

STATE OF THE MARKET & OUTLOOK

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Part of The Baldwin Group

VISION 2026

Reimagining Insurance
for a Secure Future





Table of Contents

1. Property and Casualty Market Overview	<u>3</u>
a. Key Events and Market Drivers	<u>4</u>
2. Commercial Risk	<u>18</u>
a. Introduction	<u>19</u>
b. Property Insurance	<u>21</u>
c. Casualty Markets	<u>25</u>
i. General Liability	<u>27</u>
ii. Commercial Auto Liability	<u>31</u>
iii. Workers' Compensation	<u>35</u>
iv. Directors & Officers Liability	<u>39</u>
v. Employment Practices Liability	<u>44</u>
vi. Fiduciary Liability	<u>48</u>
vii. Cyber Liability	<u>51</u>
viii. Umbrella Liability	<u>56</u>
ix. Excess & Surplus Market	<u>59</u>
f. Protecting the Possible	<u>63</u>
3. Reinsurance Market	<u>64</u>
4. Private Risk	<u>73</u>
a. Introduction	<u>74</u>
b. Home Insurance	<u>75</u>
c. Auto Insurance	<u>81</u>
d. Cyber Coverage	<u>85</u>
e. Umbrella Liability	<u>89</u>
f. Excess & Surplus Market	<u>93</u>
g. Protecting the Possible	<u>96</u>
5. Employee Benefits	<u>97</u>
a. Executive Summary	<u>98</u>
b. Introduction	<u>101</u>
b. Key Trends	<u>102</u>
c. Protecting the Possible	<u>124</u>
6. Industry-specific Updates	<u>126</u>
7. Key Terms	<u>185</u>
8. References	<u>189</u>



Property and Casualty Market Overview Commercial and Private Risk

Global risks are converging in unprecedented ways, reshaping how businesses and households think about protection. Economic uncertainty, climate events, cyber threats, and geopolitical instability now operate as interdependent forces, ushering in an insurance era defined less by cycles and more by structural recalibration and continuous adaptation. The defining theme of 2025 was stabilization through selectivity, as rate momentum moderated, capacity recovered, and underwriting discipline remained firm even amid ongoing litigation and loss pressures.

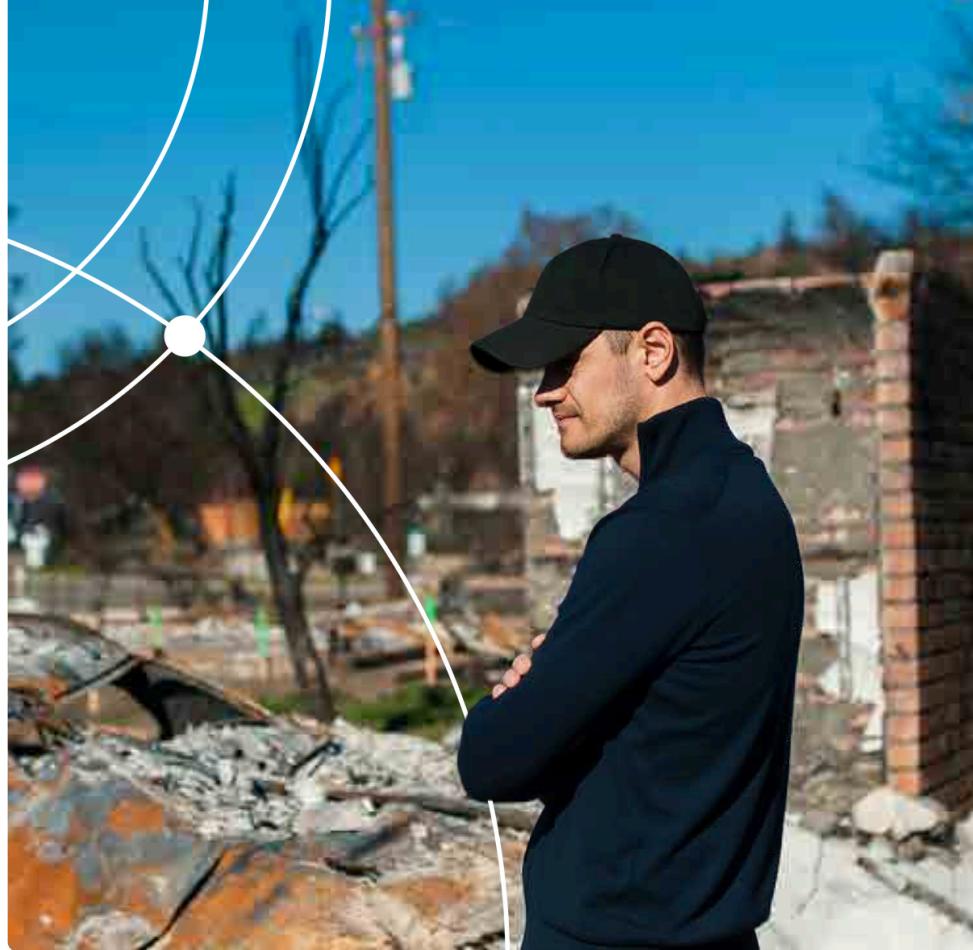
In the era of interconnected instability, insurers are demonstrating resilience and adaptability, supported by stronger capital positions and increasingly data-driven decision-making. Yet systemic exposures spanning digital infrastructure, supply chains, and climate risk continue to evolve faster than traditional models and governance frameworks can adapt.

Amid this shifting landscape, the industry's center of gravity is moving from traditional risk transfer to integrated risk orchestration. Success now depends on connecting insights across financial, operational, and physical domains to manage uncertainty at its source. Data integration, artificial intelligence, and proactive risk mitigation are emerging as critical levers for sustaining both profitability and protection.

The year ahead will test how effectively insurers, policyholders, brokers, and regulators can collaborate to build resilience into every layer of the system. As capacity normalizes and innovation accelerates, the market's next phase will reward preparedness for those who anticipate change, understand evolving risk patterns, and align strategy with an increasingly interconnected world.

Key Events and Market Drivers

- Catastrophe losses
- Legal system abuse
- Economic uncertainty
- Geopolitical risks
- Evolving regulations
- Risk resilience
- Insurer profitability
- Alternative risk transfer
- Reinsurance capital
- Artificial intelligence (AI) and advanced analytics



Recalibrating risk amid a new baseline for NatCAT losses

Catastrophe activity in 2025 proved that stability does not mean calm. Cumulative losses from hurricanes, wildfires, floods, and severe convective storms kept totals elevated and reaffirmed the market's new \$100 billion-plus loss baseline.

The market continues to absorb events without destabilizing capacity, yet persistent high-severity secondary perils highlight how climate, exposure, and concentration have redefined catastrophe frequency and cost. Reinsurers increasingly view these as primary risks, tightening terms while investing in data-driven risk management solutions. Persistent repair and materials inflation further compound loss severity.

Global losses and economic impacts

\$80B

Global insured NatCAT losses in H1 2025

\$150B+

Projected 2025 total insured losses, the sixth consecutive year >\$100B

300%

Increase in billion-dollar disasters since 2019

\$18.5T

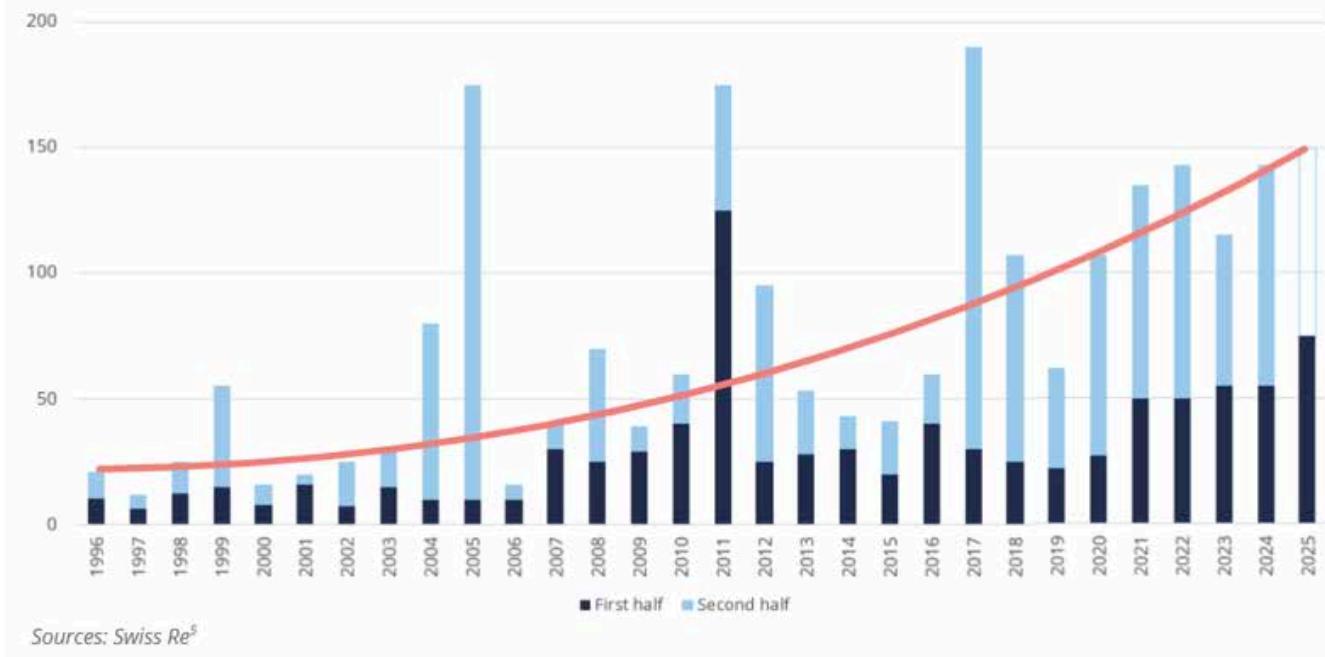
Global disaster-related spending since 2000

90%

Share of global insured losses occurring in the U.S. during H1 2025

Sources: Swiss Re,¹ Risk & Insurance,² Bloomberg,³ Insurance Journal⁴

Global annual insured losses from wildfires (USD bn, 2025 prices)



Wildfire risk is now a year-round peril. The Los Angeles fires illustrated how ignition zones now extend beyond traditional corridors as drought and heat follow wet winters. Severe convective storm (SCS) and hail activity continue to intensify, with hail now driving most thunderstorm claims. Flood exposure is also shifting as FEMA's Risk Rating 2.0 reclassifies properties and expands mandatory coverage zones.

The 2025 Atlantic hurricane season has already produced 13 named storms, validating forecasts for above-average activity even without a U.S. landfall. Offshore systems like Hurricane Erin, which stretched from North Carolina's Outer Banks to Bermuda, and remnants of Hurricane Barry, which caused deadly flooding in Texas, demonstrate the season's intensity despite limited coastal impact. Meanwhile, Hurricane Melissa's Category 5 strike on Jamaica was the island's strongest on record.⁶

Peril highlights



Los Angeles wildfires

Up to \$45B insured losses, and up to \$65B in total economic losses



Convective storms and hail

50% to 80% of thunderstorm claims, causing approximately \$31B in H1 2025 losses



Flood

July 2025 Texas floods caused more than 100 fatalities; NFIP participation in the region remains below 3%

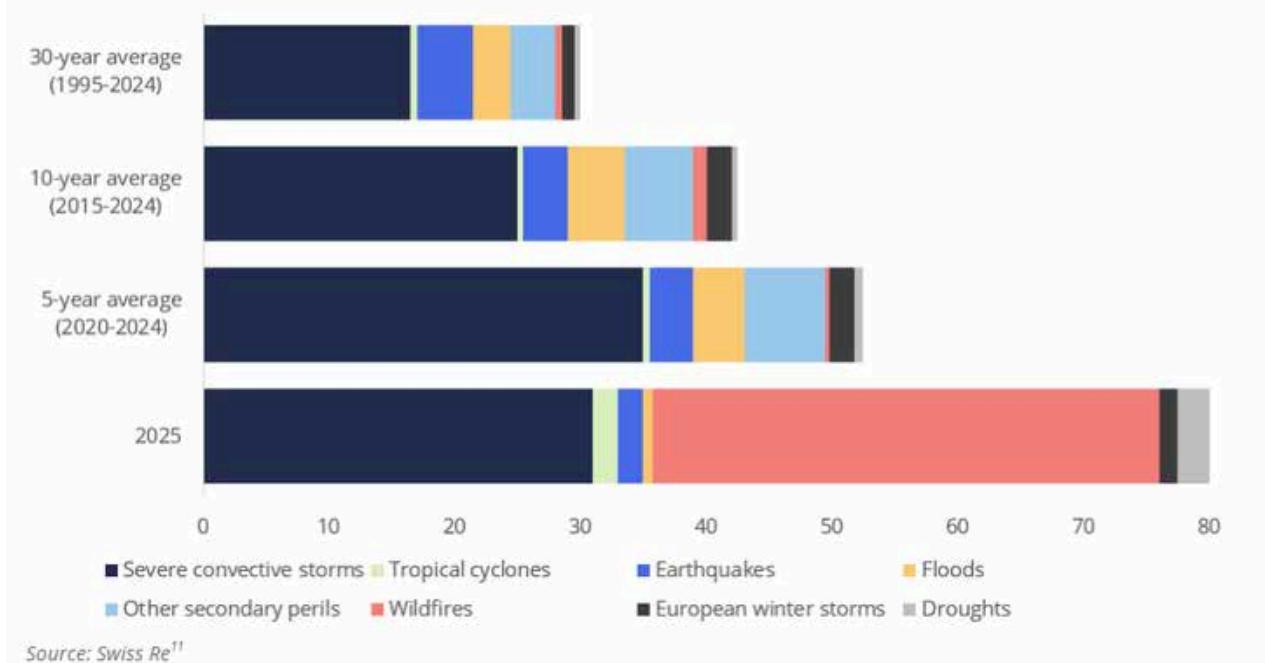


Hurricane

Hurricane Melissa generated insured losses estimated at \$2.2 billion to \$4.2 billion

Sources: Verisk,⁷ Insurance Business,⁸ Triple-A,⁹ Reuters¹⁰

Global insured losses from natural catastrophes by peril in 1H 2025 and previous half-year averages (USD bn, 2025 prices)



Source: Swiss Re¹¹

In 2026, property markets are expected to remain resilient despite elevated catastrophe activity, supported by ample reinsurance capital, disciplined underwriting, and refined modeling. The industry now operates on a sustained \$100 billion-plus annual loss baseline as exposure growth continues to outpace mitigation. Competitive differentiation will hinge less on rate and more on risk governance, prevention partnerships, and resilience engineering—a continued shift from reactive loss absorption to proactive protection.

Tort reform gains traction as litigation pressures persist

Pressure from nuclear verdicts and third-party litigation funding (TPLF) remains elevated despite early reform gains in states like Florida. Rising litigation costs and prolonged case timelines are reshaping markets, while damages inflation, stagnant policy limits, and higher claims expenses widen the coverage-cost gap and amplify loss severity. Inflation has also expanded federal jurisdiction by pushing average claim values above the \$75,000 threshold set in 1996, driving a structural increase in filings.¹²

Litigation and cost trends

\$6,664

Annual cost to a U.S. household of four from legal system abuse

\$160B

Annual tort burden on small businesses

4.8M

Jobs lost to excessive tort costs

+20%

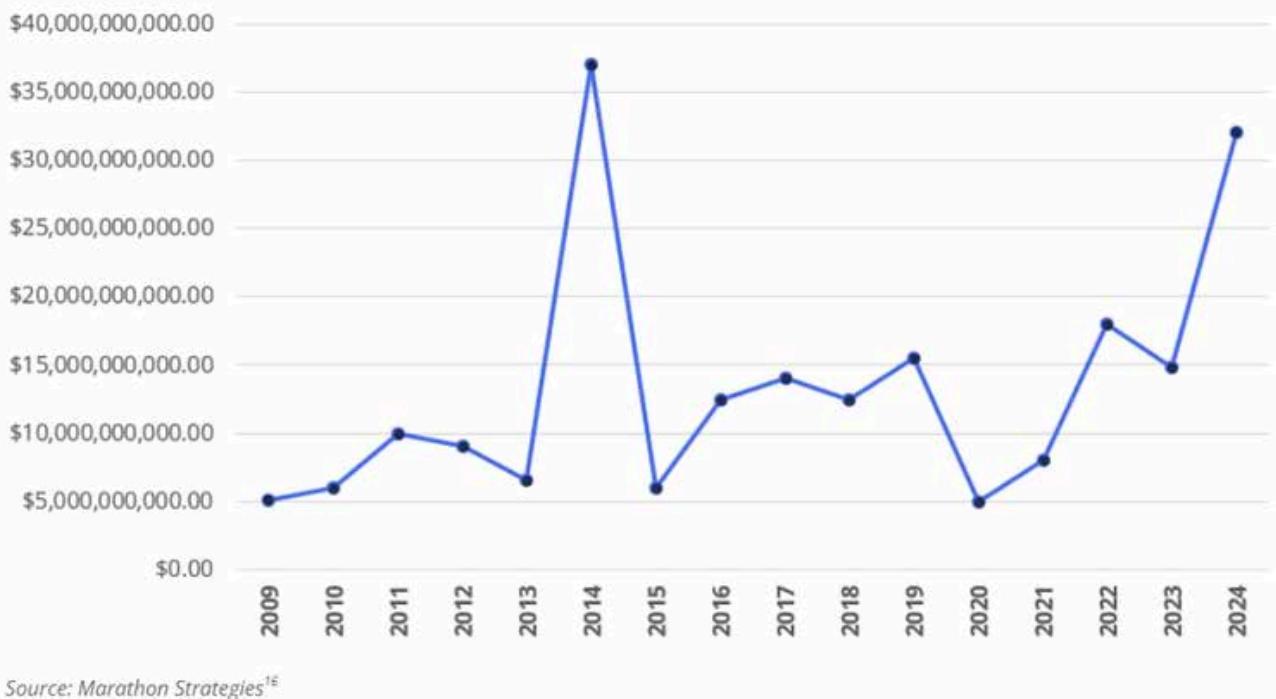
Growth in federal tort filings (2023–2024 vs. 2021–2022)

\$16B+

Assets under management by 42 funders in U.S. commercial litigation (2024)

Sources: Triple-I,¹³ Insurance Business,¹⁴ U.S. Chamber of Commerce Institute for Legal Reform¹⁵

Sum of Corporate Nuclear Verdicts: 2009-2024



TPLF remains a key structural driver of longer timelines and higher costs. Backed by private capital, these opaque arrangements extend trials, elevate defense expenses, and complicate settlements. Some funders are even pursuing partial law firm ownership, raising concerns about independence and ethics.¹⁷

Reform momentum is building, but results remain uneven. Florida's 2022-2023 legislative measures reduced litigated property claims, lowered personal auto rates, and supported the Citizens' Depopulation Program (designed to reduce the number of insurance policies held by Citizens Property Insurance Corporation)—showing that targeted reforms can bend the curve, though impact takes time. Internationally, class-action expansion and growing litigation funding in the EU highlight that social-inflation risk is no longer unique to the U.S.¹⁸

Florida: Early results from reforms



Citizens' policy count down 36%
year-over-year, 45% below its 2023 peak



6.5% decrease
in personal-auto rate filings YTD 2025 (vs. +32% in 2023)



30% drop
in property-claim lawsuits (2024)



1.75% average premium increase
—the lowest nationwide

Sources: Reinsurance News,¹⁹ Triple-I,²⁰ Florida Office of Insurance Regulation²¹

In 2026, exposure remains high but increasingly manageable. Insurers are refining defense and claims strategies, tightening attachment points, and using venue-specific analytics to track verdict risk and jury sentiment—efforts that help identify and mitigate exposure earlier in the cycle. Subrogation activity is rising as insurers pursue recoveries under the Federal Tort Claims Act.²²

The regulatory landscape is also shifting, with new TPLF disclosure laws and potential federal tax-parity changes that could modestly rebalance case economics. Even as reforms begin to ease litigation costs, one constant remains: the safer and more transparent an organization, the stronger its underwriting position and pricing advantage. For insureds, reassessing liability limits and reinforcing defensibility measures will be critical.

Tariffs and policy shifts reshape the global cost environment

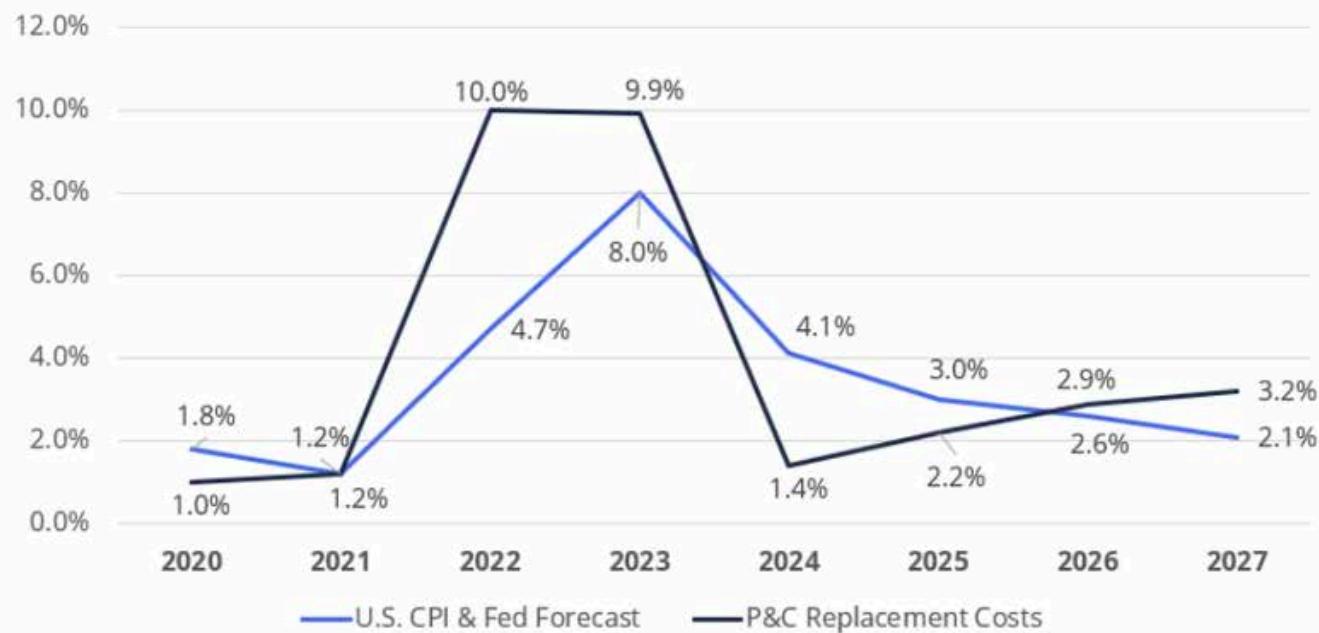
At midyear, we noted progress on disinflation and a brief period of rate stability. By late 2025, however, renewed tariff impacts, slowing growth, and a cooling labor market prompted the Federal Reserve to begin a cautious easing cycle, trimming the federal funds rate to roughly 4.0% to 4.25%.²³ While these cuts aim to steady momentum, tariff-driven inflation continues to complicate the pace and depth of future reductions. Borrowing costs remain elevated for households and businesses, curbing credit demand and investment.

