



# Nuclear Verdicts, Cyber Events & Other Risk Trends that Impact Insurance Costs

June 20, 2024

AWC Annual Conference | Vancouver, WA

SECURITY | STABILITY | SERVICE



1

SECURITY | STABILITY | SERVICE

## AWC RMSA Mission

The mission of the AWC RMSA is to inspire and support the risk management efforts of its members in order to reduce their risk, protect their assets, and keep them safe. We do this with:

- A clarity of focus on the member
- A passion for risk management
- A fiscal responsibility to the health of the organization, and
- A dedication to loss prevention education.

SECURITY | STABILITY | SERVICE



2

1

# Competitor Rate Changes

	Percentage change in rate
<b>RMSA</b>	
2024	26%
2023	8%
2022	3%
2021	7%
2020	8%
<b>WCIA</b>	
2024	35%
2023	43%
2022	18%
2021	11%
2020	16%

	Percentage change in rate
<b>CIAW</b>	
2024	Not yet available
2023	Not yet available
2022	15%
2021	9%
2020	-16%
<b>Enduris</b>	
2024	Not yet available
2023	17%
2022	14%
2021	12%
2020	14%

# Market trends & impacts

## Factors impacting rates:

- Global economic trends
- Weather events
- Social inflation
- Nuclear verdicts



## Insurance Marketplace

Nuclear Verdicts, Cyber Events & Other Risk Trends that Impact Insurance Costs

Prepared by Aon for Annual Conference 2024  
Proprietary & Confidential

**AON**

5



## Global Impacts

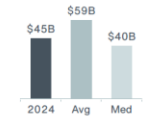
Prepared by Aon for Annual Conference 2024  
Proprietary & Confidential

**AON**

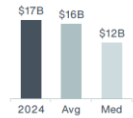
6

## Q1 2024 Global Losses

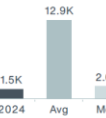
Q1 Global Economic Losses



Q1 Global Insured Losses



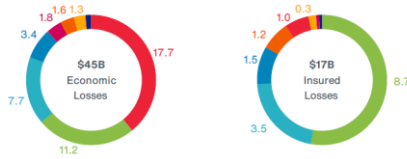
Q1 Global Fatalities



The first quarter of 2024 saw several notable disaster events which drove total year-to-date economic losses above \$45 billion. This was lower than the 21st-century Q1 average of \$59 billion and significantly lower than losses in the first quarter of 2023 (\$149 billion).

The costliest event of the first three months was the Noto Earthquake in Japan, which resulted in economic losses of \$17.6 billion, according to governmental estimates.

Insured losses reached at least \$17 billion and were slightly above the average. Among the major loss drivers were severe convective and winter storms in the United States, as well as windstorms and flooding in Europe, and the earthquake in Japan. It is worth noting that these estimates are expected to evolve and should be considered preliminary.



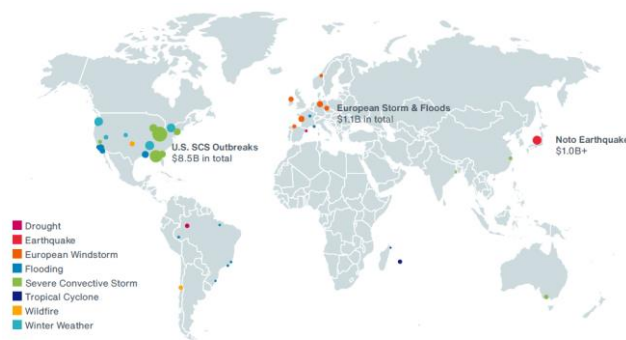
Source: Q1 Global Catastrophe Recap – Aon

Q2 2024 U.S. National Property Insurance Market Overview | Proprietary and Confidential

23

7

## Q1 2024 Global Insured Losses



Data: Aon Catastrophe Insight

Source: Q1 Global Catastrophe Recap – Aon

Q2 2024 U.S. National Property Insurance Market Overview | Proprietary and Confidential

25

8

## Executive Summary



Event	Affected Region(s)	Fatalities	Economic Loss (\$)	Page
Severe Convective Storm	United States	23	100s of millions	3
Cyclone Remal	Bangladesh, India	56+	10s of millions	6
Severe Convective Storm	Europe	1	10s of millions	8
Landslide (Update)	Papua New Guinea	6+	Negligible	10
Heatwave	Mexico	48+	N/A	11
Landslide & Flooding	Indonesia	8	Unknown	11
Flooding & Landslide	Armenia	4	Unknown	11
Wildfires	Guatemala, Belize	0	Unknown	11
Typhoon Ewinlar / Aghor	Philippines	6	Unknown	11
Wildfire	United States	0	Unknown	11
Severe Convective Storm	Turkey	2	Unknown	12
Heatwave (Update)	India, Pakistan	11+	N/A	12
SCS (Update)	Sri Lanka	10	Unknown	12

Please note that any financial loss estimate is preliminary and subject to change. These estimates are provided as an initial view of the potential financial impact from a recently completed or ongoing event based on early available assessments. Significant adjustments may inevitably occur. All losses in US dollars (\$) unless noted otherwise.

9

9

## United States: Severe Convective Storm

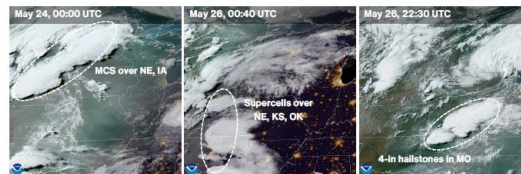
### Overview

The end of May has continued to be very active across the United States in terms of thunderstorm activity, with a series of deadly severe convective storm systems occurring on May 23-30. At least 23 people were killed, as multiple fatal tornadoes affected parts of Texas, Oklahoma, Arkansas and Kentucky. Notable hail and wind-related damage was incurred in Dallas on May 27. Economic and insured losses resulting from the recent storm activity are expected to add at least multiple hundreds of millions of USD to an already costly SCS season.

