps, immunities or caps on damages may be quickly thrown out for a claim.

The surge of nuclear verdicts — penalties exceeding \$10 million that previously would have been under \$1 million — has only been exacerbated by legal changes associated with law enforcement and sexual abuse.

"Claims that used to be \$500,000 to \$750,000 are now multimillion dollar claims," Tredinnick said.

The result has been – and will likely continue to be – a capacity reduction for casualty lines. "In 2021, we saw some carriers selectively exit specific lines such as law enforcement," Tredinnick said. "For 2022 renewals, the expectation is that there aren't any new entrants coming in, nor are carriers looking to expand capacity."

Though Tredinnick noted, "We could see some stabilizing in the market capacity from prior renewals." And carriers may offer expiring limits at the renewal.

"It's too soon to tell whether carriers will be comfortable competing on different positions within the tower," she said.

What Can Risk Managers Do to Prepare?

Deductibles continue to increase and CAT-prone areas and loss-experience-driven accounts will likely see larger increases. Rates are also following the same pattern as deductibles, yet the pace of increases is slowing.

One broker market report asserts primary will be near 5%; higher excess placements will be closer to 20%. Rate prediction as of Q4 2021 will be between 1% and 10%. Predictions for the year prior were 11% to 30%, showing although rate increases are still coming, but not as aggressively as in recent years.

On the property side, now is the time for public entities to double down on loss preparedness and invest in climate protections. FEMA, for example, is investing in pre-disaster projects with the goal of preparing communities for extreme weather and building climate resilience.

"It is estimated that every dollar spent on mitigation upfront, saves \$6 that would otherwise go to disaster response and recovery on the back end," Tredinnick said. Instead of disaster recovery planning, greater emphasis must be placed on building cultures of risk resiliency throughout local governments and municipalities.

Capacity in the property arena is likely to remain constricted in 2022. "Carriers aren't necessarily going out of the space, but they're reducing the line that they're willing to put out or they're looking for a different placement in the tower," Tredinnick said.

For greater casualty claim mitigation, public entities will need to ensure that policies and procedures are current and train their employees on them. "These should be reviewed by legal counsel at least every two years in your jurisdiction," Tredinnick said.

"There are a lot of changes in law enforcement, especially around the use of force, and with the changing sex abuse landscape," Tredinnick noted. "That's why we recommend regular review in your jurisdiction specifically."

In addition to training to newly established and long-held standards, enforcement will be critical for securing the appropriate casualty coverage. "If you can prove that you've been enforcing your standards, you're more likely to get a better claim outcome," Tredinnick said.

To learn more, visit <https://www.munichre.com/us-non-life/en/solutions/specialty-insurance/broker-resource-center.html>.