For insurers, the economic backdrop is mixed. Claims costs remain high as tariffs raise prices for building materials, auto parts, and industrial inputs, while wage and medical inflation sustain liability severity. Lower benchmark rates have steadied investment performance, while higher-yield bonds purchased in recent years continue to support strong portfolio returns. Premium growth is moderating alongside slower gross domestic product (GDP) and softer demand, though disciplined underwriting and investment income continue to sustain profitability.

Heading into 2026, slower growth and persistent core inflation point to a higher structural cost floor and intermittent price shocks. Premium growth is expected to trail GDP modestly, with profitability increasingly tied to investment performance and underwriting discipline. Across commercial and personal markets, focus is shifting toward expense control, inflation-adjusted limits, and supply-chain management, as insurers and clients navigate an evolving cost environment.



P&C replacement costs and CPI (2020 – 2027 YoY%)



Source: Triple-I²⁴

Escalating conflicts and polarization test geopolitical resilience

Geopolitical flashpoints strained logistics and energy markets throughout 2025, driven by Red Sea disruptions, deepening polarization, and rising executive security incidents. Regional divergence continues to shape exposure and pricing. The Middle East faces elevated energy and war risk, Asia-Pacific adapts to reshoring, and Europe contends with defense inflation and supply chain strain.

The Red Sea conflict remains a key disruptor, extending transit times and driving higher marine war premiums as insurers adopt dynamic pricing and stricter security protocols. Supply chain delays continue to elevate costs across energy, construction, and manufacturing.

Domestic unrest and civil commotion are emerging as notable loss drivers, prompting insurers to revisit business interruption and civil authority clauses to clarify coverage intent. Meanwhile, corporate security threats are escalating as economic stress and misinformation erode public trust, fueling demand for executive protection, crisis monitoring, and directors and officers (D&O) coverage. These same pressures are influencing D&O pricing, limits, and underwriting scrutiny tied to crisis oversight and reputational harm.

For private clients, geopolitical instability is reshaping mobility, asset protection, and personal security planning, reinforcing the need for coordinated, cross-market coverage strategies. For insurers, geopolitics is now an embedded underwriting factor. Instability is expected to remain elevated in 2026, making multi-scenario planning, integrated risk assessment, and insurer-client coordination essential to sustaining insurability in a fragmented world.

Key geopolitical flashpoints and insurance impacts

Risk area	Exposure snapshot	Insurance implications
Red Sea conflict	12% of global trade affected; rerouting can add weeks to shipment timelines ²⁵	<ul style="list-style-type: none"> • Elevated war-risk premiums • Dynamic cargo and hull pricing • Heightened security and route-compliance requirements
Civil unrest	Localized protests trigger insured property losses under riot and civil commotion provisions	<ul style="list-style-type: none"> • Policy reviews of civil authority clauses • Expanded education about business interruption (BI) coverage scope
Executive security	40% of global chief security officers (CSOs) report increased threats against executives ²⁶	<ul style="list-style-type: none"> • Rising demand for executive protection and crisis response coverage

Fragmented oversight and deregulation reshape risk governance

In 2025, federal retrenchment and rising state authority reshaped how risk is governed, priced, and shared, creating uncertainty around flood program reauthorization, resilience funding, and tort reform. As deregulation accelerated and federal agencies faced budget cuts, state regulators moved to fill the gaps.

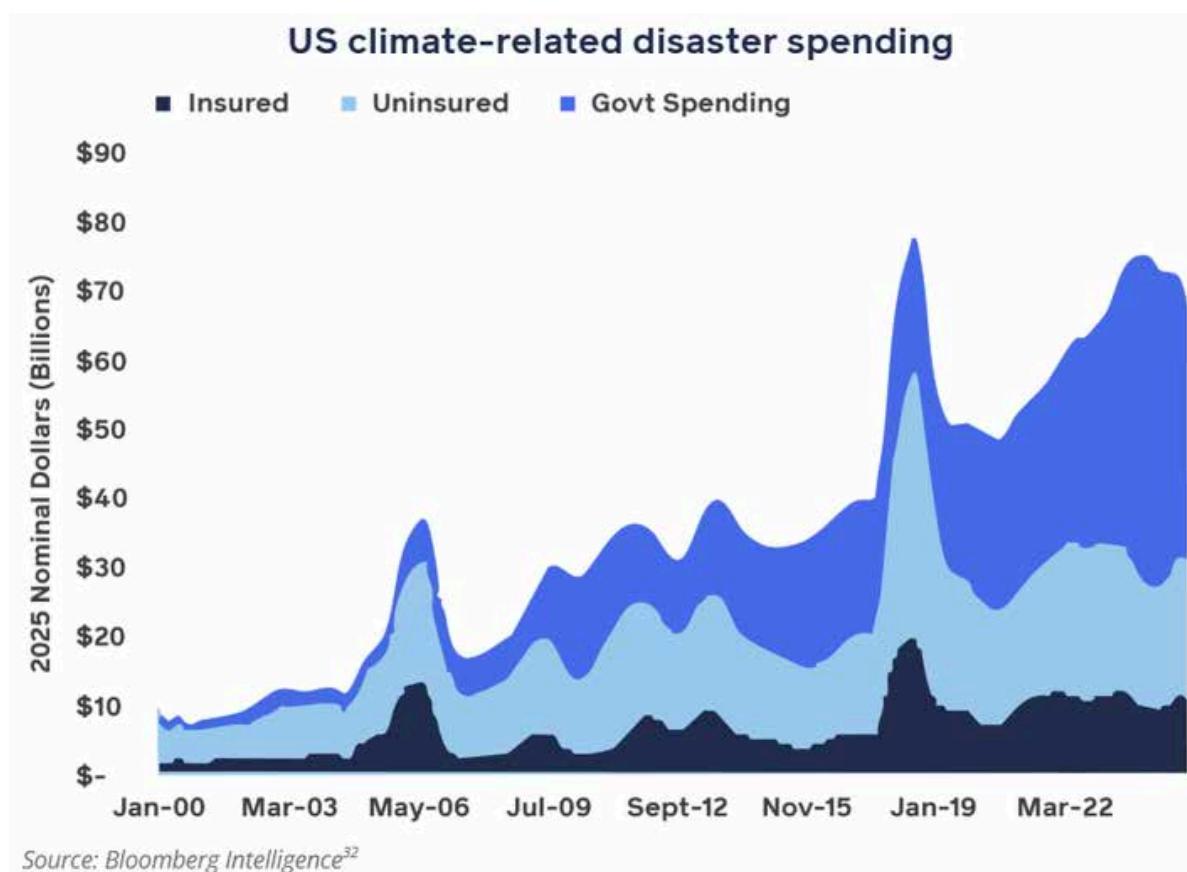
FEMA's proposed restructuring and grant reductions have limited mitigation funding, while lapses in the National Flood Insurance Program (NFIP) left millions of homeowners without coverage clarity.²⁷ Through the National Association of Insurance Commissioners (NAIC), state leaders are pushing for long-term NFIP reauthorization and expanded private-market participation. Meanwhile, cuts to the National Oceanic and Atmospheric Administration (NOAA) and the National Science Foundation (NSF) have weakened the climate-data infrastructure essential to catastrophe modeling and underwriting accuracy.

Federal deregulation—including reduced Securities and Exchange Commission (SEC), Department of Justice (DOJ), and Consumer Federal Protection Bureau (CFPB) enforcement—has heightened governance and financial-crime exposure, particularly in D&O and errors and omission (E&O) lines. And expanding tariffs on key materials continue to blur the line between trade policy and insurance, complicating valuations, and cross-border compliance.

A fragmented regulatory landscape will continue to influence insurer capital strategy, governance standards, and risk-modeling priorities into 2026, reinforcing the need for coordination between federal, state, and private-market initiatives to sustain long-term stability.

2025 Regulatory milestones

Early 2025 – Federal retrenchment begins	Mid-2025 – States step forward	Late 2025 – Deregulation accelerates	End of 2025 – Trade policy reemerges as a risk driver
Budget cuts to FEMA, NOAA, and NSF reduce resilience funding and weaken climate-data capacity, while NFIP lapses heighten flood coverage uncertainty. Industry groups warn that private markets cannot absorb the \$1.3T in exposure currently insured by NFIP. ²⁸	Florida's reforms drive a 45% reduction from Citizens' peak policy count, with Georgia and Louisiana enacting similar legal reforms. ²⁹ California prepares a 2026 ballot initiative to repeal Proposition 103, which would allow insurers to factor in predictive analytics in insurance pricing. ³⁰	Federal enforcement actions decline by more than one-third under the "10-to-1" initiative, widening compliance gaps and elevating governance risk. ³¹	Expanded tariffs on metals, lumber, and autos reshape global supply chains, fueling new demand for trade credit and disruption coverage. Valuation challenges increase across imported materials and manufacturing inputs.



Resilience as the foundation of market sustainability

Resilience has become the insurance industry's unifying priority, reshaping how risk is measured, priced, and managed across commercial and personal markets. Rising disaster frequency and severity, combined with affordability pressures, have accelerated a shift from reactive recovery to proactive prevention. As federal programs retrench, insurers, regulators, and communities are filling the gap through collaboration, data transparency, and targeted mitigation investments.

In 2025, industry and regulatory stakeholders emphasized affordability, transparency, and data-sharing to address systemic risk and tackle cost drivers at their source. This coordinated focus has made resilience and mitigation central to both policy and consumer behavior, reframing protection as a shared responsibility across the market. For example, research efforts such as Project ICECHIP (In-situ Collaborative Experiment for Collection of Hail In the Plains), and the Insurance Institute for Business and Home Safety (IBHS) "roof farm" program are advancing hail-resistant construction standards that could help moderate future losses.

As extreme weather, affordability strain, and public-funding gaps converge, the industry's ability to sustain insurability will depend on shared responsibility and coordinated prevention. Insurers that embed resilience credits, transparent pricing, and pre-loss modeling will be best positioned to stabilize capacity and bolster community protection. In 2026, resilience has shifted from an aspiration to an operating principle, defining both competitiveness and credibility in an era of climate-driven disruption.

The economics of proactivity

Prevention now delivers quantifiable returns across every market segment.

Disaster type	Cost of not investing in resilience (per \$1, after a future disaster)	Key impacts from lower resilience investment
Hurricanes	\$7.84	Up to 131,000 jobs lost \$24B GDP decline
Tornadoes	\$25.15	14,500+ jobs lost \$2.2B GDP decline
Wildfires	\$21.87	9,800+ jobs lost \$1.7B GDP decline
Droughts	\$32.72	19,200+ jobs lost \$3.6B GDP decline
Floods	\$25.44	13,700+ jobs lost \$2.3B GDP decline

Source: Allstate³³

Underwriting precision sustains profitability in a cooling market

After regaining profitability in 2024, the U.S. property and casualty market is transitioning from recovery to stability. Margin gains have broadened as rate corrections, refined risk selection, and disciplined capacity deployment take hold across personal and commercial lines. The phase ahead is defined by steadier underwriting, selective growth, and durable—but thinner—returns amid moderating rate momentum and intensifying competition.

At midyear 2025, stronger personal lines results and subdued catastrophe activity signaled sustained profitability. By Q3, that momentum held even as growth slowed, marking the shift from hard-market correction to measured expansion. Industry results remain solid: personal auto led the rebound after years of losses, while homeowners and commercial property lines posted notable improvement. Capital positions remain strong, supporting continued underwriting capacity and reinsurance engagement.



Profitability and performance highlights



\$22.9B underwriting gain in 2024,
reversing a \$23B loss
the prior year



Premium growth moderating from
+9.6% in 2024, to
+5.5% in 2025, and
+4% in 2026



Return on equity near 10%, the
strongest in two decades



Investment yields rising from 3.9% in
2024, to 4.0% in
2025, and 4.2%
expected in 2026



Reserving divergence among top 20 insurers, with
45% conservative,
30% aggressive,
and 25% balanced

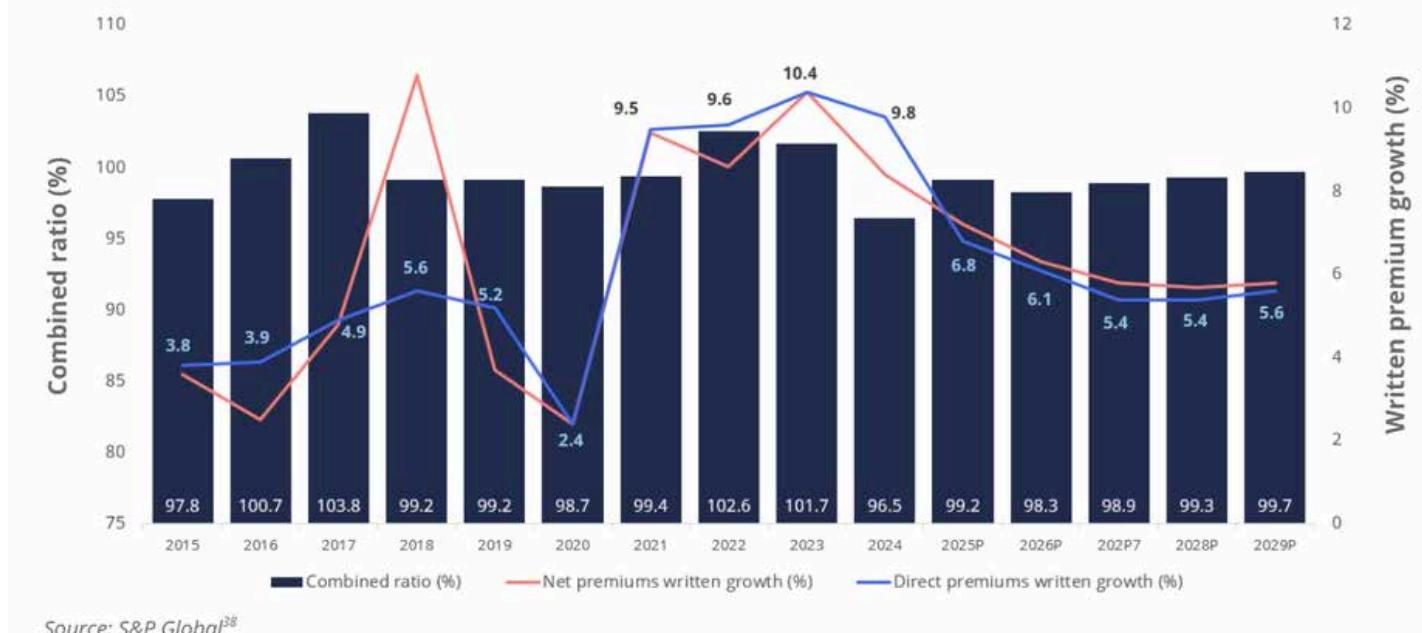
Sources: *PropertyCasualty360*,³⁴ *Risk and Insurance*,³⁵ *Insurance Business*.³⁶

Direct premiums written have now surpassed the \$1T threshold, underscoring the sector's resilience.³⁷ Yet macroeconomic headwinds—including persistent inflation, supply-chain volatility, and higher reinsurance and operating costs—erode margins and temper the benefits of record premium volume.

Disciplined underwriting, expense control, and stronger investment income from higher yields underpin profitability, but margin compression is emerging as exposure growth slows and competition intensifies, especially in large commercial and excess and surplus (E&S) lines for property. Reserving discipline remains in focus amid social-inflation risk, with conservatism persisting in long-tail lines as technology improves loss-development visibility.

Looking ahead to 2026, profitability is expected to plateau at healthy levels, driven less by rate gains and more by precision, discipline, and selective expansion in a mature, yet resilient market.

Overall P&C industry outlook



Alternative capital expands its share of the market

Alternative risk transfer (ART) has evolved from a supplemental tool into a core pillar of global risk financing. As traditional markets recalibrate after consecutive years of disruption, capital from catastrophe bonds, captives, parametric solutions, and delegated authority programs is reshaping how risk is financed, distributed, and diversified.

In 2025, record catastrophe-bond issuance and strong captive performance cemented ART's position as a structural market feature. Capital-market investors, reinsurers, and managing general agents (MGAs) continued to expand collaboration around data, efficiency, and resilience, while resilience-linked structures emerged—tying payouts directly to mitigation milestones and signaling the next phase of innovation in risk transfer.



Alternative risk transfer highlights

\$55.8B

Catastrophe-bond total market size

75%+

Growth in the catastrophe-bond market since 2020

\$6.6B

Capital preserved by captives since 2019

3,466

U.S. captives in 2024

Sources: *Risk & Insurance*³⁹, *Risk & Insurance*⁴⁰

Captives have evolved from contingency tools into strategic risk-management vehicles, now spanning property, cyber, and employee-benefit lines. Parametric solutions continue to gain traction across commercial and private markets, offering rapid liquidity and transparent coverage as climate and systemic risks intensify. MGAs remain the connective tissue of alternative capital, using data-driven underwriting and specialized programs to channel reinsurance and insurance linked securities (ILS) capacity into targeted risks.

Looking ahead to 2026, ART will continue to converge with traditional insurance strategy, driven by efficiency and transparency. Capital markets, underwriters, and policyholders are increasingly aligned around a shared goal: leveraging diversified capital to strengthen profitability, expand capacity, and build resilience.



Our managing general agent (MGA), MSI, combines deep underwriting expertise with insurer and reinsurer risk capacity to create specialized insurance solutions that empower us to meet our clients' unique needs.

People, process, and protection: the next frontier of AI adoption

2025 marked the shift to scaled AI deployment. Model precision, automation, and peril intelligence are now directly influencing loss ratios, expenses, and client experience. By midyear, AI in triage, fraud detection, and peril modeling were already reducing cycle times. And by year-end, adoption had broadened across core functions.

Insurers with centralized data platforms and model-operations frameworks are realizing measurable underwriting lift and expense savings, while those layering tools onto legacy systems remain limited by integration gaps and stagnant customer satisfaction.



AI in action: How insurers are scaling smartly



From pilots to platforms

Enterprise value now depends on data quality, governance, and controlled model release, not algorithm volume.



Peril intelligence and predictive accuracy

AI models forecast wildfire, hurricane, and flood behavior with greater precision, enabling faster alerts, pre-loss mitigation, and aligned parametric triggers.



Closing the customer-experience gap

Operational gains can translate to shorter claim cycles, proactive updates, and clearer coverage explanations.



Operating model evolution

Underwriters act as risk orchestrators, validating AI insights, while adjusters lead with empathy as automation handles routine tasks.



Regulatory and ethical alignment

AI standards for fairness, explainability, and auditability evolve, with leading insurers adopting continuous monitoring to reinforce transparency and trust.

Talent and trust now define the next frontier. Nearly 400,000 U.S. insurance roles are expected to retire by 2026, heightening the need for skills-based hiring, flexible work models, and “two-way mentoring” that pair Gen Z’s AI fluency with veteran judgment.⁴¹ At the same time, insurers are prime cyber targets, facing social-engineering attacks, vendor-chain exploits, and multi-factor authentication (MFA) bypasses. Embedding cyber resilience into every upskilling program is now essential to both trust and performance.

In 2026, success will hinge on three capabilities: high-fidelity data operations, transparent governance, and proactive loss-prevention intelligence. Insurers that achieve all three will be best positioned to compress loss and expense ratios and differentiate in an increasingly crowded market.