### Meteorological Recap

#### May 23-24

Consistent severe weather continued to affect portions of the United States in late May. On May 23, enhanced thunderstorm risk for damaging winds developed over central Nebraska to Western Iowa, with a slight risk for all hazards declared in Texas and Oklahoma. Some storms were initiated along an accelerating cold front, with several supercells which produced tornadoes. Damaging wind gusts up to 85 mph (137 kph) occurred in Iowa, and hailstones up to 3 in (8 cm) in Texas and Nebraska. On May 24, a line mesoscale convective system (MCS) from the previous night continued into the late morning and produced several tornadoes over Illinois. Later, this MCS was officially declared as a derecho by the Storm Prediction Center (SPC).



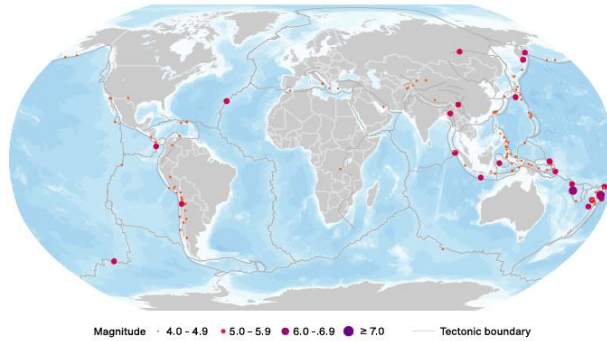
#### May 25-27

In the following days, a widespread and deadly outbreak occurred in Central and Southern Great Plains, as the front extending from the Lower Great Lakes/Ohio Valley and westward to the Central High Plains moved eastward towards the Northeast Coast by May 26. A dryline extending from western Kansas southward to southwestern Texas aided in the development of thunderstorms over parts of Kansas, Oklahoma, and central Texas. An outbreak of discrete supercells capable of producing giant hail and tornadoes swept from Texas and Oklahoma through Kansas, Missouri and Arkansas.

10

10

## Global Earthquake Activity ( $\geq M4.0$ ): May 24-30



Date (UTC)	Location	Magnitude	Epicenter
5/25/2024	17.11S, 167.88E	6.3	83 km (52 miles) NNW of Port-Vila, Vanuatu
5/26/2024	19.38S, 174.87W	6.6	70 km (44 miles) NW of Fangale'ounga, Tonga

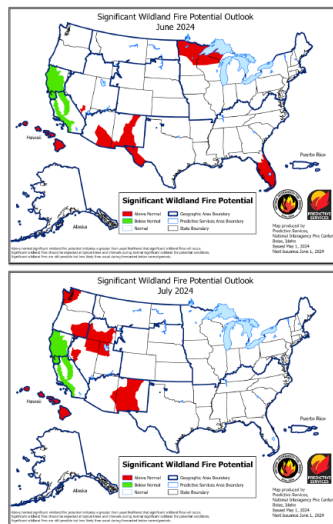
Source: United States Geological Survey

Legal Disclaimer: National Geographic Society

11

11

## U.S. Wildfire: Significant Fire Risk Outlook & Activity

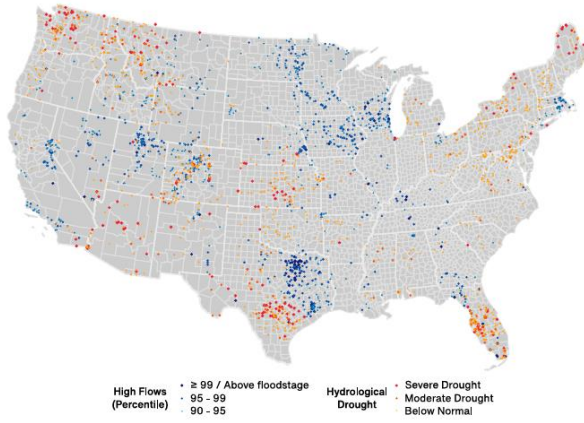


Source: NIFC

12

12

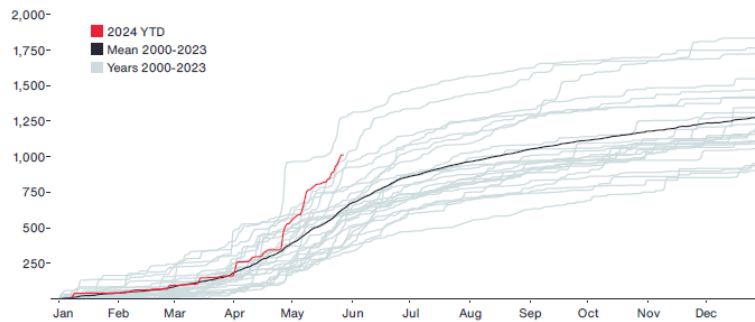
## U.S. Current Riverine Flood Risk



A  $\geq 99^{\text{th}}$  percentile indicates that estimated streamflow is greater than the 99<sup>th</sup> percentile for all days of the year. This methodology also applies for the other two categories. A stream in a state of severe drought has 7-day average streamflow of less than or equal to the 5<sup>th</sup> percentile for this day of the year. Moderate drought indicates that estimated 7-day streamflow is between the 6<sup>th</sup> and 9<sup>th</sup> percentile for this day of the year and 'below normal' state is between 10<sup>th</sup> and 24<sup>th</sup> percentile.

Source: United States Geological Survey

### Counts of Tornado Reports



Data: NOAA's SPC | Graphic: Aon's Catastrophe Insight

### Event Details

The widespread thunderstorm activity with multiple fatal tornadoes over the Memorial Day weekend resulted in 23 fatalities. The sequence of storm outbreaks since May 23 resulted in significant material damage across multiple states, particularly in southern and central Plains.