AI and advanced analytics highlights

10% to 15%

Average premium growth among AI-integrated insurers, reflecting improved underwriting lift and segmentation

20% to 40%

Reduction in onboarding and processing costs from automation and workflow optimization

3% to 5%

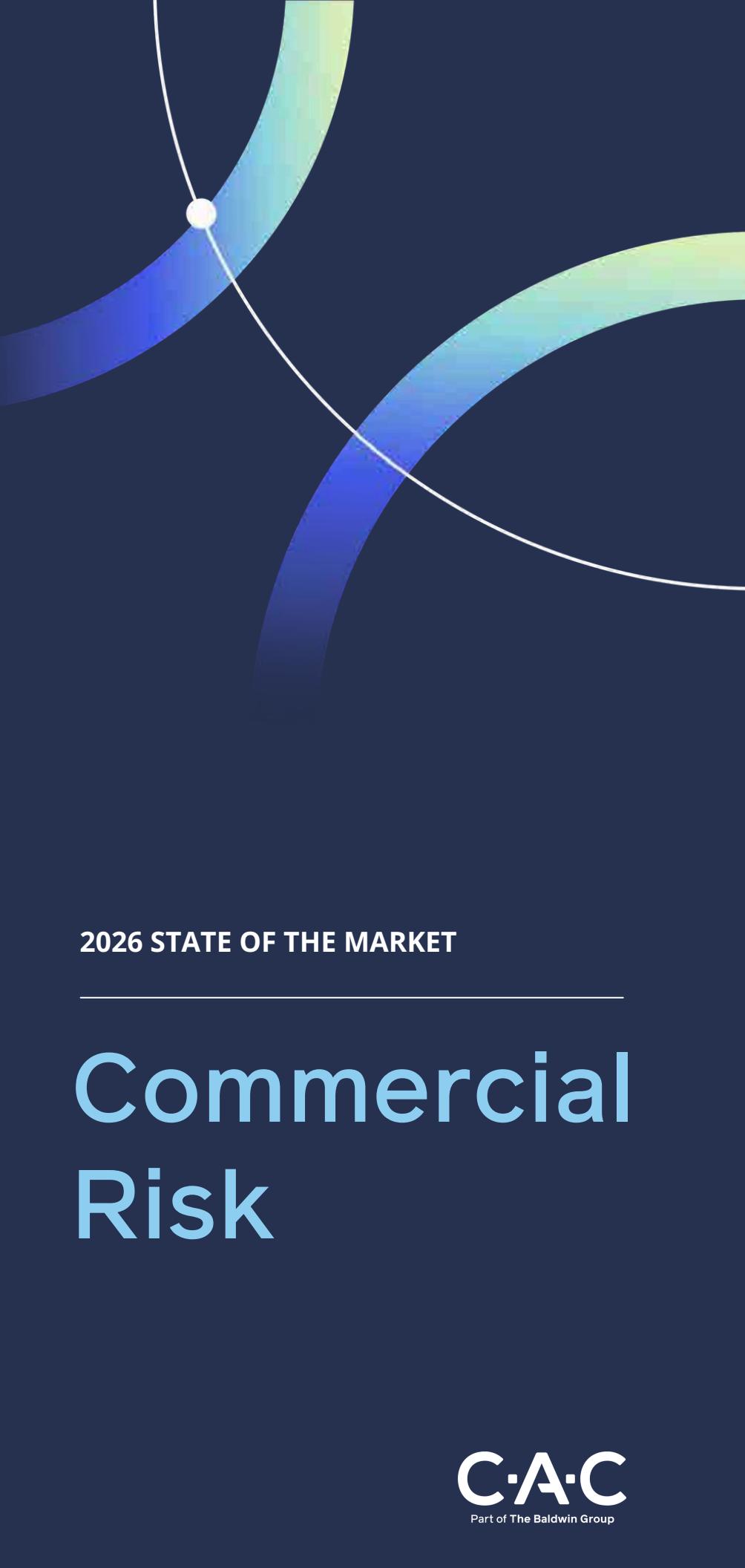
Increase in claims accuracy and consistency through AI-enabled triage and fraud detection

1 minute

Time required for new AI-driven hurricane guidance to generate 15-day forecast tracks, enhancing early response and reinsurance planning

Sources: McKinsey & Company,⁴² VentureBeat⁴³





2026 STATE OF THE MARKET

Commercial Risk

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Introduction

The commercial P&C market is entering a period of measured stability after years of disruption, though affordability, litigation exposure, and digital transformation continue to shape the landscape. Regulators and industry leaders are pursuing greater transparency, examining how to stabilize premiums as exposures grow more interconnected and unpredictable. Collaboration around data access, community resilience, and mitigation is reframing cost as a shared challenge rather than an industry-versus-regulator divide.

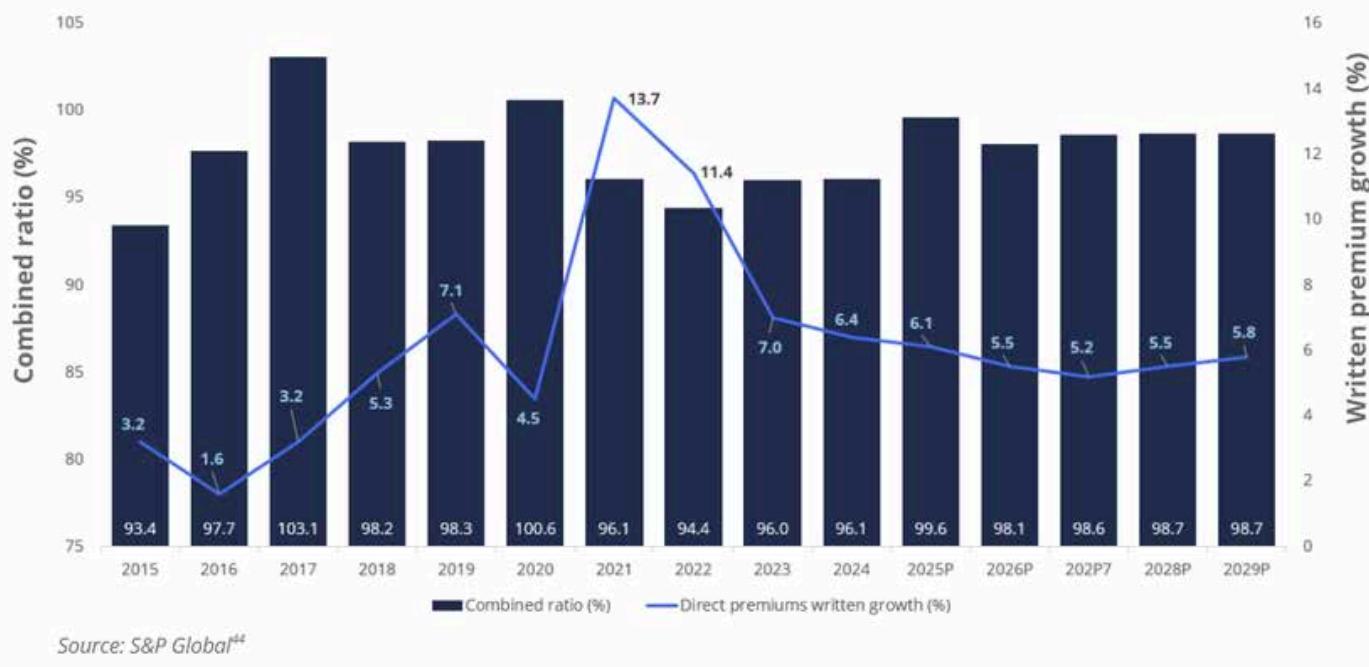
At midyear, signs of balance emerged, though the market remained neither wholly "hard" nor "soft." Property rate relief was often offset by higher deductibles and tighter terms, while casualty lines were hampered by litigation severity and adverse reserve development. These dynamics persist today: relief where losses normalize, recalibration where structural pressures remain.

By late 2025, the tone had clearly shifted. Property markets softened, though unevenly, as competitive capacity returns, including in previously stressed classes like multifamily and warehousing. Higher limits are more attainable and terms increasingly negotiable on loss-free programs but softening remains conditional on experience and catastrophe exposure.

Casualty, by contrast, remains firm. Rate momentum is flat to modestly up, with general liability, auto, and umbrella lines still facing upward pressure. Capacity is adequate but disciplined, tempered by severity-driven losses from social inflation, litigation funding, and long-tail emergence that limit downward rate movement.



Commercial lines outlook



The market is in true transition—growth in one segment balanced by recalibration in another. Coverage boundaries are blurring as blended and excess-layer programs gain traction among buyers seeking efficiency across liability, professional, and cyber risks. With complexity comes greater need for clarity in triggers, tower design, and claims sequencing. Sophisticated buyers are leaning on analytics, higher retentions, and alternative structures to stabilize outcomes, with success hinging on broker-led structure, documentation, and readiness.

Heading into 2026, the market reflects property relief balanced by persistent casualty headwinds, a phase defined less by rate movement than by how effectively insurers and buyers adapt to transparency, technology, and shared accountability for resilience. The Baldwin Group helps clients navigate this evolving environment with clarity, confidence, and long-term perspective, turning market conditions into actionable strategy that strengthens today's position and builds tomorrow's resilience.

Commercial Property

A disciplined market rewards stronger, more resilient properties

The Baldwin Group client rate trend	Capacity and outlook
-3.5%	Stable with price-led softening, not terms led



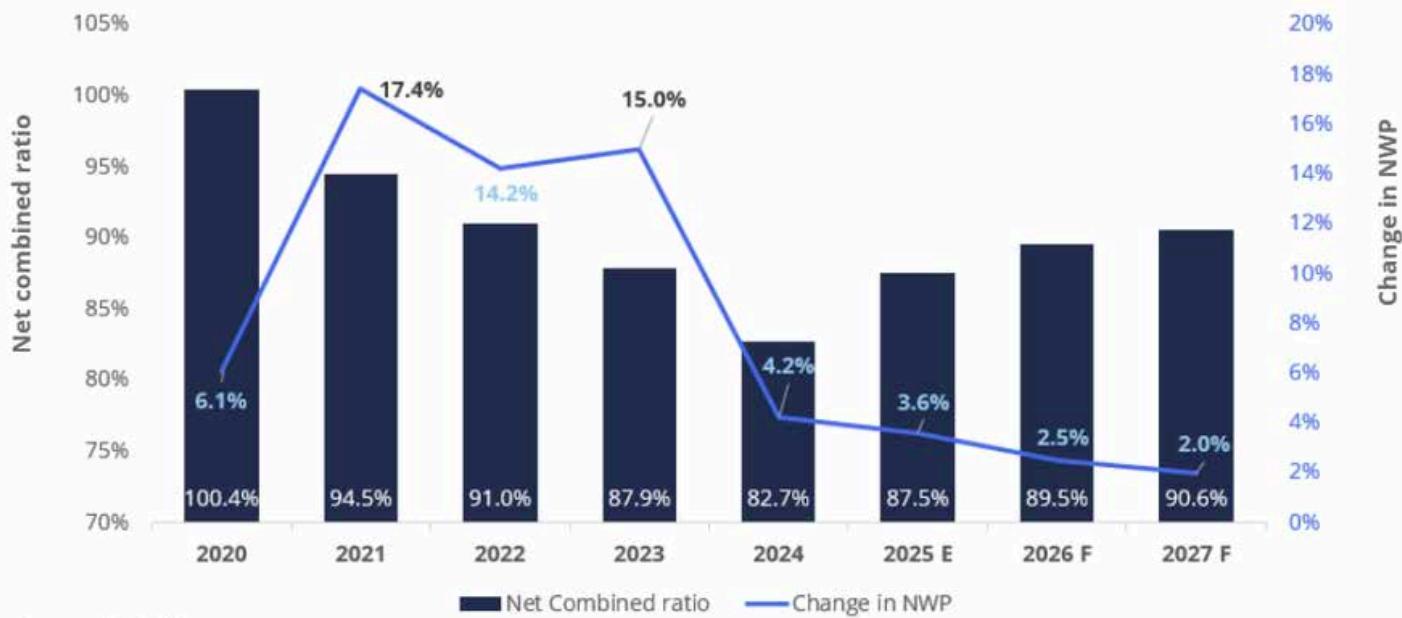
Overview

The commercial property market has entered a phase of measured stability. Capacity has returned to most regions, with faster placements and renewed competition for well-maintained, loss-free accounts. Rate relief is spreading outside high-hazard zones, though terms and deductibles remain firm. Buyers are retaining more risk and optimizing program design, reflecting a mature, proactive market.

Underwriters reward resilience: accurate valuations, maintenance records, and mitigation investments remain key to favorable outcomes. Despite record catastrophe losses, disciplined reinsurance capital and prior-year rate strength have restored underwriting confidence and sustained competitive momentum.

Commercial Property

Net Combined Ratio and Change in NWP



Source: Triple-I⁴⁵

Market Dynamics

Claims trends diverge

National claim counts declined year over year, but average severity spiked due to California's Palisades and Eaton wildfires, highlighting how concentrated CAT losses can distort national results.

Secondary perils

SCS is the dominant peril in Texas and the Midwest, reinforcing focus on secondary-peril modeling. Underwriting tools underestimate loss potential, prompting tighter scrutiny of regional data quality and aggregation.

Sublimits

Insurers are tightening sublimits for debris removal, ordinance and law, and time-element coverage to contain loss creep and preserve discipline.

Segment variation

Habitational properties are leading the softening phase as stronger data and maintenance documentation attract increased competition.

Advanced technologies

AI-enabled imagery and aerial data are improving insurance to value (ITV) validation, driving pricing and limit corrections when property data is outdated.

Deductibles

Percentage-based and grouped SCS deductibles are spreading inland but easing modestly in tier 1 wind zones (e.g., 5% to 3%) and all other perils (AOP) layers (\$25K to \$50K). Negotiation leverage hinges on verified mitigation and maintenance records.

Maintenance focus

With valuation diligence restored, underwriters emphasize roof age, system upgrades, and preventive maintenance as indicators of risk quality.

Barriers to resilience

Budget constraints and limited climate data continue to slow progress toward long-term mitigation.

Loss and resilience snapshot

-7%

YoY total claim volume

44%

of businesses now rank natural disasters as their top concern

+46%

average replacement-cost value nationwide YoY

\$53B to \$65B

economic loss from 2025 Los Angeles wildfires, 60% to 70% insured

95%

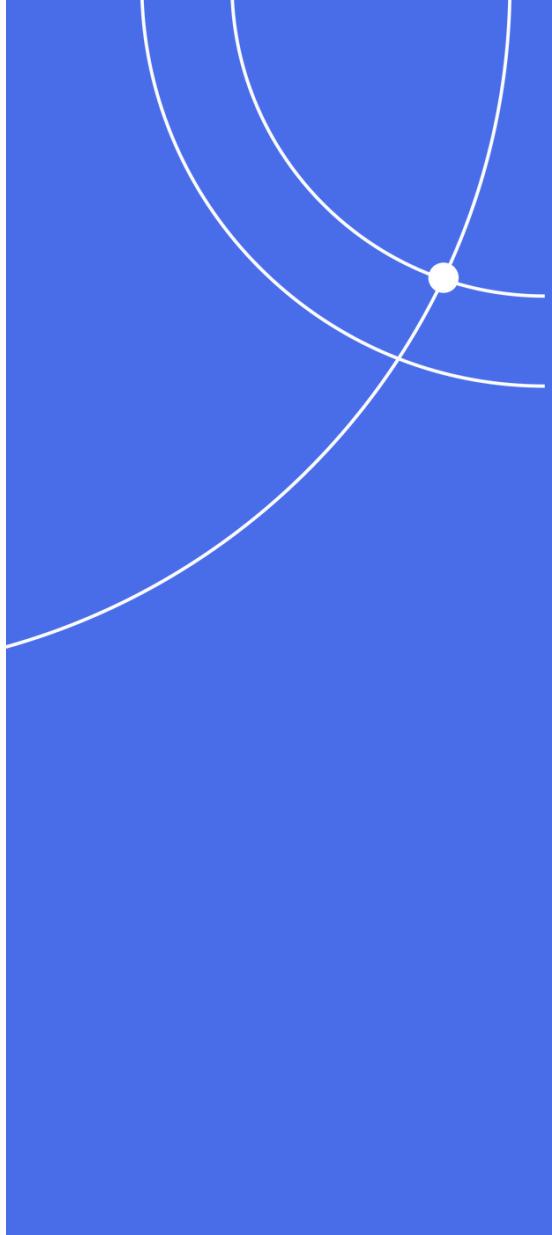
of Q1 catastrophe events concentrated in Texas (wind/hail)

Sources: *Claims Journal*,⁴⁶ *Risk and Insurance*,⁴⁷ Verisk⁴⁸

Key Developments

Valuation drift and ITV accuracy

Inflation has cooled, but valuation gaps persist as tariffs, labor shortages, and material volatility continue to affect rebuild costs. Escalating tariffs on metals, lumber, and imports further complicate replacement-cost forecasting. Policies with margin clauses or occurrence-limit endorsements can limit recovery when costs surge. Regular audits using current contractor quotes and updated indices are essential, while accurate valuations increasingly allow insurers to ease or remove margin-clause restrictions once standard for undervalued assets.



Price softening ≠ terms softening

Insurers now compete on rate and capacity, not terms. Deductibles and sublimits remain firm, especially in CAT-exposed and secondary-peril regions. Buyers should use rate relief to refine program structure, not reduce coverage rigor. For well-documented risks, competition is driving selective reinstatement of restricted coverages like contingent business interruption. Multi-line and package placements stay attractive, with workers' compensation gains offsetting rate pressure. Quota-shared and layered programs continue to soften monoline placements.

Gulf states reset

Property rates in Louisiana and surrounding states are down roughly 25% to 40% from hard-market peaks, driven by increased capacity and improved data quality.⁴⁹ Even so, prices remain above pre-Hurricane Ida levels as insurers maintain higher retentions and disciplined underwriting. Shared and layered placements are easier to complete, signaling renewed confidence in capacity deployment.



Looking Ahead

Property conditions should remain stable into early 2026. Ample reinsurance capital and moderating losses are sustaining competition for well-protected risks. Strong inflows from insurance linked securities (ILS) and CAT bond markets have reinforced capacity, allowing insurers to expand limits while maintaining pricing discipline.

Labor constraints, tariffs, and non-modeled secondary perils could still test reconstruction timelines and loss ratios. Supply-chain delays and tariff-driven cost increases may further extend rebuilds, highlighting the need to review business interruption, continuity, and supplier-dependency coverage. Competition is also prompting some insureds to repurchase higher limits as pricing efficiency improves.

Parametric insurance and captives continue to gain traction for managing catastrophe losses, expediting liquidity, and complementing traditional placements. Submission quality—valuation accuracy, completeness, and proof of mitigation—remains critical to securing competitive terms as insurers balance growth with discipline.

Recommendations

A strong property placement starts with data integrity and visible proof of prevention. The Baldwin Group partners with your business to help enhance market standing through tailored guidance, data-driven insight, and insurer-ready preparation. Turn to our experts for support with:

- 1 Insurance-to-value**
Audit ITV annually, procure current contractor quotes, and verify margin or occurrence limit of liability (OLL) language to ensure accurate replacement-cost protection.
- 2 Mitigation investments**
Document upgrades such as fortified roofing, defensible space, and water controls, and present proof at renewal.
- 3 Aligned limits**
Right-size coverage using probably maximum loss (PML) or scenario modeling to match capacity with realistic exposure and downtime potential.
- 4 Coverage structure**
Evaluate deductible and structural options—shared, layered, or parametric—to balance affordability with protection.
- 5 Submission quality**
Stand out to underwriters with verified property data, maintenance logs, inspections, and loss-control documentation.
- 6 Workforce and disaster planning**
Build continuity and emergency plans that minimize disruption and help ensure rapid recovery after an event.
- 7 Insurer relationships**
Maintain strong ties with incumbents to hedge against renewal volatility as appetites and market cycles shift.

For additional insight, [explore our guide "Preparing for Business Interruption Claims,"](#) which outlines how to document, quantify, and expedite recovery after a covered loss.



Casualty Markets

Overview

Persistent severity reshapes long-tail risk management

The casualty market is entering a period of selective stability. Modest rate pressure persists, but reinsurer caution and rising defense costs are preventing full normalization. While rate momentum has eased, medical and legal inflation continue to compound severity, widening the gap between premium growth and ultimate loss development. Litigation funding and legal-system abuse remain entrenched cost drivers, underscoring the need for disciplined exposure management and thoughtful attachment strategy.

Casualty snapshot

\$25B

Estimated direct cost to casualty insurers from third-party litigation funding (2024-2028), rising to \$50B when indirect impacts are included.

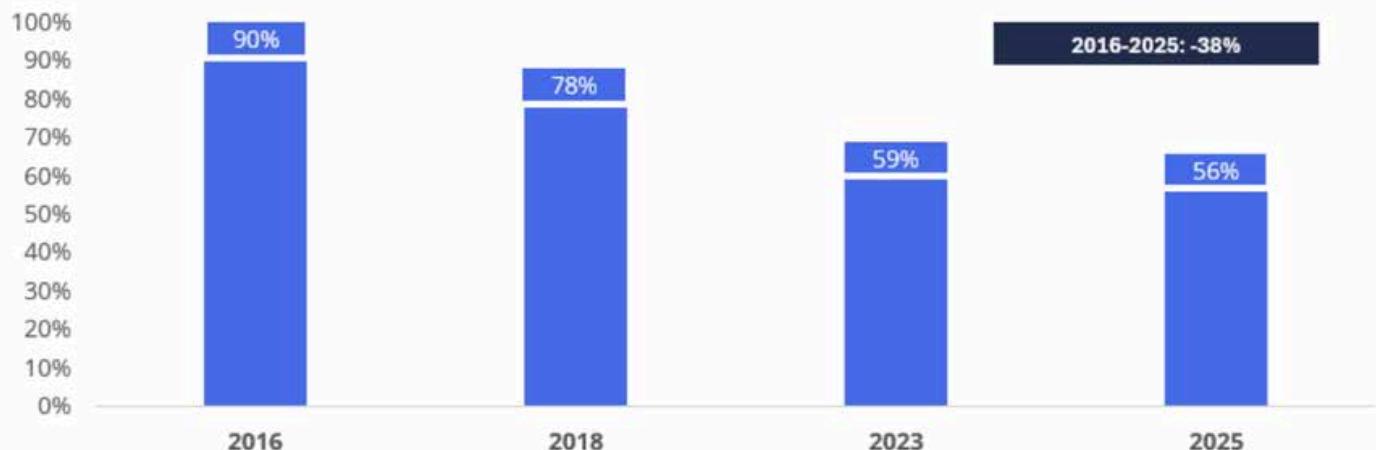
4.5 to 7.8 points

Modeled loss-ratio impact from litigation funding over the next five years.

Source: Insurance Journal⁵⁰

Significantly fewer people think that there are too many lawsuits in the US

There are too many lawsuits filed in the US (% agreeing)



Source: Swiss Re⁵¹

Capacity remains available, supported by steady reinsurer participation and strong capital positions. However, pricing and coverage vary widely by industry, jurisdiction, and loss history, placing greater value on transparent data and defensible contracts. Insurers are recalibrating limits, retentions, and pricing to reflect long-tail exposure while leveraging analytics to sharpen reserving and identify emerging litigation patterns.

New liability drivers—from chemical hazards and data privacy to AI governance and mass torts—are expanding exposure. State reforms in Florida, Georgia, and Louisiana have introduced modest relief, but verdict behavior remains inconsistent nationwide.

Through 2026, the market should remain stable yet segmented, with the focus shifting from rate movement to defensibility, rewarding organizations that integrate governance, safety, and data transparency to sustain underwriting confidence.



General Liability

Profitability constrained as severity outpaces rate adequacy



The Baldwin Group client rate trend		Capacity and outlook
+8.1%		Tightening, selective by class with limited relief in sight

Overview

The general liability market remains under profitability pressure as defense costs and emerging liability theories drive long-tail losses. While broader commercial P&C results have stabilized, general liability continues to lag amid high verdict severity and rising claim expenses. Recent reserve strengthening highlights ongoing insurer caution. Fragmented excess placements reflect reinsurer cost and retrenchment, not true capacity scarcity, while economic headwinds and inflation continue to compress margins.

General Liability

Net Combined Ratio and Change in NWP



Market Dynamics

Underwriting discipline

Insurers maintain a firm focus on contract alignment, additional-insured wording, and limit adequacy, deploying capacity cautiously and driven by data.

Exclusionary language

Coverage restrictions are broadening as verdict severity sets precedent. Per- and polyfluoroalkyl substances (PFAS), talc, glyphosate, microplastics, data privacy, AI, assault and battery, habitability, and active-assailant events are routinely excluded.

Profitability pressure at a glance

15-year high

Q1 2025 direct incurred loss ratio remains among the worst in over a decade, with only marginal improvement from 2024.

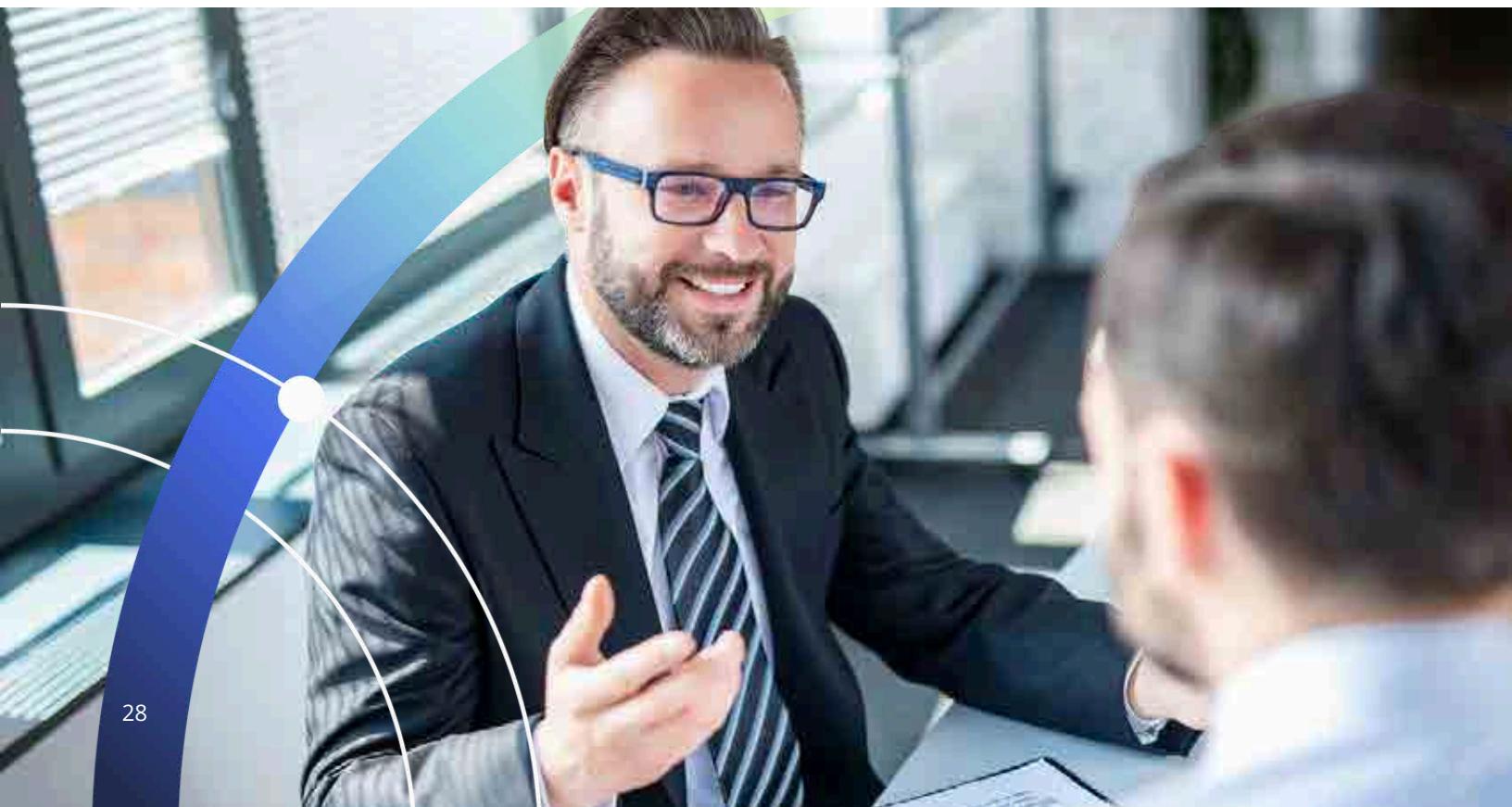
8.0% premium growth

Net written premium growth outpaces 2024 by nearly five points, signaling ongoing rate-driven expansion despite margin strain.

Loss ratio deterioration

Q2 2025 direct incurred loss ratio of 66% marks a one-point decline from the same period in 2024.

Source: *Triple-I*⁵⁴



Key Developments

Regulations and bellwether risk

Early bellwether trials in PFAS multidistrict litigation are shaping toxic-tort precedent. Favorable rulings could narrow liability and damages, while adverse outcomes may broaden bodily-injury exposure and sustain insurer caution. Inconsistent regulatory standards across jurisdictions add complexity to coverage interpretation, reserving, and pricing. Beyond PFAS, insurers are monitoring evolving environmental, chemical, consumer-product, and data-privacy regulations.

Litigation funding and social inflation

Third-party litigation funding continues to extend case durations and inflate settlements, reinforcing the need for transparency reform. Even in states pursuing tort reform, large verdicts remain common, limiting near-term relief. Rising legal fees and trial durations are lengthening claim lifecycles and eroding profitability. Insureds that invest in litigation analytics, early-resolution strategies, and coordinated defense counsel are outperforming peers on cost containment and renewal leverage.

Capacity recalibration

Insurers are reducing line sizes, tightening exclusions, and prioritizing contractual precision over volume growth. Capacity remains selective in construction, habitational, and manufacturing, where indemnity language and venue drive pricing and participation. Retail, food, and consumer-product risks are also under closer scrutiny following several large settlements. Attritional loss costs, especially from slip-and-fall incidents, are rising as verdict volatility increases even in traditionally stable categories. Excess programs are increasingly quota-shared or multi-layered, reflecting continued restraint through 2026. At the same time, captives, structured excess, and E&S placements are gaining traction as insureds seek to offset pricing and capacity constraints.



Looking Ahead

Without meaningful tort reform or PFAS resolution, profitability is unlikely to recover before 2027. Defense-cost inflation, litigation funding, and jurisdictional disparities will continue to define outcomes as reinsurers maintain cautious participation. Sustained improvement will depend on disciplined reserving, data-driven pricing, and greater investment in claims analytics to enhance underwriting precision.

Recommendations

Persistent cost escalation demands disciplined contract management and proactive litigation strategy. The Baldwin Group partners with your business to strengthen your market position through tailored guidance, litigation trend analysis, and insurer-ready program design. Turn to our experts for support with:

- 1 Contractual alignment**
Audit indemnity, additional-insured, and waiver language to confirm compatibility with insurer expectations and protection under evolving liability standards.
- 2 Litigation readiness**
Establish counter-anchoring protocols, escalation procedures, and defense strategies for cases, especially those involving TPLF.
- 3 PFAS vigilance**
Identify product or environmental exposures, verify supplier indemnification, and review policy wording for exclusions that could limit recovery.
- 4 Jurisdictional analytics**
Use venue-specific verdict and settlement data to recalibrate limits, retentions, and attachment points in line with severity trends.
- 5 Program optimization**
Reevaluate umbrella structures and attachment levels to align capacity with exposure severity and secure competitive participation. Consider packaging general liability and workers' compensation to capture efficiencies and streamline renewals.
- 6 Scenario modeling**
Integrate inflationary, litigation, and capacity variables into renewal planning to anticipate shifts in rate, structure, or retention.
- 7 Insurer relationships**
Maintain strong ties with incumbents to mitigate renewal volatility and preserve consistency through future cycles.
- 8 Alternative risk transfer**
Explore captive and structured-excess solutions to manage long-term liability costs and complement traditional placements.

For additional insight, [explore our guide "Navigating Coverage Exclusions,"](#) which outlines how to identify exclusion-driven gaps, negotiate endorsements, and evaluate specialty or alternative risk-transfer options to strengthen liability protection.

Commercial Auto Liability

Underwriting discipline endures as loss severity redefines market expectations

The Baldwin Group client rate trend	Capacity and outlook
+7.9%	Tightening with limited relief ahead



Overview

Commercial auto liability remains one of the most challenged casualty segments. Despite years of rate hikes, loss costs continue to outpace premium growth, driving a 14-year underwriting-loss streak—the longest P&C hard-market cycle.⁵⁵ While physical-damage results have stabilized, litigation, inflation, and nuclear verdicts continue to erode margins.

Capacity has tightened for heavy trucking, new ventures, and large fleets with limited safety data, pushing many placements into the E&S market with higher retentions and narrower terms. Driver shortages and vehicle complexity are elevating both collision frequency and repair-cost inflation. With high reinsurance dependency, profitability recovery is unlikely until systemic legal-cost pressures ease.

Commercial Auto

Net Combined Ratio and Change in NWP



Source: Triple-I⁵⁶

Market Dynamics

Frequency rebound

Post-pandemic congestion, distracted driving, and inexperienced operators have increased collisions, reinforcing underwriters' focus on verified training and behavioral oversight.

Litigation-driven severity

Verdict values remain elevated, particularly in trucking and delivery, making venue exposure a primary rating variable. TPLF continues to amplify claim duration and defense costs.

Repair cost escalation

Advanced sensors, electric vehicle (EV) components, and ongoing parts delays keep driving up repair costs, especially for technology-heavy fleets.

Fleet trends and liability insights

Collision activity

Fleet crashes $\uparrow 24\%$

Near-collisions $\uparrow 52\%$

Driver behavior

Following-distance violations $\uparrow 19\%$

Speeding $\uparrow 9\%$

Seatbelt compliance $\uparrow 13\%$

Verdict trends

U.S. trucking companies absorbed

\$165M in nuclear-verdict losses in 2024

Loss ratio gap

Liability losses reached **\$6.4B**

while physical damage generated a

\$1.5B profit, widening the loss ratio

gap by **24.6 points**

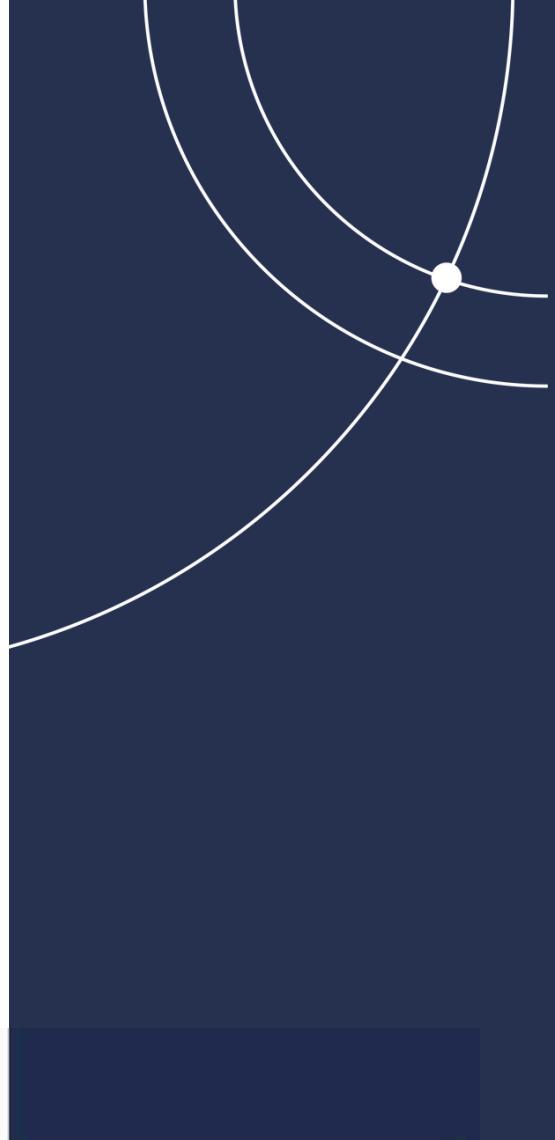


Key Developments

Behavioral analytics and underwriting discipline

Behavioral performance remains one of the strongest predictors of loss frequency and severity, and insurers now treat safety culture as a core underwriting metric. Active monitoring, structured coaching, and verified maintenance records are baseline expectations, not differentiators.

Incomplete telematics data signals elevated risk, while fleets demonstrating consistent behavioral improvement earn the most competitive terms.



Capacity recalibration and reinsurance

Liability underwriting performance continues to lag despite profitability gains in physical damage coverage, highlighting a structural imbalance between cost and profitability. High-hazard fleets rely heavily on facultative and international reinsurance layers that preserve capacity but impose tight attachment terms and disciplined pricing. Stable multi-line relationships and portfolio diversification remain key to renewal continuity and favorable positioning..

Technology and claims innovation

Automation and AI-driven claims analytics are streamlining liability assessments, reserve accuracy, and cycle times. Rapid first notice of loss (FNOL), video verification, and integrated data systems are now standard among best-in-class fleets—accelerating settlements, strengthening defense posture, and enhancing transparency at renewal.

Commercial Auto

Direct Incurred Loss Ratio by Quarter



Source: Triple-I⁶⁰

Looking Ahead

Rate momentum is expected to continue through 2026, with single- to low-double-digit increases likely until litigation costs and reinsurance structures stabilize. Rate adequacy has improved but remains insufficient to offset persistent cost escalation. Inconsistent state reforms limit near-term relief, and profitability will hinge on safety performance, technology adoption, and disciplined alignment between pricing and results.

Captive participation and structured-deductible programs are gaining traction among larger fleets seeking long-term cost stability. Insurers will continue to favor transparent data and early renewal engagement to preserve capacity and continuity.

Recommendations

Reducing liability exposure requires an integrated approach to safety, data transparency, and claims discipline. The Baldwin Group partners with clients to strengthen insurer confidence through clear documentation, proactive loss control, and analytics-driven insight. Turn to our experts for guidance with:

- 1 Fleet safety**
Document driver coaching, corrective-action logs, and quarterly performance reviews. Deploy AI-enabled cameras and predictive analytics to improve habits and identify high-risk trends early.
- 2 Claims discipline**
Use telematics-triggered FNOL, dash-cam evidence, and escalation protocols to control severity and shorten claim timelines.
- 3 Submission quality**
Provide multi-year fleet, mileage, behavior, and loss-run data that demonstrate measurable improvement.
- 4 Program design**
Align deductibles, limits, and attachment points, considering layered or excess structures to balance affordability and protection.
- 5 Venue strategy**
Integrate jurisdictional severity data into routing and limit decisions, avoiding high-exposure venues when feasible.
- 6 Cargo-cyber coordination**
Address theft and social-engineering risks through targeted endorsements and strong cybersecurity controls.
- 7 Alternative risk transfer**
Evaluate captive and structured-deductible programs to stabilize costs and complement traditional coverage.
- 8 Insurer relationships**
Maintain transparent communication and early renewal engagement with incumbent insurers to preserve capacity.

For additional insight, [explore our guide "Fleet Management: Drive Efficiency and Reduce Costs with Proactive Strategies,"](#) which outlines how to optimize fleet performance, engage drivers in safety, and reduce loss costs through preventive maintenance.

Workers' Compensation

Strong fundamentals tested by medical complexity and expanding presumptions

The Baldwin Group client rate trend	Capacity and outlook
0%	Stable to strong despite tightening margins



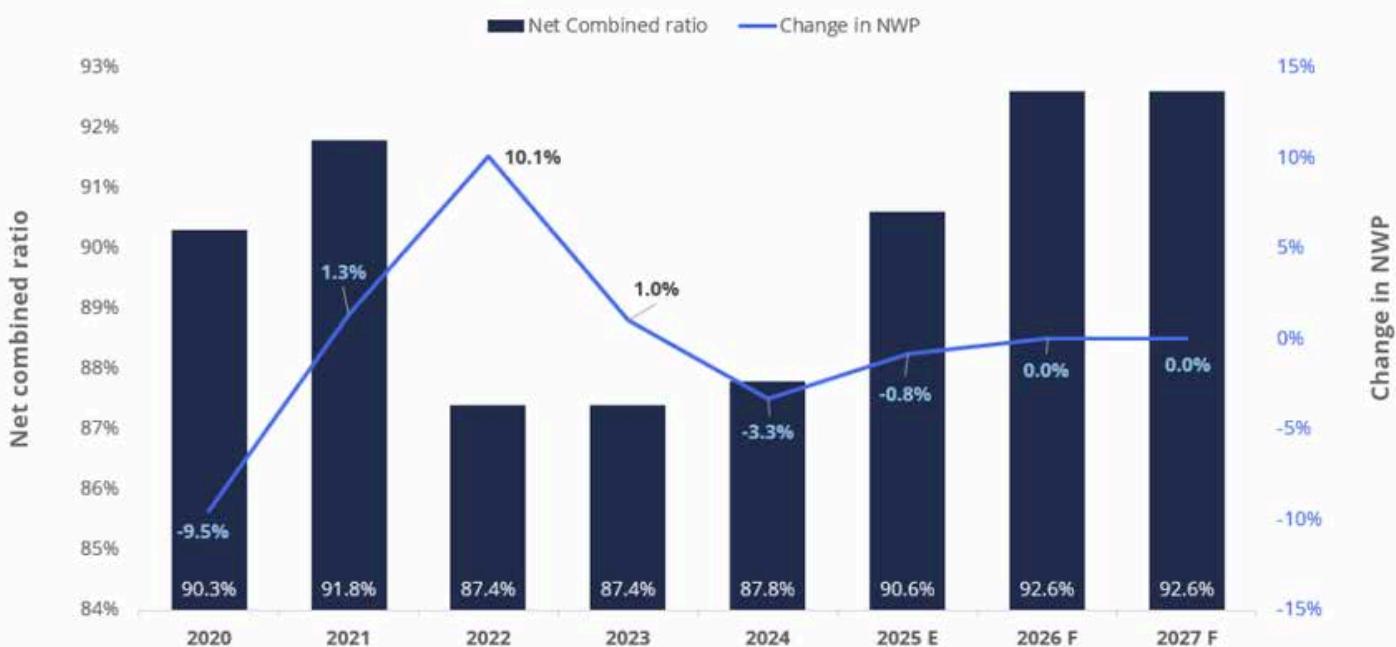
Overview

Workers' compensation (WC) remains the most stable major commercial line, though rising medical and indemnity costs are beginning to test its resilience. Despite another year of favorable combined ratios, rate reductions are slowing and reserve redundancy has narrowed for the first time in years, signaling thinner margins ahead.

Medical severity is rising as an aging workforce and first-year injuries extend claim duration, while expanding presumptions complicate reserving and rate adequacy. Prevention programs continue to deliver measurable ROI, and employers investing in data-driven medical management and automated workflows are sustaining profitability as digital adoption remains uneven.

Workers' Compensation

Net Combined Ratio and Change in NWP



Source: Triple-J⁶¹

Market Dynamics

Frequency stability with cost escalation

Claim frequency remains low, but rising treatment costs, hospital pricing, and wage inflation are eroding profitability.

Workforce bifurcation

An aging workforce and first-year turnover are lengthening recovery times and increasing lost-time severity. Tailored return-to-work programs help improve outcomes.

Economic drag

Tariff-driven costs for medical devices, equipment, and pharmaceuticals elevate medical severity and hamper utilization-review protocols.

Litigation funding exposure

TPLF has increased attorney involvement—up roughly 35% year over year—and fueled more aggressive client acquisition tactics.⁶²

Workforce trends and claim drivers



Injury concentration

Overexertion and same-level falls account for 40% of injury costs while musculoskeletal injuries comprise 56% of cases



Aging workforce

Workers age 55+ represent 41% of claims and average nearly 100 lost days per injury



Experience mix

First-year employees generate 33% of injuries and claim costs



Remote work exposure

Home-based injury claims rose 54%, underscoring the need for ergonomic oversight beyond traditional worksites



Medical severity

Medical costs now comprise 60% of total WC expenses



Prevention results

Ergonomic and motion-based programs cut repetitive-motion injuries by 44%



AI adoption impact

Automation can reduce processing costs by 30%, cycle times by 70%, and fraud by 25%, though human oversight remains critical



Sources: Liberty Mutual,⁶³ Travelers,⁶⁴ Property Casualty 360⁶⁵

Key Developments

Medical cost inflation and severity management

Medical severity rose about 6% year over year across 38 states, driven by hospital charges, specialty drugs, and complex care.⁶⁶ A small number of injuries still drive most losses, underscoring the ROI of targeted prevention, such as ergonomics and safe-handling programs. Without continued innovation in utilization review and pharmacy oversight, rising medical inflation could erode a decade of frequency gains.

Regulatory exposure growth

Expanding presumptions for post-traumatic stress disorder (PTSD), mental health, cardiovascular conditions, and certain cancers are broadening across jurisdictions. Federal trade and tariff policies are adding indirect pressure on medical equipment and drug costs, while labor shortages tied to supply chain strain heighten fatigue-related injuries and onboarding risk.

At the same time, OSHA deregulation and a rise in sub-regulatory rulemaking complicate compliance, often with limited notice. Employers maintaining current fee schedules, utilization-review protocols, and legislative tracking are best positioned to manage exposure and sustain rate adequacy.

Operational modernization and AI enablement

Predictive triage, automated case routing, and AI-assisted nurse case management are reducing cycle times and improving consistency. Employers investing in automation and integrated claims platforms are achieving measurable savings through faster return-to-work results and reduced administrative load. As adoption broadens, digital maturity will increasingly define claim efficiency and insurer appetite.



Looking Ahead

Baseline underwriting profitability should hold through 2026 if prevention and medical management offset rising severity. Monitor tariff-driven inflation, OSHA changes, and AI oversight in utilization review. Insurers will continue favoring employers that demonstrate measurable safety results, shorter claim durations, and strong medical-governance discipline.

Recommendations

A resilient workers' compensation program starts with engineered prevention and ends with disciplined medical and claims execution. The Baldwin Group partners with clients to strengthen performance through outcome-focused design, analytics, and insurer-ready execution. Turn to our experts for guidance with

1 Engineer risk prevention

Deploy ergonomic design, safe-handling technology, and slip-resistant controls, tracking reductions in top injury types.