## Social Inflation

Prepared by Aon for Annual Conference 2024  
Proprietary & Confidential



### What is Legal System Abuse?

**Legal system abuse (LSA) is a trending, complex issue that requires urgent action.**

Ultimately it causes higher damages and settlement costs that can have negative economic impacts across society. There are many components to legal system abuse (which can also vary by state), but key contributing factors include third-party litigation funding, nuclear jury verdicts and plaintiff attorney's advertising strategies and courtroom trial tactics.

**LSA by the numbers**

Auto insurers cumulatively paid out \$420 billion more in liability claims between 2010 and 2019 than would otherwise have been expected because of legal system abuse factors.

**Third-party litigation funding (TPLF) is intensifying the impacts of legal system abuse.**

Providing money to a plaintiff / plaintiff's counsel in turn for a cut of litigation proceeds is turning the legal process into a money-making venture that disproportionately favors parties other than the victim and diminishes the court's original intent of justice.

**TPLF by the numbers**

Research estimates that TPLF investments are currently valued at \$26 billion globally, with the potential to expand to \$30 billion by 2028.

**The dangers of TPLF:**

- No requirements for lawyers to disclose receiving TPLF funds.
- Limited / no transparency in who funds TPLF funds, presenting concerns of ex-US involvement and inappropriate investor behavior.
- Often the terms of TPLF leave the majority of award or settlement distribution to investors and lawyers, versus the victims they are intended for.
- TPLF contributes to inflation by increasing litigation timelines and making insurance coverage more expensive.

**The business community plays a crucial role in mitigating legal system abuse.**

**Suggested areas of action:**

- Talk with your leadership and government affairs team about LSA and encourage them to prioritize it.
- Engage your industry's trade association on the topic and encourage them to include it in their issues and advocacy work. The U.S. Chamber of Commerce welcomes collaboration with various sector trades on the topic.
- Partner with your government affairs team to learn if your business has a presence in certain states where tort reform is likely to be part of the upcoming legislative session. Identify and offer examples of how legal system abuse has impacted your business, and share it with policymakers in these states (possibly via your trade association and/or the U.S. Chamber of Commerce or your local Chamber of Commerce).

The following industry-level materials can be used for stakeholder education and engagement:

- Insurance Information Institute's **How Legal System Abuse Drives Social Inflation**  
<https://www.iii.org/article/social-inflation-hard-to-measure-important-to-understand>
- Institute for Legal Reform **TPLF Research**  
<https://instituteforlegalreform.com/what-you-need-to-know-about-third-party-litigation-funding/>

Source: Liberty Mutual

Prepared by Aon for Annual Conference 2024  
Proprietary & Confidential

16

8





## Nuclear Verdicts

Prepared by Aon for Annual Conference 2024  
Proprietary & Confidential

AON

17

## Into the Surge in High-Stakes Verdicts: A Deep Dive Into Nuclear Verdicts

### Understanding the Concept of Nuclear Verdicts

A nuclear verdict is officially defined as "a court award or settlement exceeding \$10 million." The concept is relatively new and has become an increasingly prevalent challenge for insurance companies. This is because the prevalence of nuclear verdicts has increased by 27.5% from 2010 to 2019, according to a study by the US Chamber of Commerce Institute for Legal Reform.

As inflationary practices further push consumers to make difficult choices, judges are actively considering nuclear verdicts in cases where insurance companies take advantage of an already choice-stripped consumer base.

The risk of nuclear verdicts is exceptionally high in industries such as:

- Commercial auto,
- Product liability,
- Directors/officers,
- Malpractice insurance, and
- Indemnity or professional liability.

The product liability (23.6 out of 100), auto accidents (22.8 out of 100), and medical liability (20.6 out of 100) industries are at the peak of this risk factor, as in recent years, they have reported a majority of cases where nuclear verdicts were given.

Interestingly, this prevalence isn't distributed across the United States evenly. Most (63%) of the nuclear verdicts seen in the past decade have been reported in just six states:

1. California,
2. Florida,
3. New York,
4. Texas,
5. Pennsylvania, and
6. Illinois.

18

## Into the Surge in High-Stakes Verdicts: A Deep Dive Into Nuclear Verdicts Continued

- Several factors contribute to the rise in nuclear verdicts. The changing societal attitudes toward CSRs, the widespread anti-corporate behavior of the masses, and instances where it has actually been proven that corporations are engaging in unethical practices play a significant role in this prevalence.
- The increasing anti-corporate sentiments have been coupled with a perception of unequal wealth distribution – which was particularly highlighted during COVID-19. These issues have influenced juries to side with plaintiffs more often. As a result, it leads to larger and more punitive damages.
- In light of the pandemic, some corporations resorted to exploiting inflation, supply chain issues, and staffing shortages. Reports suggest that they have used the pandemic as an excuse for subpar services. This behavior has resulted in a general anger towards corporations. It is reflected in legislative efforts such as the "No Surprises Act" targeting issues in the healthcare insurance industry.

[Into the Surge in High-Stakes Verdicts: A Deep Dive Into Nuclear Verdicts \(insurancejournal.com\)](https://www.insurancejournal.com)

19

## How to Protect Against Nuclear Verdicts

### Verdicts

In response to the threat of nuclear verdicts, insurance professionals must adopt proactive risk management and legal strategies.

•**Risk Assessment:** A thorough evaluation of potential risks is essential. This includes considering the jurisdiction in which the insurer operates and the historical precedent for large verdicts.

•**Legal Defense:** Develop a strong defense strategy and engage experienced defense attorneys. Attorneys who understand the nuances of nuclear verdict cases can help insurers navigate the legal landscape effectively.

•**Claims Management:** Timely and effective claims management can prevent cases from escalating to nuclear verdict status. Early [resolution or settlements](#) may be advisable in certain situations.

•**Reinsurance Strategies:** Reinsurers can be valuable partners in managing the risk associated with nuclear verdicts. Developing close relationships and exploring reinsurance options can provide additional protection.

•**Policy Wording:** Insurers should carefully review policy language to ensure clarity and minimize exposure to unexpected liabilities.

[Nuclear Verdicts Impact on P&C Insurance | WaterStreet Company](#)

20



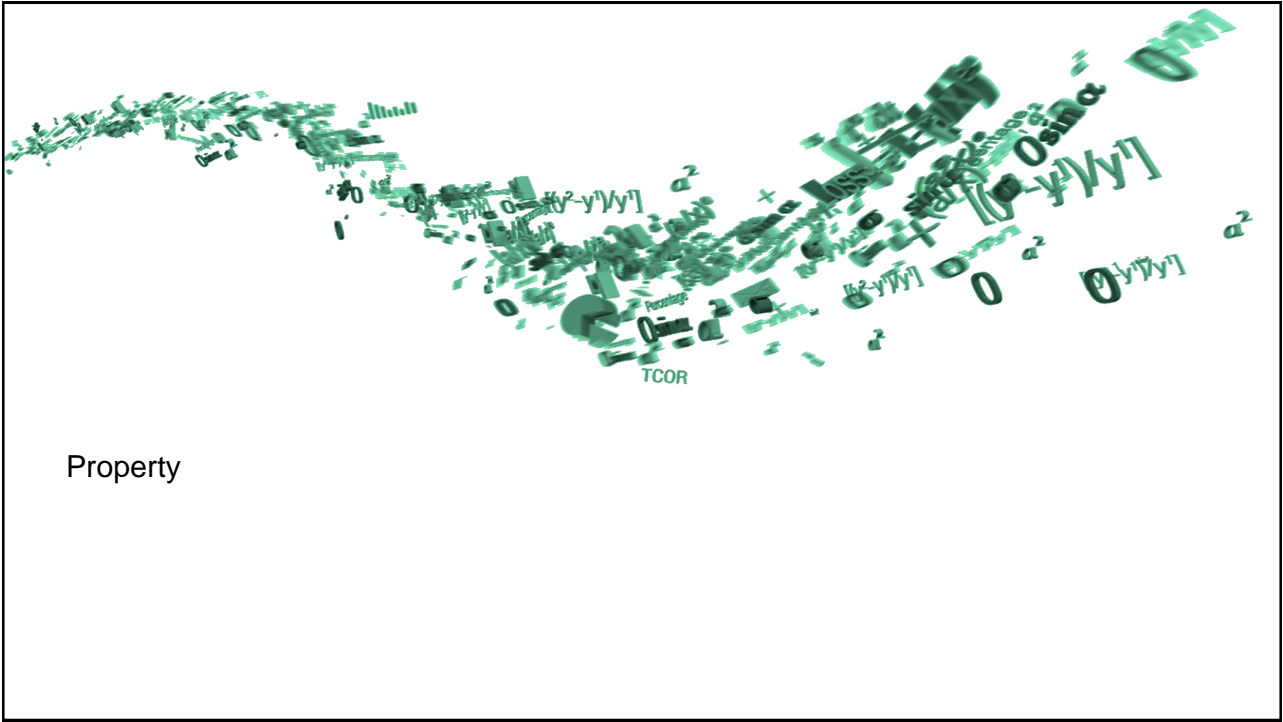
**Market Impacts**

Property – Casualty - Cyber

Prepared by Aon for Annual Conference 2024  
Proprietary & Confidential

**AON**

21



Property

TCOR

22

## Property Trends and Pricing – Public Entity

Public entities remain one of the more challenged classes when it comes to property coverage. We expect rates will continue to rise on primary coverage and markets will remain unwilling to quote or offer full capacity without significant deductible increases. Reinsurance treaty renewals are expected to be difficult as well. Underwriting will be thorough, with underwriters focused on adequate valuation rather than simply indexing values year over year. Risk managers must be able to detail the valuation process or be prepared for a margin clause.

There is limited excess capacity for severe convective storm exposures, which is of concern for this sector as public entities often have significant exposures in a small geographical area. Excess carriers are either seeking higher attachment points, requiring significant rate increases or both. For named windstorm (NWS) aggregates, we are seeing significant upward pricing pressure from markets, which will likely force public entities to purchase less NWS limit than they have in previous years. While a deceleration of rate increases in 2024 is hoped for, the extent to which that will happen—if at all—will be driven by geography and historical loss history.

### **Be on the Lookout:**

*It is becoming increasingly challenging to secure coverage in convective storm-prone areas, especially for higher layers. What used to be considered “sleep” insurance is now often the most difficult layer to complete, often requiring several additional markets, which creates added cost to a program.*

[State of the Market 2024 Outlook \(amwins.com\)](#)

Legal/Compliance Report 8/14/2024

23

23

# Q1 2024 Property Market Snapshot

## Insights from Aon National Property

- Property rate increases continued to moderate through Q1 2024. We expect rate moderation to continue into Q2 2024.
- There will continue to be rate differentiation as follows:
  - -5% to 5% rate change for desirable accounts/occupancies, as well as predominantly shared/layered, Nat-Cat-exposed accounts (excluding Florida (FL));
  - Flat to 5% increases for loss-challenged or less desirable occupancies; and,
  - 10% or greater rate increases for FL-only accounts or significantly Nat-Cat-exposed FL accounts.
- Clients can expect an aggressive underwriting approach for shared and layered accounts with desirable occupancy classes and profitable historic loss ratios, with / without heavy Nat-Cat exposures.
- Capacity is becoming more readily available for CA EQ which is helping to moderate pricing.
- Continued interest in Alternative Risk Transfer (ART) transactions, including parametric and structured solutions.