2 Return to work policies

Use predictive triage, nurse case management, and pre-planned modified-duty options calibrated by age and tenure to shorten disability duration.

3 Administrative efficiency

Automate notices and utilization review, optimize claim platforms, streamline communications, and use predictive analytics to flag high-cost claims early.

4 Regulatory hygiene

Track presumptions and sub-regulatory updates; keep fee schedules and utilization review protocols current across jurisdictions.

5 Pharmacy controls

Apply prior authorization for GLP-1 and other specialty drugs, and enforce evidence-based pharmacy benefit manager oversight to manage costs.

6 Financial optimization

Audit mods and reserves and evaluate retros, captives, or large-deductible programs where loss maturity supports transition to loss-sensitive structures.

For additional insight, [**explore our guide "Managing Your MOD,"**](#) which outlines how to audit payroll and loss data, project annual changes, and strengthen your workers' compensation program through proactive experience rating management.

Directors & Officers Liability

Soft-market momentum slows as oversight and event-driven exposures reshape risk

The Baldwin Group client rate trend	Capacity and outlook
+3.6% (inclusive of director's and officer's liability, employment practices liability, and fiduciary liability)	Stable to easing with underwriting discipline rising

Overview

After two years of broad softening, the D&O market has reached equilibrium. Pricing has largely bottomed out across public and private programs. Capacity remains ample, but underwriting is tightening around financial strength, governance transparency, and cyber and AI disclosure integrity. Securities litigation frequency has steadied, though severity continues to rise, driven by TPLF and event-driven suits tied to cyber, AI, and crypto, reshaping board oversight and disclosure expectations. Insurers are prioritizing quality over market share, signaling the soft-market cycle has reached its floor.



Market Dynamics

Public D&O

Rate environment and structure

Pricing reflects selective decreases, though excess layers face correction where premiums approach minimum thresholds. Some insurers offer coverage enhancements (e.g., entity-investigation costs, targeted sublimits) where pricing flexibility is limited.

Regulatory posture

SEC staffing reductions and uneven federal enforcement sustain elevated derivative activity, shifting enforcement pressure to the private bar.

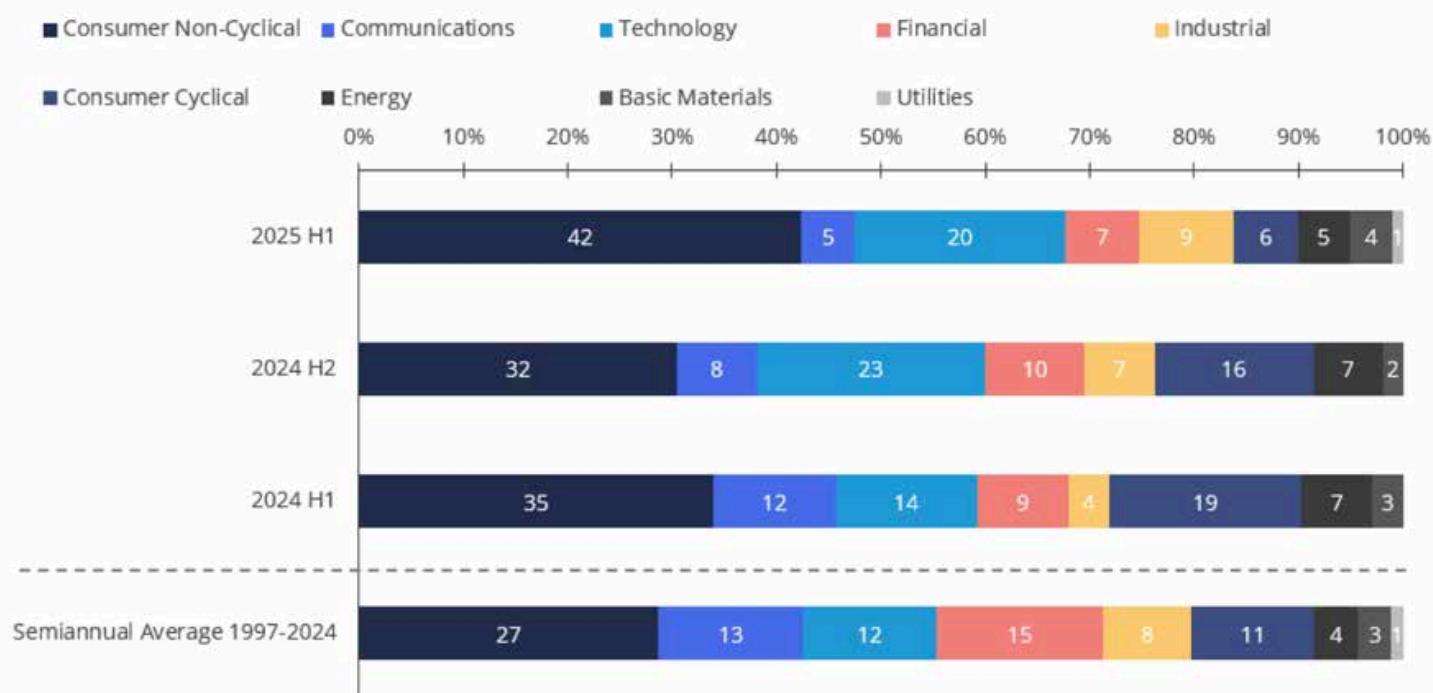
Corporate law and venue shifts

Regulatory updates in Delaware, Texas, and Nevada aim to clarify corporate-law standards, though underwriters remain cautious about any meaningful severity relief.

Capital-markets activity

IPO and de-SPAC placements show tentative recovery. Coverage remains broad but tightening, with wording precision and Side A enhancements still critical for strong risks.

Securities class action filing by industry



Source: Cornerstone Research⁶⁷

Private D&O

Pricing and capacity

Competition remains strong for financially sound accounts, with flat to modestly lower renewals and occasional multiyear terms. Leveraged or opaque firms face disciplined retentions and selective underwriting, especially where liquidity or transparency are limited.

Distress and transaction exposures

High borrowing costs and slower growth fuel creditor and estate litigation, especially around down-rounds, restructurings, and asset sales. Bankruptcies are up 4% YoY through H1 2025, sustaining insurer caution on leveraged and refinancing-exposed accounts.⁶⁹

Macroeconomic sensitivity

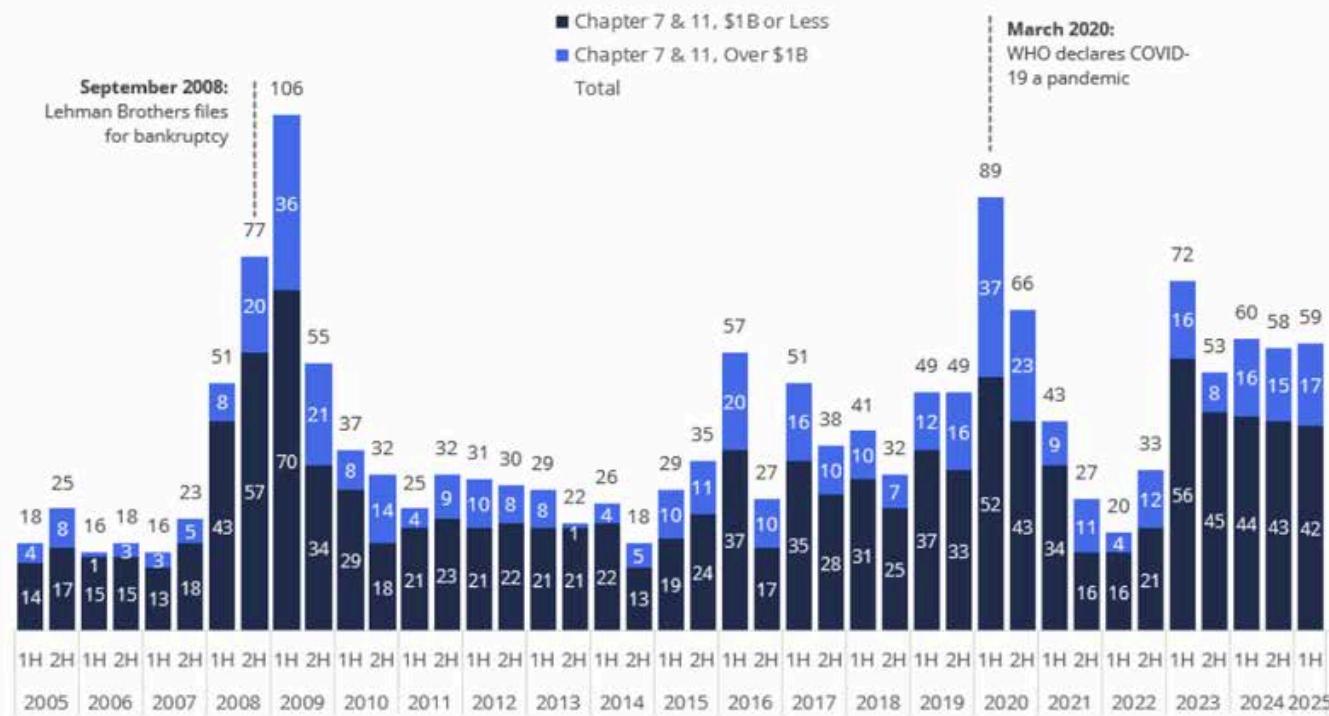
Tariffs, funding cuts, and rising insolvency trends keep focus on balance-sheet strength, lender relations, and cash-flow resilience. Bankruptcy-related litigation, at its highest level since 2010, is again a leading private-company D&O loss driver.⁶⁸

Private equity and portfolio governance

Board composition, reporting cadence, and key performance indicator transparency now directly influence pricing. Cross-collateral and fund-level litigation within portfolios remain growing insurer concerns.

Semiannual Chapter 7 and Chapter 11 Bankruptcy Filings

1H 2005-1H 2025



Source: Cornerstone Research⁷⁰

Boardroom risk at a glance



Litigation funding boom

\$16.B in active capital (+69% since 2019)



Disclosure losses

\$403B Disclosure Dollar Loss Index (+56% YoY)



Market-cap impact

\$1.85T Maximum Dollar Loss Index (+154% YoY)



AI accountability

12 AI-related lawsuits in H1 2025



Crypto exposure

Six cases filed in H1 2025 (near 2024 total)



Enforcement gaps

SEC staffing down 15% since 2025



Defense outlook

72% of defense attorneys anticipate more securities filings



Source: Risk and Insurance⁷¹, Risk and Insurance⁷²

Key Developments

AI and disclosure integrity

Algorithmic bias, intellectual property provenance, AI-related revenue attribution, and growing "AI-washing" scrutiny are focal points. Severity continues to climb as AI, cyber, and supply-chain disruptions fuel lawsuits. Additionally, expanding TPLF extends timelines and inflates settlements. Some markets are introducing AI exclusions on entity (Side C) coverage, underscoring the need for precise renewal wording. While broad exclusions are emerging, most remain negotiable through carve-backs. Underwriters favor verified model governance, documented validation, and plain-language disclosures.

Cyber and D&O overlap

Material cyber incidents continue to trigger securities and derivative actions alleging weak controls or misstatements. Regulatory inquiries and operational failures are prompting further oversight claims. Documented incident response including timeline governance, board notification, and vendor oversight is now a key underwriting and defense differentiator. Privilege strategy and transparent post-incident governance are emerging hallmarks of control maturity.

Polarization and stakeholder risk

Political and social polarization are widening boardroom risk beyond environmental, social, and governance (ESG). Corporate actions around sustainability, diversity, equity, and inclusion (DEI), or workforce policy now face scrutiny from opposing sides, making neutrality elusive. Boards confront greenwashing, reverse-discrimination, and derivative claims alleging misrepresentation or breach of duty. Underwriters emphasize verifiable governance records, consistent messaging, and evidence-based decisions over reactive positioning.



Looking Ahead

Focus will remain on AI disclosure frameworks, chief information security officer (CISO) accountability, and board-level cyber oversight. For private companies, results will hinge on balance-sheet resilience as refinancing and M&A activity expose governance gaps. Insurers will increasingly reward evidence-based governance, with renewals reflecting transparency, documentation quality, and readiness.

Recommendations

A strong D&O placement starts with clear oversight evidence, disclosure hygiene, and incident-response maturity. The Baldwin Group partners with leadership teams to position programs for optimal results. Effective strategies integrate executive, cyber, and liability coverages into a cohesive defense built around real exposures, not siloed products.

1 Disclosure governance

Formalize AI and cyber incident-reporting workflows, link them to disclosure committees and board minutes, and maintain rapid-update protocols for material events.

2 Governance evidence

Preserve agendas, pre-reads, and counsel reviews showing how AI, privacy, and operational risks are evaluated and acted upon. Clear rationale documentation strengthens both defense and underwriting appeal.

3 Incident playbooks

Conduct cross-functional tabletop exercises, logging decision chronology, notifications, and counsel involvement to support regulatory and claim response.

4 Program architecture

Reevaluate Side A difference in conditions (DIC) and excess layering to align limits and retentions with cash-flow tolerance and venue severity. Maintain clear change-of-control and run-off provisions for mergers and acquisitions or restructuring events.

5 Policy wording and key roles

Negotiate clarity about AI, cyber, and regulatory exclusions, ensuring critical officers, such as the CISO and equivalent leaders, are included under "Insured Persons."

6 Private-company vigilance

Monitor debt covenants, customer concentration, and liquidity exposure. Document board oversight of financial resilience and strategic pivots.

7 Submission quality

Provide underwriters with a governance index, cyber-readiness summary, and record of recent enhancements to demonstrate transparency and control maturity.

For additional insight, [explore our guide "Make AI Your Competitive Advantage,"](#) which outlines how proper governance can reduce liability for directors, officers, and organizations while building ethical, scalable, and compliant AI oversight frameworks.

Employment Practices Liability

Technology, policy, and polarization reshape employment exposures

The Baldwin Group client rate trend	Capacity and outlook
+3.6% (inclusive of director's and officer's liability, employment practices liability, and fiduciary liability)	Stable to easing with underwriting discipline rising

Overview

The employment practices liability (EPL) risk environment continues to evolve. Pricing has flattened after several years of moderation, with most renewals steady and underwriting discipline sharpening around governance, documentation, and workforce management.

Softening has largely stalled amid cultural polarization and shifting workplace norms that sustain defense inflation and new claim activity. Employers face widening exposures from regulatory change, automation, and generational workforce dynamics—factors redefining discrimination and retaliation risk and reinforcing the need for consistent, well-documented human resources (HR) governance and inclusive leadership.

Market Dynamics

Rates and capacity

Pricing is stable overall, though higher-risk industries and loss-heavy accounts face modest firming. Competition remains healthy, with most programs renewing at steady capacity. Retentions are rising where severity or class-action exposure remains high.

Regulatory fragmentation

Diverging federal and state rules about DEI, pay transparency, and biometric privacy complicate compliance, particularly for multistate employers. The Illinois Biometric Information Privacy Act (BIPA) and the federal Fair Credit Reporting Act (FCRA) statutes are expanding, increasing privacy-related exposure.



Wage-and-hour sensitivity

The stand-alone wage-and-hour market remains selective, with higher retentions and limited capacity for class actions in California, New York, Illinois, and Washington. Arbitration and waiver enforcement remain inconsistent, keeping defense costs unpredictable.

Litigation funding and defense inflation

TPLF continues to extend case duration and elevate settlement costs, even as frequency stabilizes.

By the Numbers

69%

of employers faced employment-related claims in the past 12 months

42%

expect claim frequency to rise through 2026

55%

cite wage-and-hour issues and breach of contract as top exposures

51%

identify AI use in HR as a likely future claim source

43%

report return-to-office mandates have directly contributed to new claims

63%

rank legal and settlement costs as the most significant financial impact of EPL events

Source: QBE⁷³



Key Developments

AI and HR risk governance

AI adoption now outpaces regulation, with many employers using automation for recruiting and performance evaluation. Algorithmic bias, privacy lapses, and poor documentation are emerging as new claim vectors. Several insurers are piloting AI-specific endorsements or exclusions, while whistleblower and retaliation claims tied to AI or cyber disclosures are expanding exposure beyond HR to the board level.

Underwriters increasingly request AI governance frameworks, validation protocols, and employee-notification processes, including documentation from third-party vendors and attestations of compliance.

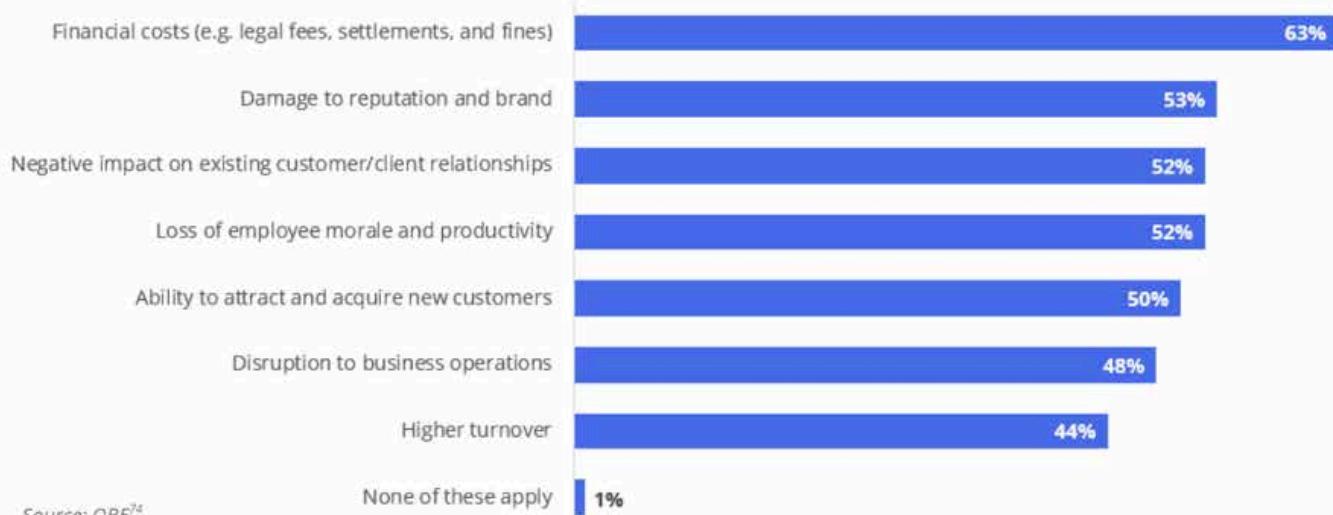
The DEI double bind

Employers face exposure from both directions: scaling back DEI programs can invite discrimination claims, while maintaining them can trigger reverse-discrimination allegations. Federal guidance and state enforcement are diverging sharply, creating compliance uncertainty. Insurers emphasize transparent communication, documented merit-based criteria, and consistent HR records to defend against claim types.

Pay transparency and wage-and-hour momentum

Expanding state pay-transparency laws, notably in Washington, California, and New York, have accelerated related litigation. Litigation tied to incomplete or inaccurate job postings is rising, prompting underwriters to introduce questionnaires, exclusions, or sublimits tied to compliance. Wage-and-hour claims remain a leading exposure, with limited capacity and escalating defense costs. Layoffs, pay-band compression, and misclassification disputes following restructuring are driving renewed collective-action frequency.

Impact of employment-related claims and litigation on organizations



Looking Ahead

EPL conditions should remain stable through 2026, with competition sustaining favorable outcomes for well-managed employers. However, AI adoption, DEI retrenchment, and pay-transparency enforcement are reshaping liability faster than insurers can adapt. Underwriters will continue to reward strong documentation, transparent HR governance, and proactive training while maintaining discipline on retentions and exclusions. Employers that modernize HR technology governance and track accommodation, retaliation, and transparency metrics will be best positioned to maintain pricing stability.

Recommendations

A resilient EPL program starts with transparent communication and defensible governance. The Baldwin Group partners with your business to strengthen its position through insurer-ready submissions and proactive workforce-risk strategies. Count on our specialists for guidance with:

1 Audit governance

Evaluate HR systems for bias, privacy, and AI compliance. Document protocols, approval processes, vendor attestations, and bias-testing.

2 Strengthen documentation

Maintain detailed records of hiring, promotion, termination, and accommodation decisions to support defensibility.

3 Reinforce training

Refresh harassment, discrimination, and AI-awareness programs annually, tracking completion. Include modules on accommodation, retaliation, and return-to-office policies.

4 Coordinate coverage

Align EPL, D&O, and cyber policies to ensure consistent disclosure and data-handling standards.

5 Clarify policy language

Review EPL forms for sublimits or exclusions related to AI, wage-and-hour, pay-transparency, or biometric-privacy exposures.

6 Engage early

Present workforce data, process updates, and training evidence at renewal to support competitive pricing.

For additional insight, [explore our guide "AI Impact on D&O, EPL, and Fiduciary Liability,"](#) which examines how artificial intelligence is transforming HR governance, decision accountability, and the evolving standard of care for employers

Fiduciary Liability

Risk deepens as governance, cyber and ESG exposures redefine plan oversight

The Baldwin Group client rate trend	Capacity and outlook
+3.6% (inclusive of director's and officer's liability, employment practices liability, and fiduciary liability)	Stable to easing with underwriting discipline rising

Overview

The fiduciary liability market remains stable, with flat to modestly lower renewals for well-governed plans and steady capacity across most segments. Competition has returned, though underwriting discipline persists, especially for large or specialized plans where governance complexity, plan size, or data-handling practices elevate perceived risk.

Excessive-fee litigation has eased, but exposures are broadening. New claim theories, shifting regulatory expectations, and a recent Supreme Court ruling reaffirming ERISA plaintiffs' standing have expanded fiduciary risk beyond retirement-plan fees. Underwriters continue to favor plan sponsors demonstrating robust governance, transparent vendor oversight, and clear fiduciary documentation.



Market Dynamics

Rates and capacity

Pricing is largely flat, with selective decreases for well-governed accounts maintaining clean loss histories and procedural transparency. Capacity remains strong for standard retirement and health plans but tightens for complex or multi-employer structures.

Regulatory complexity

SECURE Act 2.0 and the Consolidated Appropriations Act (CAA) transparency mandates are reshaping plan design and disclosure obligations, requiring tighter coordination among fiduciaries, recordkeepers, and counsel. Active enforcement of the CAA "no-gag clause" attestation is prompting third-party administrator/pharmacy benefit manager (TPA/PBM) contract remediation to remove restrictive language and ensure data-access rights.