### Rate Change

# 3.4%

Q1 2024 property rate increase  
(Down from 9.6% in Q4 2023)

Avg. % Change in Rate (Peril)	
Non-CAT	3.98%
Tier I Wind	2.22%
CA EQ	3.54%
CAT	2.43%
All Accounts	3.42%

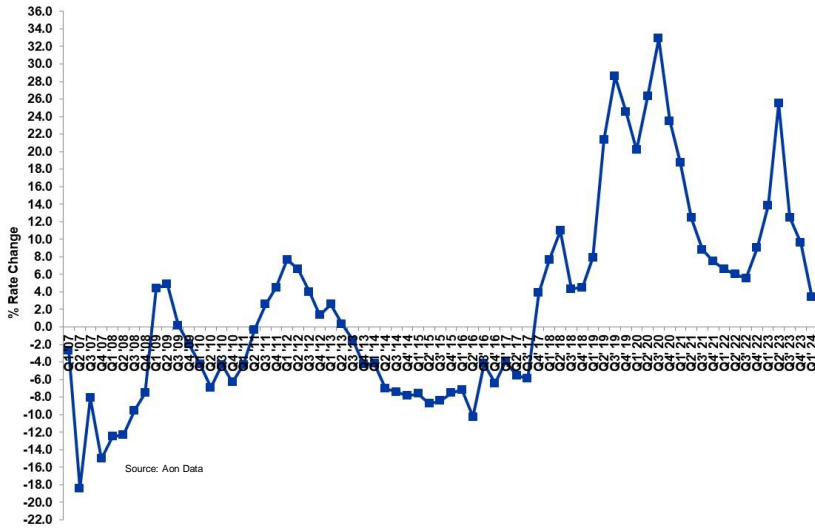
Avg. % Change in Rate (Program Structure)	
Shared and Layered	-0.05%
Single Carrier	6.68%
All Accounts	3.42%

Q2 2024 U.S. Property Market Dynamics Report | Proprietary and Confidential

3

24

Property – Quarterly Year-Over-Year Change In Average Rate



25

Inflation Trends: US inflation remains in the 3-4% range, but risks remain

- Broad inflation (CPI) grew slightly at 3.5%
- Inflation is now being driven by services, particularly **shelter prices and car insurance** as opposed to goods ; core CPI held steady at 3.8%
- Aon property loss cost index, weighting of goods and labor prices shows ~3.3% YoY
- Down from peak of 15% in Jan 2022, although it has rebounded from ~2% as base effects lose relevance
- Building material-related inflation has outpaced broad inflation measures but price increases slowing, in some cases reversing
- **Inflation is expected to remain moderate in 2024**
- The Federal Reserve expects interest rates to remain higher for longer as consumer spending remains healthy and shelter inflation stays high

26



27

### Public Entity Casualty Trends and Pricing

Public entity markets continue to effect limit compression to mitigate loss and overall portfolio volatility. Mature insurer and reinsurer participants are actively monitoring both venue and coverage-specific claim outcomes to inform capacity positions on offer alongside the firming of rates, albeit at a decelerated cadence compared to the prior two years. Structured solution alternatives are building momentum as middle ground offerings between risk transfer and self-insurance.

From a coverage perspective, Law Enforcement Liability remains a focal point in the underwriting process for municipalities due to heightened media attention and civil unrest statistics.

For Public Officials Liability, Educators Legal Liability and Employment Practices Liability, capacity is available, and rates have remained fairly stable. However, retentions and pricing levels are significantly higher than in the private sector. Crime coverage with a Faithful Performance of Duty extension is becoming more difficult to secure as fewer carriers are willing to provide it.

Source: AmWins

28

Proprietary & Confidential

28

# National Casualty

## Casualty Highlights

Q1 2024 market conditions for National Casualty renewals were in-line with our forecasts with one exception. Workers' Compensation results outpaced our expectations recording a -4.2% rate reduction.

While Lead Umbrella and Total Umbrella/Excess Liability renewal rates in Q1 2024 were within our forecasted range, they each registered **significant** rate increases of 12.4% and 13%, respectively. This is up from Q4 2023's average Lead Umbrella increase of 8% and Total Umbrella/Excess Liability's average increase of 6.8%.

Automobile Liability rates increased from 5.9% in Q4 2023 to 6.6% in Q1 2024. General Liability renewals averaged a slight YoY rate increase of 0.8%, while Workers' Compensation remained the most competitive liability line of coverage with an average rate (reduction) of -4.2%. Workers' Compensation continues to be used as a lever to help offset increases in other lines of coverage.

Average quarterly renewal rates:	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 & Q3 2024 Forecast*
General Liability	2.30%	2.50%	1.80%	<b>0.80%</b>	Flat to +5%
Automobile Liability	6.10%	9.00%	5.90%	<b>6.60%</b>	+6% to +12.5%
Workers' Compensation	-1.50%	-2.80%	-1.10%	<b>-4.20%</b>	-4% to +2%
Lead Umbrella	10.80%	9.90%	8.00%	<b>12.40%</b>	+10% to +18%
Total Umbrella / Excess Liability	7.50%	9.90%	6.80%	<b>13.00%</b>	+10% to +18%

\*Note: 1. Rate forecasts do not contemplate YoY exposure changes or adverse historical loss development.  
2. Please refer to our methodology section for further details.

We continue to closely monitor the Umbrella/Excess Liability market as YoY net deployed capacity is down. Insurers continued to make significant changes to their portfolio, including increasing minimum premiums, introducing "corridor" features, managing capacity deployment, requesting to be "moved up" within a lower or entirely exiting the Umbrella / Excess space. Additionally, carriers are growing increasingly concerned with Hired & Non-owned exposure to 3rd party hauling and contractual requirements. This has resulted in potential exclusions for "double broking" and the "horizontaling" of corridor structures.

Regarding exposures, 78% of Q1 renewals forecasted flat or increased payrolls while General Liability and Automobile Liability exposures were forecasted to be up 75% and 71%, respectively. Underwriters continue to utilize facultative reinsurance to support programs and we anticipate a continued focus on Biometric/Privacy, Cyber, PFAS, and other critical and emerging risks.