Cyber and data governance

Breach-related claims are rising, with plaintiffs alleging failure to monitor third-party security protocols. Underwriters favor insureds that align fiduciary, IT, and vendor-management controls. Late payroll remittance and cyber-enabled asset theft remain key concerns. The Department of Labor (DOL) cybersecurity best-practice framework is becoming a de facto benchmark for oversight.



Key Developments

Critical litigation in focus

Fiduciary litigation is expanding beyond traditional fee claims. Plaintiffs now target forfeiture practices and outdated mortality tables in defined-benefit plans, alleging misuse of unvested funds and inequitable benefit calculations. The 2025 Supreme Court ruling in *Cunningham v. Cornell University* reinforced plaintiffs' ability to advance such suits, making procedural dismissals harder to secure and lengthening defense timelines.

Courts remain divided on the enforceability of arbitration clauses and class-action waivers in plan documents, keeping litigation strategies and defense costs highly variable by jurisdiction. Exposure now spans forfeiture, actuarial-equivalence, and health-plan fiduciary suits, all demanding greater procedural rigor and documentation discipline.

Employer stock and employee stock ownership plan (ESOP) valuation disputes also persist, with courts closely examining fiduciary oversight and valuation practices under heightened prudence standards.

ESG and investment governance

Diverging federal and state policies continue to complicate ESG-related investment oversight. Some states restrict ESG factors, while others recognize them as prudent-investor criteria. Underwriters now expect clear committee minutes, diligence records, and documented rationales linking ESG considerations to fiduciary duty. Weak or missing documentation is increasingly cited as evidence of imprudence.

Health-plan fiduciary exposure

Fiduciary scrutiny is widening to welfare and health plans, where transparency, fee disclosure, COBRA, parity, and benefit-denial compliance are active litigation fronts. The 2025 rise in health-plan fiduciary suits highlights crossover risk between retirement and health exposures.

Insurers are monitoring how new parity and pharmacy-benefit disclosure rules affect administration and oversight, with the DOL expanding parity audits and intensifying review of PBM transparency, spread pricing, and rebate terms. Expect sustained focus on Mental Health Parity and Addiction Equity Act (MHPAEA) and Non-Quantitative Treatment Limitations (NQTLs) analysis quality, RxDC reporting accuracy, and fiduciary documentation standards.

Looking Ahead

Pricing should remain flat to modestly firm through 2026, with softening limited to accounts demonstrating exemplary governance and documentation. Test cases in forfeiture, ESG, and health-plan litigation will influence future policy wording, attachment strategy, and the evolution of fiduciary standards. Pending fiduciary-rule litigation may further broaden the definition of investment advice, reshaping advisory relationships and liability thresholds heading into 2026.

Insurers are expected to introduce targeted endorsements or sublimits for emerging exposures—such as cyber breach-related fiduciary claims and health-plan oversight failures—as they refine appetite and allocation. Plan sponsors that can evidence intrusion prevention system (IPS) updates, fee-benchmark cadence, periodic RFPs (recordkeeper/PBM/stop-loss), and DOL-aligned cyber oversight will preserve negotiating leverage in a selectively soft market.

Recommendations

A strong fiduciary liability strategy begins with governance rigor and proactive oversight. The Baldwin Group partners with your organization to strengthen your market position through defensible governance practices and insurer-ready documentation. Align with our advisors to advance your fiduciary readiness across the following priorities:

1 Governance fortification

Document committee deliberations, investment rationales, and fee-review cadence. Maintain updated charters, a defined benchmarking schedule, and periodic RFPs for key vendors.

2 Vendor oversight

Vet and monitor service providers for compensation transparency, cybersecurity controls, and conflict management. Review indemnification terms, liability caps, audit rights, and PBM transparency addenda, remediating partnerships that restrict data access or parity/Rx reporting.

3 Compliance readiness

Update plan documents for SECURE Act 2.0, CAA transparency mandates, and ERISA disclosure standards. Maintain controls for CAA “no-gag clause” attestation, Mental Health Parity and Addiction Equity Act Non-Quantitative Treatment Limitation (MHPAEA NQTL) analyses, and RxDC reporting accuracy.

4 Disclosure discipline

Ensure participant communications clearly reflect costs, risks, and fiduciary decision processes.

5 Cross-functional alignment

Coordinate D&O, Cyber, and EPL programs to address governance and data-related exposures. Align fiduciary, cyber, and crime/fidelity coverage to manage plan-asset theft risk.

6 Renewal strategy

Present fee data, governance updates, and internal-audit findings at renewal to demonstrate control maturity. Include parity analyses, RxDC posture, and vendor-contract remediations to evidence readiness.

For additional insight, [explore our guide “SECURE 2.0 – What’s Next,”](#) which outlines how recent retirement legislation is reshaping plan design, compliance responsibilities, and fiduciary risk oversight.

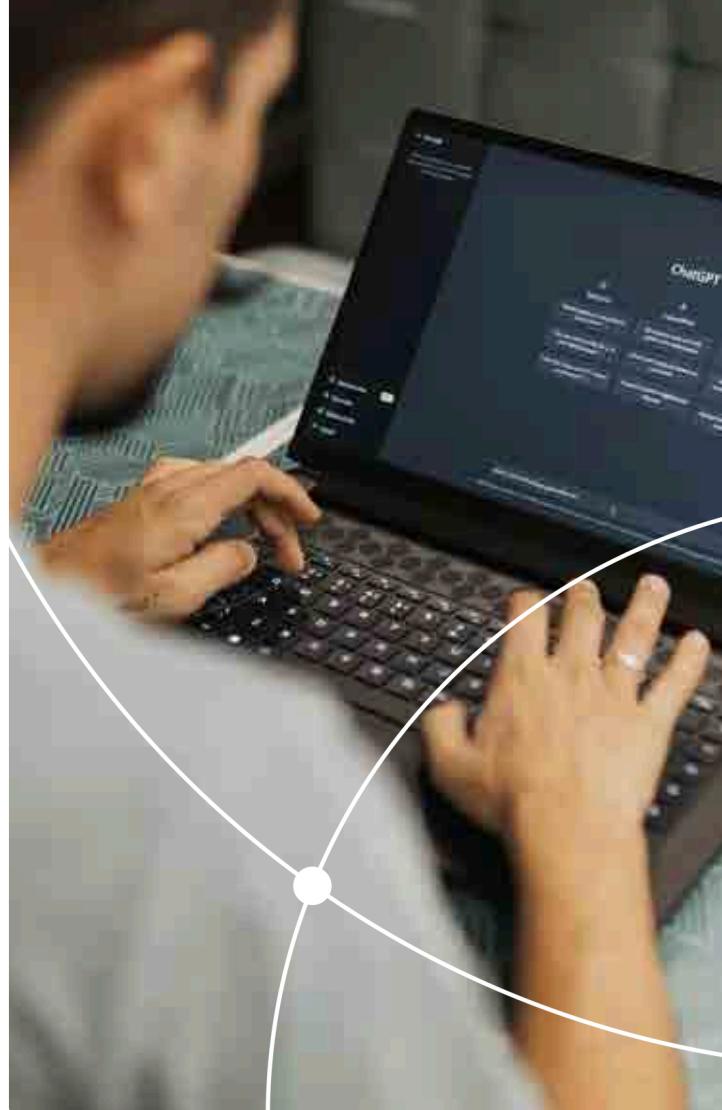
Cyber Liability

Competitive market as systemic and AI-driven risks reshape underwriting

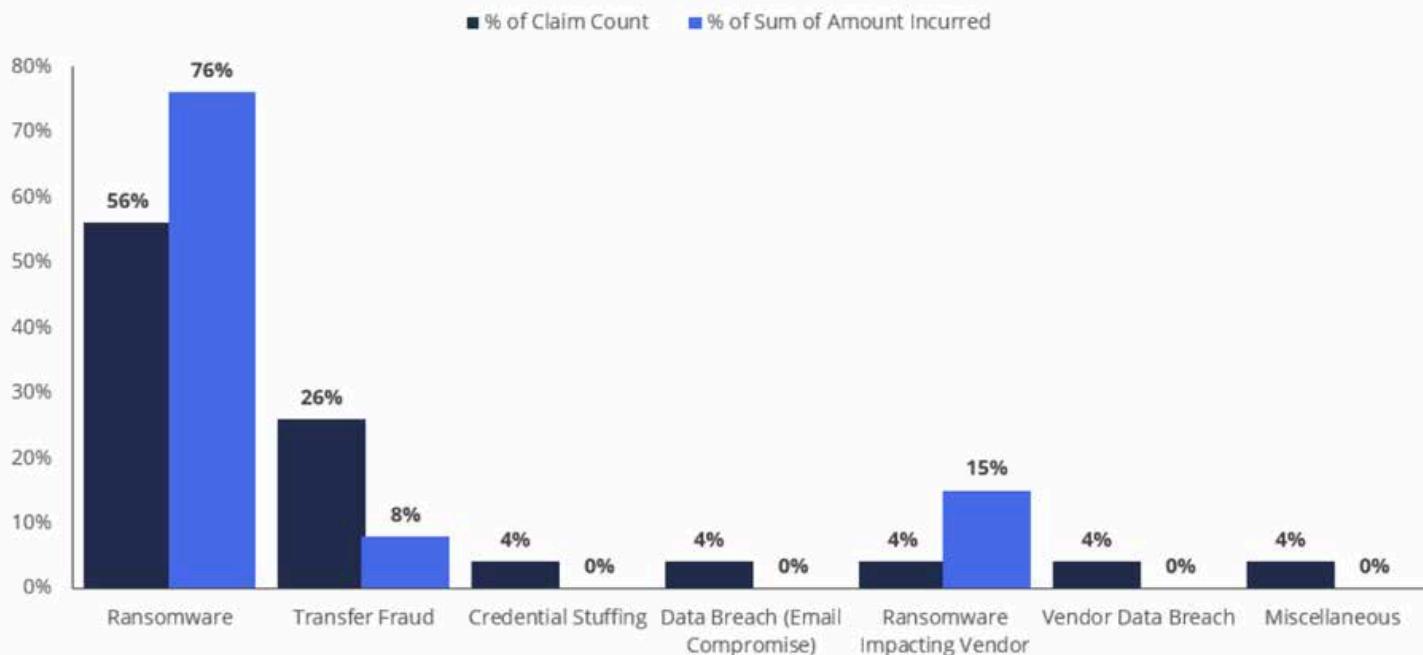
The Baldwin Group client rate trend	Capacity and outlook
-0.5%	Expanding with rising underwriting discipline

Overview

The cyber market has reached measured stability after years of recalibration. Renewals are flat to slightly down for well-managed risks, supported by stronger loss data, underwriting maturity, and reinsurance participation. Capacity continues to expand, signaling normalization, not complacency. Claim frequency has fallen sharply, but severity is rising from ransomware, AI-driven social engineering, and vendor-linked outages. As competition intensifies, coverage depth, response quality, and pre-breach services are now primary renewal differentiators.



H1 2025 Cyber Claims: Cause of Loss



Source: Resilience⁷⁵

Market Dynamics

Rates and capacity

Pricing remains competitive, with abundant participation across primary and excess layers. Insurers are maintaining discipline through calibrated retentions and sublimits.

Cyber-D&O intersection

More major cyber incidents trigger D&O claims alleging governance or disclosure failures, reinforcing the need for integrated oversight.

Policy differentiation

Buyers are prioritizing precise wording on vendor dependency, ransom conditions, and partial-shutdown triggers, along with service-level guarantees and access to vetted response partners.

Underwriting focus

Expect heightened scrutiny of identity and access controls, privileged access, endpoint detection, and incident response testing, alongside deeper evaluation of vendor resilience and data-handling practices.

Privacy and enforcement

Fragmented state privacy rules and emerging AI regulations are elevating compliance burdens and investigation costs.

Signals from the digital frontline



Fewer claims, bigger losses

total claim count ↓ 53%, severity ↑ 17%



First-party losses dominate

75% of claims, 50% of premiums reinsurance



AI-enabled threat escalation

impersonation scams ↑ 148%



AI phishing success rate

54% vs 12% for traditional attempts



Social engineering

42% of claims, 88% of losses



Ransom economics escalate

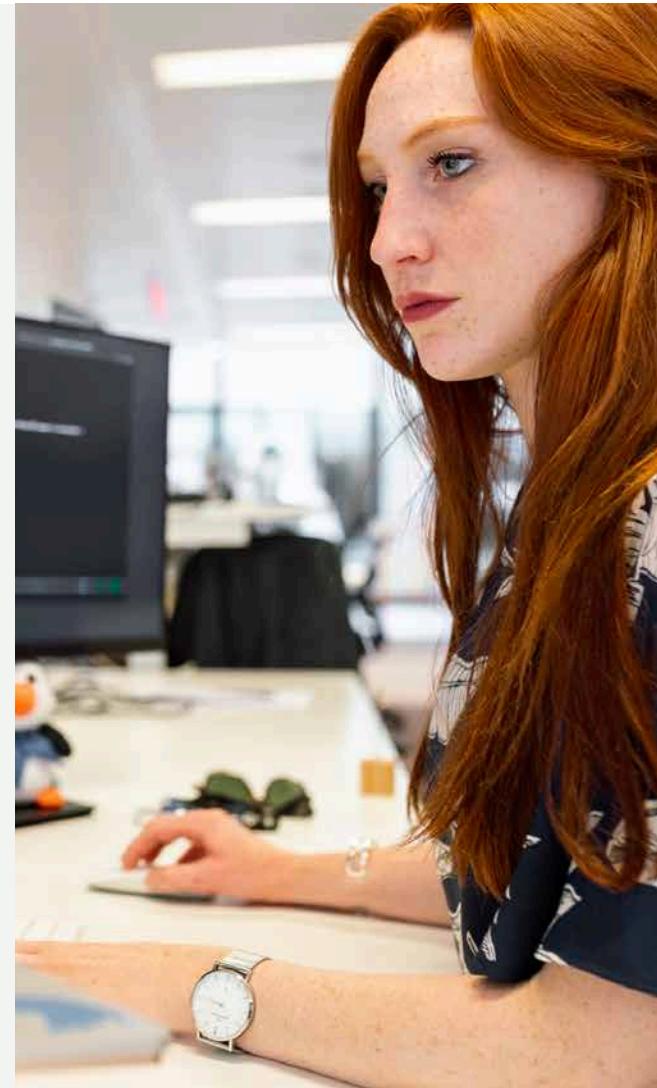
average cost \$1.18 million per event



Board priority

66% of CROs cite cyber threats as top priority ↑ 53% YoY

Sources: Resilience,⁷⁶ Risk and Insurance,⁷⁷ Identity Theft Resource Center,⁷⁸ EY⁷⁹





Key Developments

Systemic cyber risk and vendor dependency

Large-scale outages—including the MOVEit breach, CDK Global ransomware, CrowdStrike software failure, and AWS disruptions—have exposed the fragility of shared infrastructure. Cloud and SaaS concentration now feature prominently in accumulation modeling and incident response planning, driving new sublimits and refined definitions for contingent business interruption. Underwriters assess dependent vendor disclosures, cloud region diversification, and contingency planning with greater rigor.

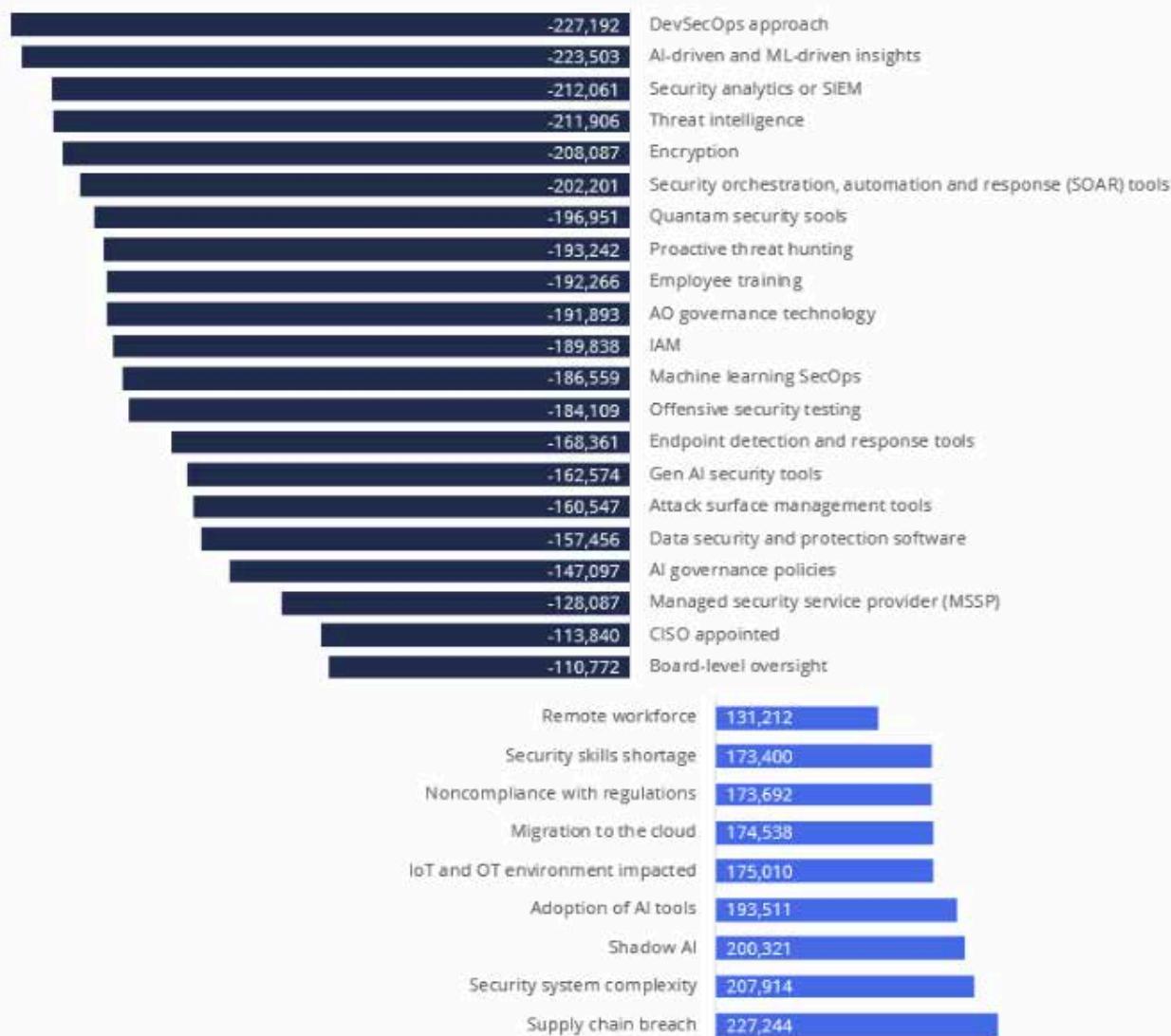
AI amplification of threat vectors

Generative AI and deepfake tools have accelerated both the speed and believability of social-engineering attacks. Insurers increasingly reward mature controls—phishing-resistant MFA, privileged-access management, and outbound payment verification—with premium credits or pre-breach services. Training remains the most effective defense, while markets now favor documented AI governance frameworks addressing oversight, data provenance, and human review. Some insurers are piloting AI-specific endorsements to clarify triggers and exclusions tied to misuse or data integrity.

Safe-harbor frameworks and board governance

State-level safe-harbor laws are reshaping governance incentives by protecting organizations aligned with recognized cybersecurity standards (National Institute of Standards and Technology, International Organization for Standardization, Center for Internet Security). Six states—Connecticut, Iowa, Ohio, Oregon, Tennessee, and Utah—have enacted such measures, spurring board-level investment in independent assessments and control validation.⁸⁰ Insurers increasingly treat framework adoption and verified control maturity as both a pricing lever and evidence of insurability.

Cost difference from USD 4.88M breach average; measured in USD



Source: IBM^{8†}



Looking Ahead

Cyber market conditions should remain stable and competitive through 2026, with differentiation driven by control maturity and systemic-risk modeling rather than broad rate movement. Insurers will continue refining analytics around cloud dependency, vendor aggregation, and AI coverage. Ongoing divergence in privacy and AI regulation will reinforce the need for cohesive governance frameworks and cross-policy coordination. Dedicated endorsements are becoming standard, alongside closer alignment between cyber, tech E&O, and management liability programs.

Recommendations

A resilient cyber program hinges on control maturity, vendor transparency, and precise wording. The Baldwin Group partners with your team to:

1 Map digital dependencies

Identify critical vendors, cloud regions, and data flows, supported by documented controls and failover plans.

2 Harden controls

Implement phishing-resistant MFA, endpoint detection, privileged-access management, immutable backups, and tested restoration.

3 Train for AI-driven attacks

Simulate deepfake and voice-spoof scenarios within payment verification and awareness programs.

4 Align to recognized frameworks

Maintain NIST/ISO mapping and independent assessments to strengthen safe-harbor eligibility.

5 Tune coverage architecture

Validate definitions and sublimits for contingent business interruption (CBI), ransom conditions, and data handling to reflect vendor dependencies.

6 Coordinate policies

Align cyber, tech E&O, and D&O terms around AI and systemic-event exposures to streamline claims response.

7 Leverage pre-breach services

Use insurer partner resources such as legal, forensic, vendor diligence to enhance readiness and renewal positioning.

[Explore our latest insights in the Cybersecurity Awareness Month 2025 Whitepaper, "The Right Partnerships for Cyber Risk Readiness,"](#) for actionable strategies to advance employee awareness, vendor oversight, and board-level governance.

Umbrella Liability

Evolving capacity and social inflation sustain pressure across the excess market

Rate trend	Capacity and outlook
+7.4%	Strained but orderly with lead limits \$2 to \$5M

Overview

Umbrella and excess liability markets remain pressured by elevated loss severity and the persistence of nuclear verdicts. While pricing has largely leveled after several years of sharp increases, underwriting discipline remains firm, especially across transportation, construction, and product-driven accounts.

To hedge against volatility, insurers continue trimming per-layer limits, raising attachment points, and building towers with multiple participants. AI-driven litigation analytics now model exposure by venue and jurisdiction, yet defense inflation and verdict severity continue to drive loss-cost growth, even in cases resolved before trial.