**Primary Casualty:** The Q1 2024 Primary Casualty market remained stable with renewal rates in line with our forecast. General Liability renewals experienced an average rate increase of 0.80% while Automobile Liability renewals saw an average increase of 6.6%. The Workers' Compensation market remains extremely competitive with Q1 2024 renewals averaging a YoY rate reduction of 4.2%.

**Umbrella / Excess Liability:** Q1 2024 Lead Umbrella and Total Umbrella / Excess Liability programs each increased at an increasing rate, experiencing average rate lift of 12.4% and 13%, respectively.

As we continue to trade in a "two-tiered" Primary and Umbrella / Excess market, it's important to note that challenged risk classes, adverse loss experience and/or programs with low deductibles or attachment points may experience greater rate increases than the maximum of the ranges outlined above.

# Primary Casualty Market Headlines Q1

## 2024



Clients continue to explore alternative forms of collateral. Creative solutions are paramount.



Workers' Compensation renewals averaged a -4.2% rate reduction as the favorable WC market landscape continued.



Introduction of market competition continues to yield favorable renewal results.



Markets have leveraged other coverage lines to help retain or win the primary casualty.



Inflation trends have led to even greater monitoring of actuarial reserves as well as clients increasingly exploring Loss Portfolio Transfer solutions.



Current inflationary environment continues to impact wages, medical costs and benefit levels for WC.



Exploration and utilization of Buffer and Structured programs, especially for risks with large fleets, has risen to help support increased attachment points of lead umbrella programs.



Carriers continue to evaluate coverage grants, retention thresholds and attachment points on more challenging risk profiles.



Most client exposures have increased, but an economic slowdown could have negative impact on rates if exposures begin to be impacted.



Well-funded and highly organized Plaintiffs Bar continues to negatively impact verdicts and settlements.

# Umbrella / Excess Liability Casualty Market Headlines Q1 2024



Capacity **not** employed capacity is down YoY, as insurers continued to make significant changes to their portfolios, including increasing minimum premiums, introducing "corridor" features, managing capacity deployment, requesting to be "moved up" within a tower or entirely exiting the Umbrella / Excess space.



The Umbrella / Excess market is becoming more dynamic and have mounting concerns of market deterioration as upward rate pressure momentum continued in Q1 2024. Renewals have now experienced an average rate increase for the fourth consecutive quarter.



74% of Lead Umbrella and 79% of Total Umbrella / Excess Liability renewals experienced a renewal rate increase in Q1 2024.



Automobile Liability wrongful death claim averages continue to increase - average in 2023 was \$30MM compared with \$23MM in 2016 - thus putting continued pressure on structure, attachment points and pricing.



Median Top 50 U.S. Verdicts have rebounded and approaching pre-covid levels. 2022's median value was \$48.7MM as compared to 2019's \$49.65MM.



Carriers continue to focus on several critical and emerging risks including biometric privacy, Cyber (B/PPD), forever chemicals (e.g., PFAS), Microplastics, wildfire, Traumatic Brain Injury (TBI), etc.



Increased exploration and utilization of structured, buffer and other ART & captive solutions, especially for risks with large fleets and 3<sup>rd</sup> party Hired & Non-owned exposure, to help support increased attachment points of lead umbrella programs.



Carriers are closely monitoring annual excess claim trends of 8-10%. Assuming a 9% trend, the same claim that settled in 2010 for \$20MM would be valued at \$61.3MM in 2023.



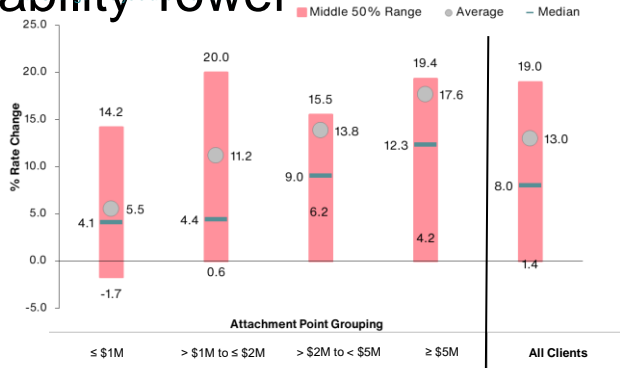
Average verdict size for lawsuits above \$1MM involving a truck crash has increased nearly 1,000% from 2010 to 2018, rising from \$2.3MM to \$22.3MM.



Litigation Finance continues to rise thus increasing potential exposure to larger / nuclear awards.

# Total Umbrella/Excess Liability Tower

Q1 2024 Rate Change Analysis and Distribution



• While the red bars depict the middle 50% range, the Average and Median values are based on the whole data set and not just the Middle 50% range



# Examples of Large Casualty Loss Verdicts



Tractor-trailer struck by van resulting in fatality. Trucking company found liable as a result of inadequate driver training. **\$247MM** in damages.



Army veterans awarded **\$110MM** due to defective ear plugs. **\$30MM** in compensatory damages and **\$80MM** in punitive damages.



Company agreed to pay **\$55MM** in penalties prior to facing criminal prosecution as a result of causing two wildfires.



School district liable for **sexual abuse & molestation** claim resulting in damages of **\$102.5MM** amongst 2 plaintiffs.



Customer assaulted on premises resulting in severe injuries and traumatic brain injury. **\$91MM** in damages awarded.



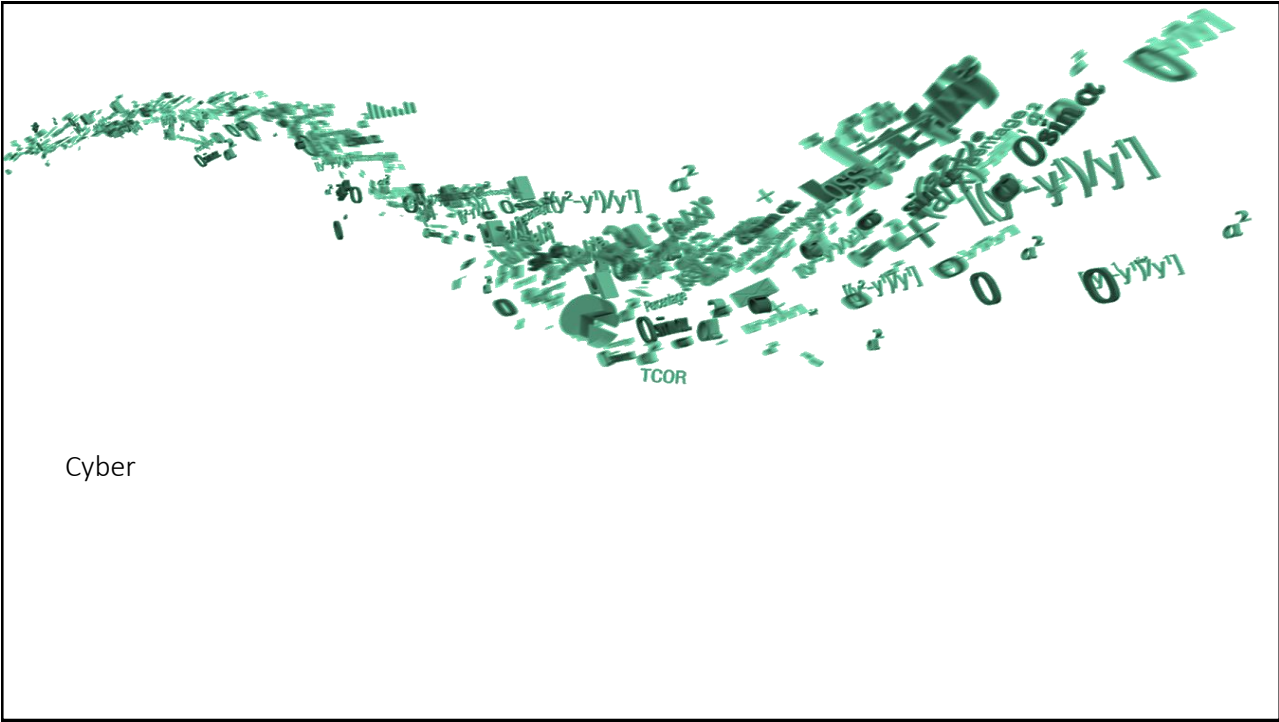
Employee assaulted customer resulting in fatality. Employer liable for damages in the amount of **\$337.5MM** as a result of faulty hiring practices.



Cancer survivor successful in suit against chemical company for continuous exposure to PFAS. **\$40MM** in damages awarded.



Driver of rear vehicle failed drug test following rear-end collision. Trucking company found liable for faulty hiring policies. **\$101MM** in damages.



Government Entity / Public Sector



Public sector organizations embracing new technologies to deliver citizen services and public administration. Technological advancements generate incredible efficiencies and enhance user experiences, but also expose new risks and workforce needs.

Inconsistent data controls, immature cyber practices and rising geopolitical risk mean the threat of cyber attacks and data breaches are on the rise. At the same time, due to ongoing reliance on traditional human resources policies and slower career progression, organizations often struggle to attract much-needed technical talent into public service.

At Aon, our teams have deep experience in the public sector, and we partner with clients to identify, quantify and manage their risk exposures.

State of the Market

The government and public sector was not immune to difficult market conditions that began in 2020. Pricing skyrocketed, capacity vanished, retentions increased, and security controls became mandatory. Although the market is stabilizing, the rigorous underwriting process continues.

- Capacity remains limited, limits above \$5M are generally only available to those entities with tight system controls
- Public entity pools continue to see low sub-limits and limited availability for excess limits
- Security controls continue to be key in securing capacity, such as Multi-Factor Authentication (MFA), Endpoint Protection & Response (EDR), Vulnerability Scanning, Network Segmentation, and Disaster Recovery Testing (table-top exercises) are key to avoiding restrictions in coverage for ransomware related losses

Staying Ahead of the Market

- Focus on preparing a collaborative and complete underwriting submission early. Assessments completed early in the placement process will allow for identification of pain points prior to underwriting review.
- Insurers will continue to focus on key controls they perceive will limit the probability of a ransomware event and the severity of the event.

How can your broker help?

- Understanding your vulnerabilities through assessments providing organization and agency level insights
- One screen view of cyber maturity for entire organization
- Customized policy language
- Program diagnostic reviews
- Alternative risk transfer and captive solutions
- Review of any Technology solutions being considered or implemented

Related offerings

- Technology Errors and Omissions
- Proactive Cyber Security Assessments
- Cyber Insurance
- Claims Table-Top Exercises
- Consultative Risk Quantification
- Incident Response Retainer

# Underwriter Cyber Concerns – Public Sector

Budget Restrictions

- Local government agencies often have outdated technology, facilities, and struggle with funding deficiencies. Due to inadequate funding, public entities are not always able to improve cyber security to meet industry / underwriter standards.
- In the face of insurance market pressures, municipalities often must direct dollars to insurance rather than proactive services.
- Pricing and changing security requirements make it difficult for public entities to secure adequate cyber insurance.

Business Interruption Costs

- There is a significant Business Interruption (BI) exposure as organizational operations are heavily reliant on network connectivity – this has been evidenced by cyber attacks on US cities including Atlanta, Baltimore, Pensacola, Oakland, and Greenville to name a few. As a result, we have witnessed widespread disruptions to emergency systems and operations, court systems, an inability for residents to pay traffic tickets or pay water bills, shutdown of police stations including their ability to access the fingerprint/ background check systems, impact to the sanitation and energy departments, etc.
- BI plays a large role in losses as the entities work to get systems back online, so carriers tend to look closely at RTOs, disaster recovery plans and backup controls.