Market Dynamics

Rates and capacity

Conditions are stable but firm, with pricing generally flat to moderately higher depending on jurisdiction and loss experience. Clean accounts typically renew flat to +5%, while risks in nuclear-verdict venues or with adverse histories trend +5% to +10%. Capacity remains available but fragmented as insurers reduce lead and single-layer limits.

Underwriting discipline

Insurers apply heightened scrutiny to fleet safety, driver monitoring, subcontractor management, and contractual indemnity. Documented safety investments and strong claims practices remain key differentiators.

Emerging exclusions

Appetite is narrowing for exposures tied to PFAS, traumatic brain injury, assault and battery, and human trafficking. Markets are also clarifying language around punitive damages and class actions, with some introducing sublimits or absolute exclusions.

Sector segmentation

Transportation faces the tightest review, followed by construction and manufacturing, reflecting the frequency and severity of claims.

Verdicts by the Numbers

Nuclear verdicts

↑ 27% year over year
89 totaling **\$14.5B** (2023)

Average trucking verdict

\$27.5 million, \$1M+ awards
↑ 235% vs prior decade

Thermonuclear verdicts

(\$100M+) ↑ 35%

General liability claim severity

↑ 57% over the past decade

Sources: Allianz,⁸² Independent Agent,⁸³ Property Casualty 360⁸⁴

Key Developments

Litigation funding transparency

Private capital now backs thousands of commercial liability cases each year. Disclosure laws in Florida and Georgia mark early reform progress, though adoption remains limited nationwide. Greater transparency could gradually reshape settlement dynamics and pricing assumptions as courts and juries gain visibility into third-party financial interests.

AI and litigation analytics

Insurers and defense firms increasingly use AI to predict jury behavior, assess venue risk, and model early-settlement outcomes, insights that now inform reinsurance pricing and casualty appetite above \$5 million. Many insureds are leveraging similar tools to benchmark limits, refine venue strategies, and strengthen defense narratives earlier in the claims process, turning predictive modeling into a shared advantage.

Evolving excess architecture

Traditional \$25 million layers are giving way to smaller \$2 to \$10M tranches, often assembled through quota-share or buffer-layer strategies to diversify risk. While this structure mitigates volatility for insurers, it increases complexity for insureds managing multi-insurer towers. Strategic layering and clear communication between lead and excess participants have become essential to maintaining capacity and claims consistency.

Looking Ahead

The umbrella market should remain firm but orderly through 2026. While loss costs are stabilizing, social inflation, medical-cost escalation, and litigation funding continue to anchor pricing near current levels. Selective reinsurance and venue sensitivity will sustain segmentation across classes, particularly transportation and heavy manufacturing.

Tort-reform efforts may yield incremental relief in select states, though meaningful change remains unlikely without federal action. Meanwhile, insurers will deepen their use of AI-based litigation analytics, venue scoring, and defense modeling in pricing and reinsurance negotiations. Sectors with high bodily-injury exposure—especially transportation, construction, and manufacturing—should expect continued underwriting rigor and capacity segmentation.

Recommendations

Umbrella programs demand proactive design and thorough documentation of safety and defense practices. The Baldwin Group partners with your business to strengthen placement strategy, benchmark limits, and sustain insurer confidence. As your trusted advisor, we help you:

1 Reevaluate limits

Align umbrella and excess layers with updated loss-severity benchmarks and venue analytics.

2 Strengthen documentation

Maintain detailed safety, driver-training, and subcontractor-oversight records to demonstrate control maturity.

3 Monitor reform activity

Track state-level developments in litigation-funding disclosure and tort reform to anticipate pricing impacts.

4 Leverage analytics

Use insurer and broker modeling tools to identify high-risk jurisdictions and recalibrate defense reserves.

5 Diversify insurers

Build layered programs strategically, balancing premium efficiency with long-term partnership stability.

6 Plan renewals early

Engage underwriters with data-driven submissions and evidence of continuous safety and claims-management improvements.

[Explore our article, "Excess Insurance, Umbrella Policies and Why Your Business Needs Them."](#) for a concise overview of how layered liability coverage strengthens risk protection and safeguards against large verdicts.

Excess & Surplus Market

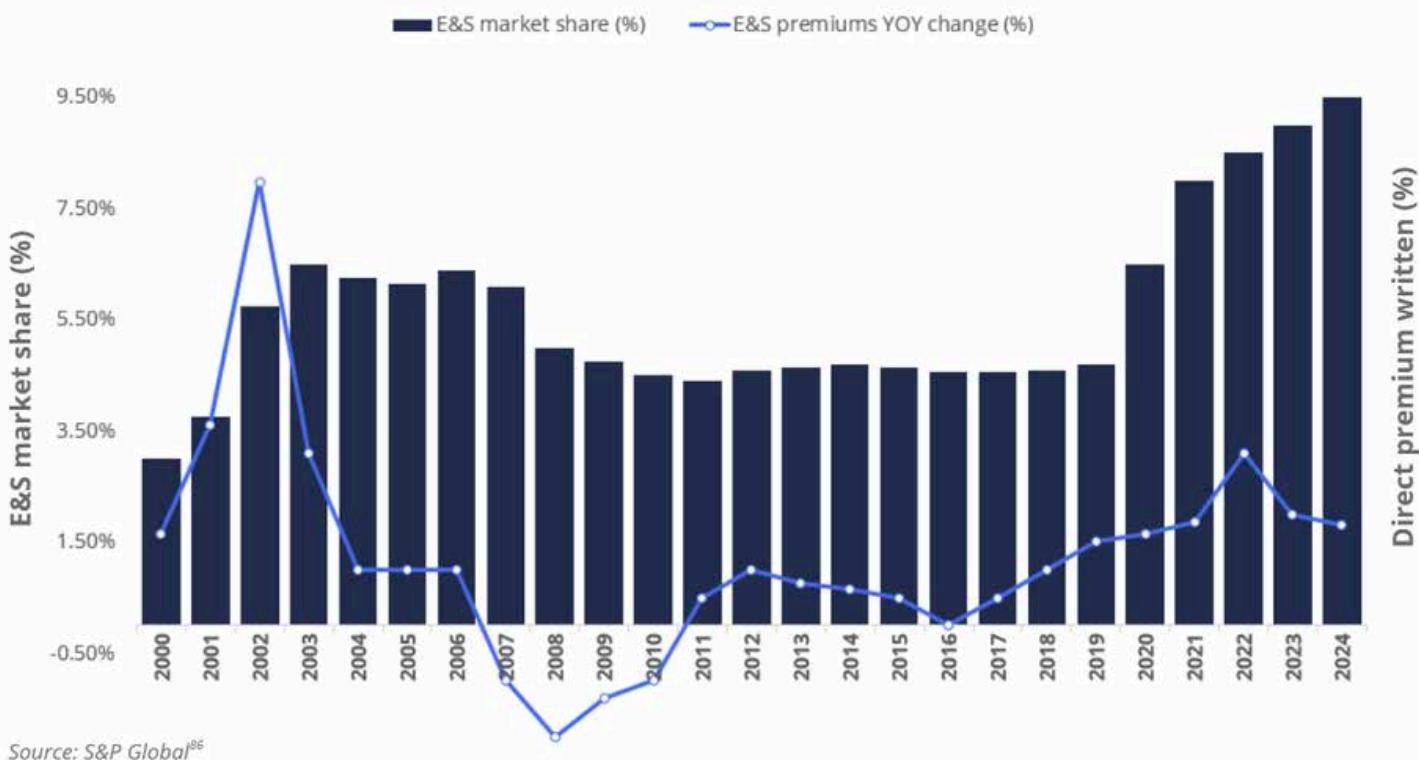
Flexibility fuels growth as new capital tests underwriting discipline

Overview

The excess and surplus (E&S) market remains one of the industry's most dynamic growth engines, marking its sixth straight year of double-digit expansion in 2024.⁸⁵ Once a pressure valve for admitted markets, it has become a core capacity source and structural pillar of the P&C landscape. This momentum reflects both opportunity and restraint as new capital tests underwriting discipline. Admitted insurers' retreat from catastrophe-exposed and litigation-heavy risks continues to shift complex placements into non-admitted channels, while major surplus insurers re-enter select classes with measured appetite.



E&S premiums are accounting for a larger share of the industry's total premiums



Market Dynamics

Rates and capacity

Pricing remains firm with steady rate momentum, supported by ongoing admitted-market retrenchment. Capacity is expanding but uneven, with selective participation across casualty and catastrophe-exposed property.

Casualty exposure

Social inflation and litigation funding continue to elevate loss severity and defense costs, particularly for complex liability and excess placements where attachment points are rising.

Delegated-authority growth

New MGA and program-administrator structures are channeling reinsurance capital into targeted segments, broadening access but testing treaty durability and long-term pricing discipline.

E&S Market Snapshot

\$98.2B

U.S. surplus premium in 2024 (+13% YoY)

\$135B

Estimated total global E&S premium volume

\$46.2B

Midyear 2025 premium (+13.2% YoY across 15 reporting states)

34%

Share of U.S. commercial business now written in the E&S market

70.6%

Nonstandard P&C premium now flows through E&S markets

Leading midyear 2025 state growth

Oregon (+63%), Pennsylvania (+44%), and Utah (+37%)

Sources: *Risk and Insurance*,⁸⁷ *Jencap*⁸⁸, *Property Casualty 360*,⁸⁹ *Insurance Business*,⁹⁰

Key Developments

Geographic diversification and the E&S shift

Surplus-line growth continues nationwide, led by the Midwest, Mountain West, and California, where climate volatility and secondary perils are reshaping underwriting priorities. California remains the epicenter of E&S expansion as wildfire-exposed property owners turn to surplus markets amid admitted-market contraction. Emerging MGA platforms are applying advanced wildfire models to sharpen risk selection and pricing accuracy, though E&S capacity remains the primary outlet for many high-risk communities until regulatory reforms take hold.

Reinsurance and underwriting discipline

Excess and surplus growth remains closely tied to reinsurance capital, with selective treaty support enforcing underwriting discipline and curbing opportunistic expansion. Reinsurers and delegated-authority platforms now emphasize data transparency, loss performance, and pricing precision, making sustained capacity contingent on credible modeling rather than premium growth. Market entrants lacking proven results are finding it harder to retain partners, signaling a renewed focus on sustainability over speed.

Technology and analytics

Insurers deploying AI-driven modeling, machine learning, and parametric tools are outperforming peers through sharper segmentation and faster loss-trend recognition. These capabilities are expanding insurability for secondary perils, such as wildfire, hail, and flood, while redefining competitiveness across property and casualty lines. Strong underwriting and analytical expertise remain vital as automation accelerates.



Looking Ahead

The E&S market should maintain steady, single-digit growth through 2026 as catastrophe exposure and regulatory inertia sustain demand for non-admitted capacity. Property may see modest softening as new entrants add supply, while casualty remains firm under social-inflation and reinsurance pressure. Lloyd's re-engagement and easing treaty terms may boost capacity, but disciplined underwriting will be critical as MGAs and insurtechs compete for share. State-level modernization in California, Florida, and Colorado will determine whether E&S reliance deepens or gradually rebalances toward admitted markets.

Recommendations

A resilient E&S program begins with strategic design and disciplined execution. The Baldwin Group partners with your business to optimize placement strategy, strengthen underwriting appeal, and preserve market appetite. Our specialists help you:

- 1 Evaluate program architecture**
Blend admitted and non-admitted coverage to balance flexibility and consistency, using layered or quota-share structures to improve stability and cost.
- 2 Prioritize stable partnerships**
Favor insurers with proven capacity, reliable reinsurance backing, and transparent claims handling to secure stronger outcomes.
- 3 Leverage specialization**
Use E&S adaptability to address secondary perils, unique exposures, and hard-to-place classes with tailored forms and triggers.
- 4 Monitor market integrity**
Track rate adequacy, attachment points, and wording discipline as new capital and delegated-authority programs enter the market.
- 5 Stay ahead of regulation**
Follow state reforms affecting wildfire, flood, and reinsurance costs to anticipate shifts in access and pricing.
- 6 Preserve continuity**
Maintain relationships with markets that supported prior placements to protect institutional knowledge and claims consistency.
- 7 Educate stakeholders**
Position E&S as a strategic solution for complex or evolving risks, highlighting how customized terms can enhance insurability and outcomes.

[Explore our whitepaper, "Alternative Risk Transfer Solutions"](#) positioning E&S as a strategic solution for complex or evolving risks, highlighting how customized terms can enhance insurability and outcomes.

Protecting the Possible®

Building resilience today requires more than buying insurance at renewal. It demands a clear view of how interconnected risks affect your operations, people, and growth. The most effective strategies start with clarity—identifying exposures, documenting mitigation, and aligning coverage with organizational goals.

Organizations that approach risk proactively by investing in prevention, technology, and governance consistently achieve stronger, more stable results across market cycles. Preparation and adaptability turn uncertainty into opportunity, helping control total cost of risk while sustaining long-term resilience.

The Baldwin Group partners with you to anticipate change, navigate complexity, and implement strategies for long-term success. Through strategic guidance, data-driven insight, and specialized expertise, we help you protect the possible.



Reinsurance Market

Founded in 2023, our specialist reinsurance broker platform, Juniper Re, is designed to deliver thoughtful and innovative capital and risk solutions. The team of experts at Juniper Re has analyzed the current state of the reinsurance market and provided key insights about its trajectory and outlook for 2026.





2025 state of the market review

The reinsurance market in 2025 continued to evolve against a backdrop of catastrophe activity, shifting capital dynamics, and diverging performance across short-tail and long-tail lines. Despite the year beginning with historic wildfire losses that briefly raised concerns about

renewed market tightening, the broader environment has continued to soften, particularly in property catastrophe. This has been driven primarily by an expansion of available capital outpacing demand.

Several structural themes emerged during the first half of 2025 and continue to shape the outlook for 2026:

Strong reinsurer performance entering 2025

Multiple consecutive years of favorable underwriting results and robust investment income have strengthened reinsurers' balance sheets, increased retained earnings, and maintained healthy returns on equity (ROE).

Softening observed at 1/1/25

The influx of additional reinsurance capacity, both traditional and third-party, led to noticeable price reductions at the January 1 renewals.

Terms and conditions eased, but discipline maintained

Markets converged around contract language as reinsurers relaxed subjectivities and broadened coverage in certain areas. However, reinsurers generally maintained elevated cedent retentions and remained highly selective on aggregate and frequency-oriented protections, especially those addressing secondary perils.

Wildfire losses did not materially derail the softening trend

Early-year wildfire events initially raised concerns about margin pressure; however, loss development ultimately demonstrated that reinsurers' efforts to reduce exposure to secondary perils were effective.

Benign Q2 stabilized prospective returns

A quieter second quarter allowed the sector to stabilize and maintain a positive forward-looking ROE, contingent on a non-severe wind season.

Private-company vigilance

Monitor debt covenants, customer concentration, and liquidity exposure. Document board oversight of financial resilience and strategic pivots.

Record CAT bond issuance expanded alternative capital

The first half of 2025 saw unprecedented catastrophe bond issuance, materially increasing third-party capital and further contributing to market softening.

6/1 renewals reinforced competitive dynamics

Florida domestics and other mid-year placements experienced additional rate softening. However, most cedents maintained retentions, reflecting both reinsurer discipline and the elevated attachment points established in prior years.

Post-wind season softening accelerates

With the wind season concluded and losses contained, reinsurers have shown increased willingness to support frequency covers and further easing of terms.

Rapid Property softening as 1/1/26 neared

Market continued to soften as time went on and reinsurers felt pressure to deploy capacity. Cedants issued terms late, able to secure ~15% risk adjusted rate decreases on Cat XOL business. New low attaching occurrence and CAT aggregate XOL layers were getting done for the first time in a few renewal cycles.

Casualty and long-tail lines remain mixed

Unlike property, casualty market conditions vary widely by class. Social inflation and nuclear verdicts continue to elevate loss costs; however, distressed casualty segments are now seeing rate hardening, contributing to differing views among reinsurers on the adequacy and sustainability of pricing.

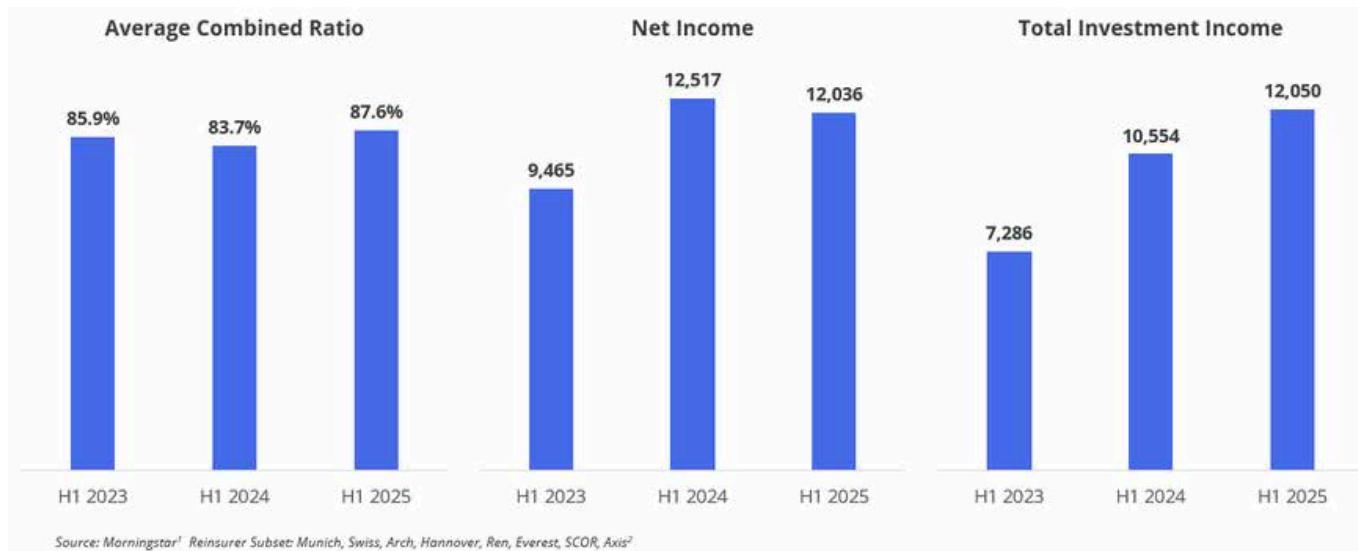
Many of the pressing themes in recent years, MGAs and hybrid fronts, catastrophe model uncertainty, shifting capital flows, casualty stress, and the rising role of parametric solutions, continued to define the market through 2025 and is anticipated to continue into 2026. Below is a more detailed explanation of the forces shaping the current environment and what they mean for buyers going forward.

Key reinsurer dynamics in 2025

Underwriting and investment performance of traditional reinsurers

The reinsurance sector entered 2025 from a position of strength, yet early-year dynamics introduced renewed pressure on underwriting profitability. In addition to moderating property-catastrophe pricing, many reinsurers accelerated efforts to rebalance their portfolios toward longer-tail, less correlated lines such as casualty and financial lines—segments that traditionally operate at lower margins than property catastrophe business. This strategic shift, when combined with price softening at 1/1 and elevated wildfire activity in Q1 2025, contributed to higher combined ratios in the first half of the year.

Despite this pressure on technical performance, elevated investment income continued to provide a substantial offset. Persistently high interest rates supported strong portfolio yields, allowing aggregate net income for H1 2025 to remain broadly consistent with the prior year. Reinsurers' increased diversification into less correlated lines has helped reduce portfolio volatility and supports stronger price-to-book valuations, particularly as investors have grown increasingly skeptical of catastrophe-only reinsurance business models.

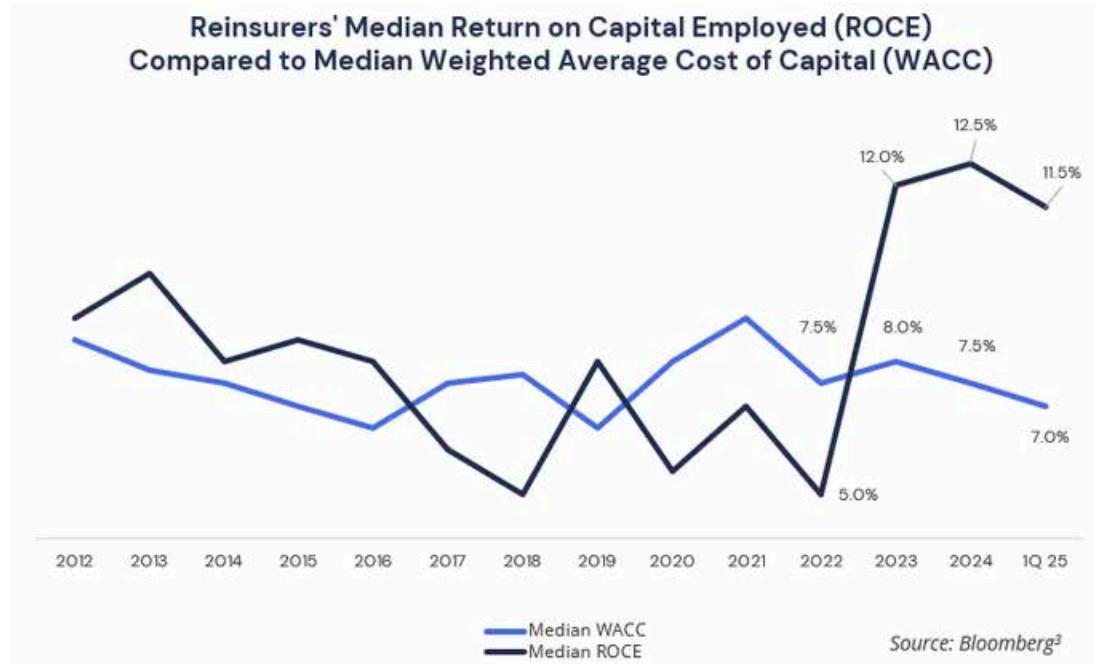




Reinsurer return on equity

When normalizing aggregate earnings against sector equity, Q1 results indicate a return on capital (shown as ROCE) well above the average cost of capital (shown as WACC). This reinforces the structural health of the reinsurance market—a trend that first emerged in 2023 and has continued despite early 2025 loss activity.