Public Sector Operations

- The global Covid-19 Pandemic and a plethora of natural disasters created an exponential increase in mega claims with awards exceeding \$1,000,000.
- The diversity of operations creates high record counts, which are common targets for ransomware hackers.
- Public entities have large networks with many EDRs that create vulnerabilities.

Ransomware Exposure

- In recent years, we have observed an increase in the number of attacks on state and local governments as municipalities have become high-hazard targets for ransomware.
- The lack of resources and up-to-date equipment make municipalities strong targets for ransomware attacks.
- The time critical importance of having services down also make them priority targets for bad actors.

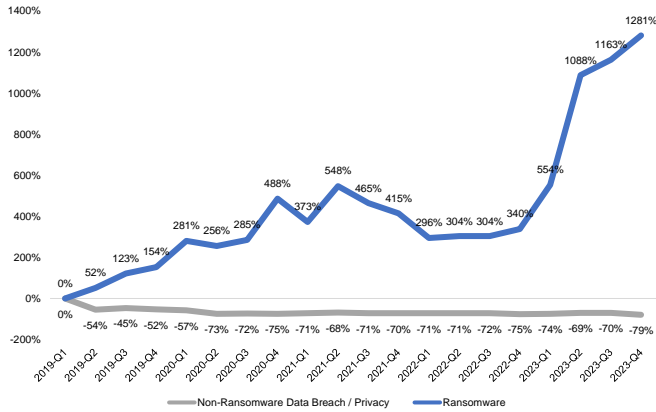
Claims Severity & Frequency Increase

- Public entities can be very vulnerable to cyber attacks because budget allocation difficulties for cyber insurance and securities.
- The market is generally trending toward increased cyber attacks with public entities being more susceptible.
- Anonymity of ransomware hackers makes arrest and prosecution unlikely, making the act safer for bad actors.

Privacy Exposure

- Public entities have significant privacy exposure due to the nature and volume of sensitive data they process and store. It is important to pay attention to how this data is stored and what safeguards are in place to secure it.
- Where is this data stored? Who has access to it? How is access controlled? Is administrator access monitored for unusual behavior?

# Cyber Incident Rates Indexed to Q1 2019



• Source: Risk Based Security, analysis by Aon. Data as of 1/1/2024; Claim count development may cause these percentages to change over time  
 • Proprietary & Confidential: The content, analysis and commentary included herein are understood to be the intellectual property of Aon. Further distribution, photocopying or any form of third-party transmission of this document in part or in whole, is not permitted without the express, written permission of Aon.

• **Key Observations** :

- Ransomware activity has continued to accelerate through Q4 2023
- Ransomware Events are up **1,281%**

# Cyber Key Controls

- Marketplace Minimum Expectations

Multi-Factor Authentication (MFA)	Endpoint Detection and Response (EDR)	Phishing Exercise/ Cyber Awareness Training
Vulnerability Scanning & Patch Management	Secure RDP/VPN	Incident Response Plan/ Ransomware Exercise
Access Control/ Service Accounts	Disaster Recovery/Backups	Email Filtering & Security (DMARC / DKIM)
Zero Day Vulnerabilities and Supply Chain Risks	Network Segmentation/ Network Monitoring	M&A DD and Integration

Conclusion

*"Better three hours too soon than a minute too late."*

Shakespeare

**Questions**

39








**NLC-RISC** RISK INFORMATION  
SHARING CONSORTIUM





In an increasingly difficult commercial insurance market, RMSA has the unique ability to obtain excess liability and property coverage through membership in the NLC "pool of pools"

40

# Current Claim Trends

-  **Employment matters:** Alleged wrongful termination, hostile work environment, harassment, discrimination, etc.
-  **Sewer back-ups:** Caused by back-ups in main lines resulting in damage to residential homes
-  **Auto accidents:** Both at-fault and not-at-fault collisions
-  **Employee fidelity:** Unauthorized financial transactions conducted by a member employee
-  **Sidewalk and street hazards:** Trip and falls + pothole claims

# Methods RMSA employs to reduce risk

-  **Employment matters:** Pre-litigation service offers complimentary legal assistance
-  **Sewer back-ups:** Public Works Member Standards addresses repeat claims
-  **Auto accidents:** Complimentary, on-demand defensive driving training
-  **Employee fidelity:** Division of duties training and resources through the SAO
-  **Sidewalk and street hazards:** Annual grant funds available to address sidewalk and street hazards

## AWC RMSA Programs

In addition to property and liability coverage, RMSA offers many robust programs:

- **Pre-litigation assistance**
- **Training and scholarships**
- **Risk management efforts:**
  - **On-site risk management check-ups**
  - **Contract reviews**
  - **Risk management inquiries**
  - **Zywave HR and eRiskHub cyber resources**
- **Grants**
  - **Lexipol**
  - **Loss Prevention**

SECURITY | STABILITY | SERVICE



43

## Member Standards



RMSA's Member Standards provide consistent administrative practices for members, reducing property and liability losses.

### **Required Standards**

A member's failure to comply with the standard will result in a deductible being applied to the loss costs, or, in some cases, the loss will not be covered.

### **Advisory Standards**

While not required, advisory standards are principles and practices that have been identified as sound risk management best practices.

SECURITY | STABILITY | SERVICE



44

# The RMSA Advantage

- AWC Risk Management Service Agency is a member-owned, member-governed **public entity risk pool**
- We specialize in small to medium sized-cities
- We are AWC
  - Legislative advocacy
  - Inter-relationship with all AWC Programs
  - Access to National League of Cities (NLC) reinsurance, risk services and training

SECURITY | STABILITY | SERVICE



45

## Questions?

We want to  
hear from  
you!

### RMSA Contact Information

Ashley Jones, Claims & Pre-Litigation Manager:  
[ashleyj@awcnet.org](mailto:ashleyj@awcnet.org)

General RMSA email: [rmsa@awcnet.org](mailto:rmsa@awcnet.org)

AWC Office: 360.753.4137

SECURITY | STABILITY | SERVICE



46