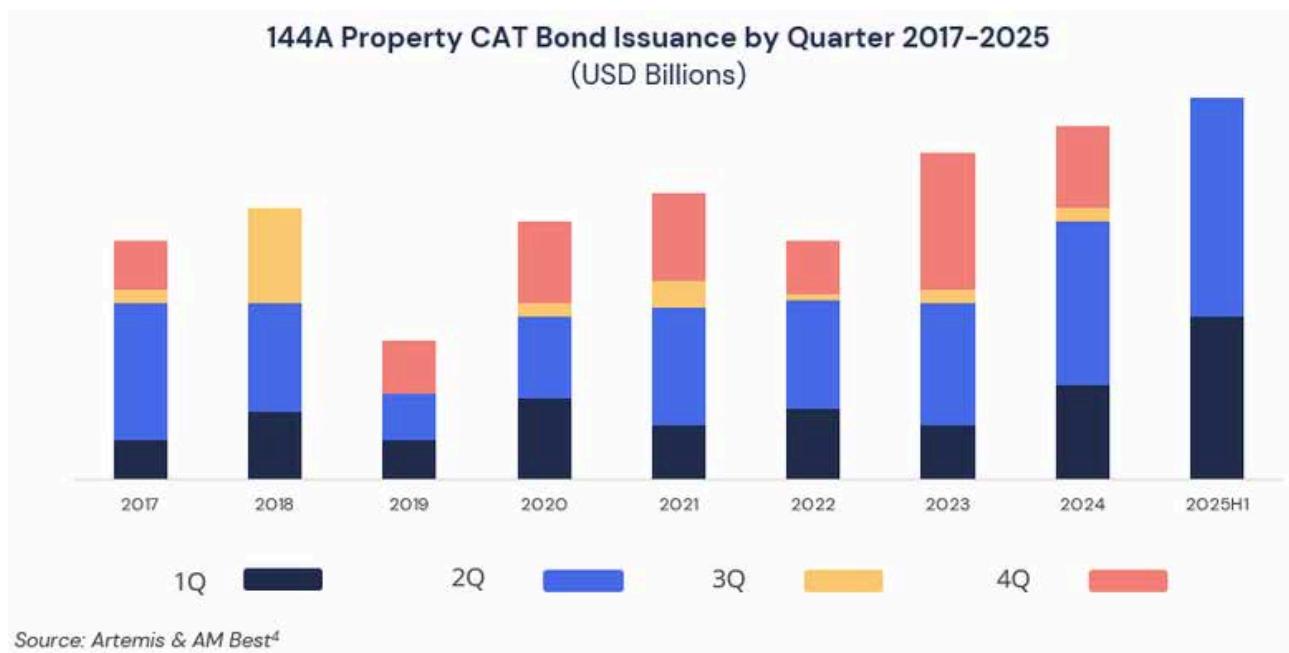
The stability in ROE demonstrates that reinsurers, through improved underwriting discipline, diversification, and enhanced investment earnings, remain well-positioned to generate sustainable returns even in the face of episodic volatility.



Return of the CAT bond

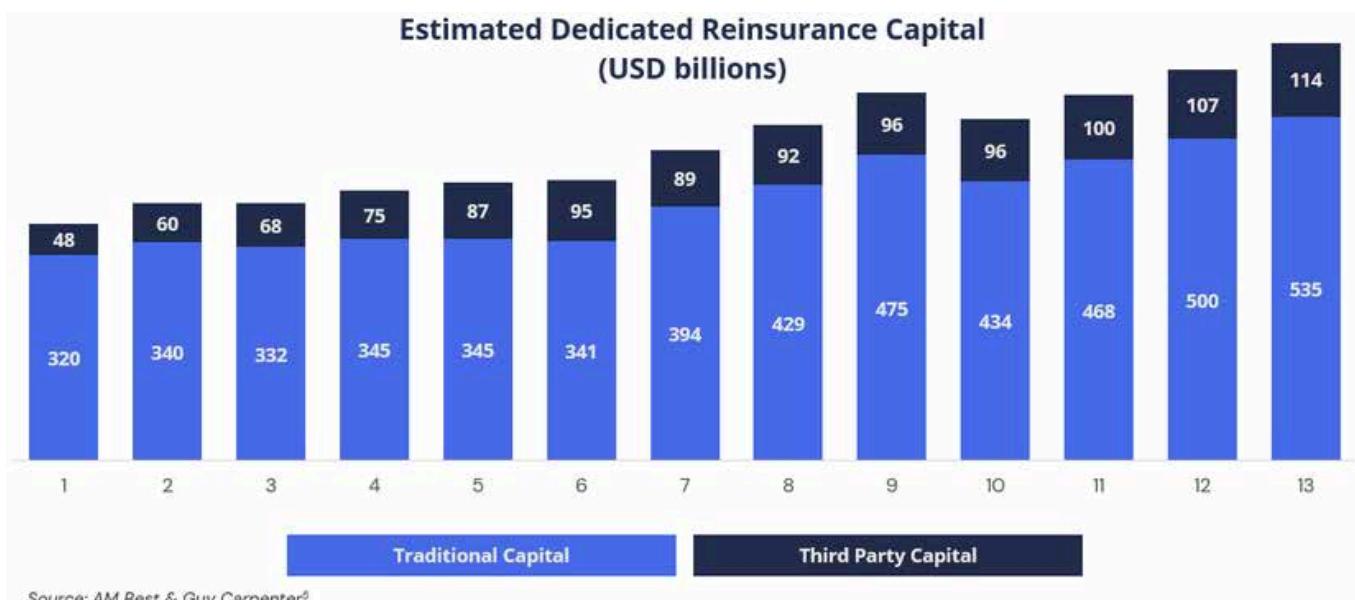
Catastrophe bond issuance reached record levels in the first half of 2025 (surpassing issuances for all 4 quarters of 2024) reflecting continued investor appetite for insurance-linked securities (ILS) and cedants' desire for diversification beyond traditional reinsurance capacity. The surge in issuance provided buyers with additional options to manage volatility

and, in many cases, secure more competitive pricing. As a result, ILS capital once again became a meaningful contributor to overall market supply, reducing reliance on traditional reinsurers and broadening the range of structures available to clients.



Impact on reinsurance capital availability

These dynamics, solid underlying ROE, strong investment returns, and expanding ILS participation, have collectively led to an increase in available reinsurance capital. Current projections indicate that industry capital will reach an all-time high heading into 2026. This is expected to maintain downward pressure on pricing and further incentivize reinsurers to compete more actively for risk, particularly on frequency-oriented and aggregate covers.



Property

Catastrophe XOL

Reinsurer supply

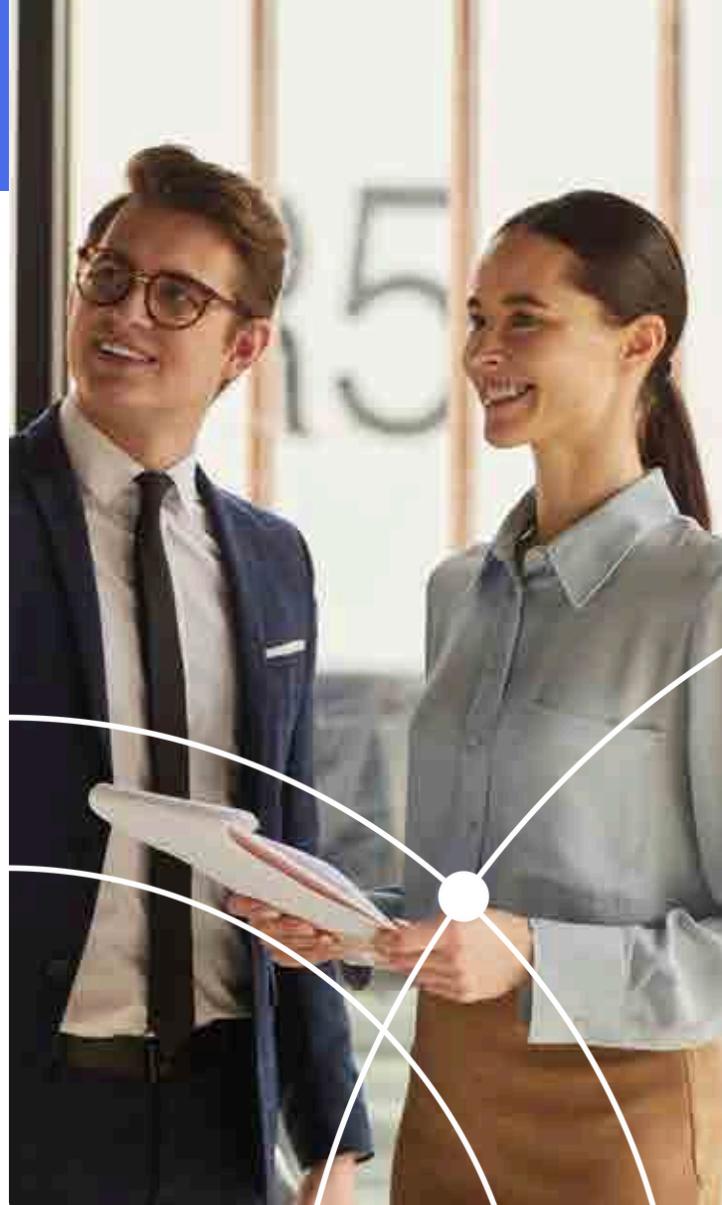
Capital availability expanded significantly heading into 2025. Strong retained earnings from traditional reinsurers, combined with a meaningful influx of alternative capital, particularly through record-setting catastrophe bond issuance, materially increased aggregate capacity.

Cedant demand

As primary rate levels softened, many insurers assumed more net catastrophe exposure to meet premium growth targets, prompting increased demand for top-end limit. At the same time, with many recent catastrophe events falling below retention levels, cedants increasingly explored buying down retentions to mitigate earnings volatility.

Price and structural implications

Supply growth materially exceeded demand, resulting in **risk-adjusted rate reductions of approximately 15% across programs**. This reduction was dependent on insurer results and operating segment. Reinsurers also showed greater flexibility on structural requirements, including reduced return-period thresholds for first-event attachments (formerly ~8–12 years).



Per risk XOL

Reinsurer supply

Unlike Cat XOL, performance in property per risk XOL has varied by carrier. Some reinsurers reported strong results, while others remained cautious. Lloyd's, in particular, expanded its appetite in this segment, adding incremental supply; however, total market capacity remained broadly consistent year-on-year.

Cedant demand

In pockets of the market, primary rate softening required insurers to offer higher policy limits to remain competitive, prompting select cedants to seek additional per risk XOL capacity.

Price and structural implications

With supply and demand largely stable, cedants leveraged reinsurers' appetite for CAT XOL participations to negotiate more favorable per-risk terms. Outcomes varied more widely than in CAT XOL, but cedants generally secured **risk-adjusted reductions of ~5–10%**, along with increased availability of additional occurrence and aggregate limit. Reducing retentions remained costly but achievable when the attachment point was not materially "in the money."

Gross quota share (GQS)

Reinsurer supply

Despite softening primary rates, reinsurers continued to view well-performing property portfolios favorably, maintaining strong demand for quota share participations. A recurring theme in 2025 was that primary pricing—while moderating—had not fallen nearly as sharply as CAT XOL, leaving many reinsurers comfortable with quota share exposure.

Cedant demand

Was balanced by competing considerations:

- A desire to retain more profitable business, reducing the need for quota share;
- Heightened severe convective storm (SCS) activity and climate-driven volatility, where neither per risk nor CAT XOL provides adequate coverage.

These opposing dynamics resulted in relatively **flat overall GQS demand**.

Price and structural implications

With supply rising and demand stable, GQS reinsurance was distinctly buyer friendly. Well-performing cedants typically achieved **ceding commission increases of 1-2%**, even as reinsurers faced higher loss costs and anticipated further underlying rate softening. Through the 2023–2024 period, reinsurers often targeted 15–20% margins for cat-exposed GQS business; in 2025, prospective margins compressed to **approximately 12%**. There was variation in these results dependent on operating segment and insurer results.

Net quota share (NQS)

Reinsurer supply

As competition intensified for gross quota share programs, many reinsurers shifted focus to more bespoke net quota share structures, where competition was comparatively lighter and underwriting discretion greater.

Cedant demand

Demand remained broadly stable. Hybrid fronting insurers represented a notable pocket of activity: several were compelled to retain higher net positions than preferred and therefore used NQS to realign to target retention levels.

Price and structural implications

NQS profitability, like GQS, came under pressure as primary rate decreases eroded the underlying margin. Cedants frequently absorbed additional net exposure for comparable levels of premium and increased inuring reinsurance costs further constrained economics. As a result, ceding commission movements were more modest than in GQS programs, with cedants generally achieving **flat to +1% increases**.



Casualty

A slow, uneven grind toward stability

Casualty markets entered 2025 with cautious optimism that reserve deterioration might be stabilizing yet continued strengthening across several long-tail lines proved necessary. Social inflation remained persistent, driven by rising jury awards, shifts in litigation strategies, and ongoing public sentiment trends unfavorable to corporate defendants.

Commercial auto, umbrella, and other severity-prone classes continued to challenge both insurers and reinsurers. The umbrella and excess space in particular saw upward pressure on attachment strategies as severity trends continued to outpace underlying rate increases. Even strong-performing carriers faced heightened scrutiny around limit deployment, exposure selection, and claims philosophy.

Overall, casualty heading into 2026 remains characterized by disciplined pricing, narrower appetites, and increasing data-driven risk evaluation. While stability is slowly improving as front end rate is improving, reinsurers remain alert to any signals of emerging deterioration and continue to favor cedants with clear, credible reserve philosophies and strong claims governance.

MGA and Fronting Market

Consolidation, higher retentions, and more sophisticated structures

The managing general agent (MGA) ecosystem continued to mature in 2025, driven by increased investor interest, insurer partnerships, and consolidation. Larger MGAs with strong underwriting governance and sophisticated data infrastructure attracted more robust capacity, while smaller or less differentiated players faced greater pressure.

Fronting insurers navigated heightened scrutiny, rising capital requirements, and the need to maintain stronger balance sheets. Retention levels continued to trend upward, reinforcing alignment with reinsurers and reducing concerns about over-dependence on quota share arrangements. Many insurers adopted more advanced monitoring, enhanced bordereaux reporting, and stringent underwriting protocols to maintain reinsurer confidence.

Despite a cautious environment, placement of property quota shares for MGA programs remained achievable. Reinsurers continue to support programs that demonstrate strong risk controls, credible underwriting, and meaningful skin in the game. Structures are more tailored, data expectations are higher, and alignment matters more—but well-run programs continue to secure the capacity needed for sustainable growth.



Parametric Solutions

From niche to integrated risk transfer

Parametric solutions gained significant momentum during 2025 as organizations sought faster, more reliable liquidity following catastrophe events. Slow claims emergence, model uncertainty, and gaps in traditional indemnity coverages encouraged more buyers, such as municipalities, corporates, insurers, and retro purchasers, to explore event-driven protection.

Product design evolved meaningfully. Multi-trigger structures, regionalized hazard metrics, and hybrid parametric/indemnity combinations became more prevalent. Many buyers now use parametric not as a replacement for traditional reinsurance, but as a tool to stabilize earnings, address geographic pockets of uncertainty, or secure top-up protection in peak zones.

This continued maturation reflects a broader shift: parametric solutions are becoming an integrated part of modern risk transfer strategies rather than a specialized alternative.

Looking Ahead

Implications for 2026 buyers

As 2026 begins, the reinsurance market is defined by disciplined underwriting, heavier reliance on data verification, and a broader toolkit of structural options to address uncertainty. Buyers benefit most when renewal strategies include early engagement, strong data hygiene, and a willingness to explore creative structures, whether through aggregates, parametric, or tailored quota shares, to secure cost-effective, stable capacity.



2026 STATE OF THE MARKET

Private Risk

Introduction

The private insurance market is showing early but uneven signs of equilibrium after years of broad correction.

Evolving dynamics in insurability, accessibility, and lifestyle redefine what protection means—beyond insurance. In today's landscape, resilience, prevention, and trusted advisory guidance are crucial to long-term wealth preservation for successful households. Regulators, insurers, and brokers are increasingly aligned on transparency and mitigation, working to balance access and sustainability through shared data, verified resilience, and incentive-based engagement.

At midyear, the private risk market was fragmented: property capacity remained constrained, while auto stabilized as rate momentum eased. By late 2025, that divergence deepened. Auto achieved its first sustained period of profitability since the pandemic, while home and umbrella markets remained strained by severe-weather losses, higher reinsurance costs, and rising liability claims.

Across personal lines, competition is cautiously reemerging as underwriting stabilizes and demand grows for more adaptive protection. Coverage categories, particularly personal cyber and high-limit liability, are gaining traction as successful households face expanding digital and social exposures. After consecutive years of steep increases, rate fatigue is prompting regulators and insurers to emphasize transparency and incentivize verified resilience. Collaboration about mitigation standards, data sharing, and smart-home technology remains essential to maintaining access and rebuilding sustainable capacity.

The private risk market is diversifying. Risk priorities are evolving across generations: many younger homeowners emphasize cyber protection, liability, and climate resilience, while more established households focus on preserving tangible assets and long-term property value. Insurance advisors are addressing this full spectrum of needs through tailored education and hybrid service models that combine digital convenience with consultative expertise to meet evolving expectations.

In 2026, the private risk market continues to recalibrate—defined by selective relief in auto, persistent strain across property and liability, and heightened expectations around personalization and trust. Its next phase will be shaped by how effectively insurers, regulators, and advisors translate market stabilization into sustained confidence and client value. The Baldwin Group continues to guide households through this transition with clarity, foresight, and strategies that strengthen protection today and preserve opportunity for the future.



Home Insurance

Resilience-led repricing and innovation easing pressure

Rate trend	Capacity and outlook
Upward but moderating	Tight in high-risk zones; stable elsewhere



Overview

The home insurance market is stabilizing but remains under pressure from natural disasters, inflation, and uneven capacity. Reinsurance normalization has strengthened overall availability, but high-risk regions see constrained availability as premiums rise alongside elevated rebuild costs and labor shortages. Homeowners' results have dragged on P&C profitability, with Q1 2025 among the weakest first quarters in more than 15 years.¹

Successful homeowners face the greatest constraints as insurers tighten underwriting and reduce limits for coastal and hillside properties. Verified mitigation programs are expanding but remain difficult and costly to access. Growing reliance on residual markets and alternative risk transfer underscores the structural and regulatory pressures that will shape availability through 2026 as insurers shift from rate expansion to disciplined exposure and expense management.

Homeowners: Net Combined Ratio and Change in NWP

A combined ratio > 100 indicates underwriting loss



Source: Triple-I²

Market Dynamics

Claims and underwriting trends

Underwriting discipline

Insurers remain highly selective in catastrophe-prone regions, expanding peril-specific and percentage-based deductibles, emphasizing roof age and maintenance, and linking eligibility to verified mitigation, even beyond traditional CAT zones.

Capacity stabilization

Capacity is gradually improving, but strain and pricing pressure persist in high-exposure areas as recent profitability gains remain fragile.

Concurrent events

Increasingly frequent and overlapping perils are challenging loss models and reinforcing underwriting caution.

Claims patterns

Claim frequency has declined, but elevated severity from concentrated losses keeps overall costs high. Claim timeliness are lengthening as larger, more complex events coincide with adjuster and contractor shortages.

Mitigation incentives

More insurers reward verified FORTIFIED builds, defensible space, and proactive maintenance with preferred pricing and coverage eligibility.

Public policy

Several states are linking mitigation to financial incentives, strengthening alignment between public policy and insurance affordability.

Flood-program continuity

The National Flood Insurance Program's authority temporarily lapsed, highlighting persistent flood-protection gaps.

Signals of Stability and Strain

Home Insurance Market Pressure Points	Mitigation and Modernization Payoffs
\$1.04B in 2024 lightning claims ³	Volume ↓ 16.5%, claims filed ↓ 21.5% YoY due to mitigation efforts ⁴
2.6M homes in the West face wildfire risk \$1.3T rebuild value ⁵	Defensible space + hardening can reduce predicted losses by 48% ⁶
55% of policyholders report premium increases due to severe weather events ⁷	66% of P&C insurers say new technologies are already lowering insurance costs ⁸
46% YoY increase in the average cost of property claim across the U.S. ⁹	70% fewer claims and 22% lower severity for FORTIFIED homes ¹⁰

Key Developments

Catastrophe risks and market access

Catastrophe exposure continues to redefine the homeowners market, driving higher premiums and capacity pullback in climate-exposed regions. Non-admitted and specialty insurers are filling gaps left by admitted markets, increasing variability in coverage terms and emphasizing the importance of insurer financial strength and reinsurer alignment.

California remains the regulatory bellwether: 2025 reforms now allow the use of catastrophe models and reinsurance costs in rate filings while requiring insurers to write 85% of their statewide share in wildfire-distressed areas—measures intended to reduce reliance on the Fair Access to Insurance Requirements Plan (FAIR Plan).¹¹ Similar efforts in Florida, Louisiana, and Texas reflect a broader shift toward market-based solutions aimed at rebuilding capacity and supporting long-term stability.

Climate Risks: A Snapshot

The scale of weather-driven exposure shaping today's home insurance market



Hail

50% to 80% of all severe convective storm damage nationwide



Flood

\$24.4B in annual losses to U.S. single-family homes, 70% of which are uninsured



Hurricane

33.1M homes (\$11.7T in reconstruction value) from Texas to Maine face hurricane-force wind exposure



Wildfire

2.6M homes (\$1.3T in reconstruction value) across the West face moderate to high wildfire risk

Sources: Carrier Management,¹² Neptune,¹³ Cotality^{14 15}

Sustainability of FAIR plans

State residual markets have evolved from temporary backstops into structural capacity providers, carrying a growing share of U.S. property risk—especially in California, Florida, Louisiana, and Texas. Persistent rate suppression and reinsurance costs continue to test their long-term viability.

In California, the FAIR Plan has filed for rate increases under new rules, alongside legislation to strengthen financing and align with Safer from Wildfires standards. Across the Gulf Coast, Florida's Citizens and Louisiana's FAIR Plan are likewise expanding despite depopulation efforts, highlighting the need for actuarially sound reform nationwide.

California FAIR Plan Surge

\$696.1B

total exposure in 2025 – ↑ 49.4% YoY, ↑ 317% since 2021

646K+

policies in force ↑ 39% YoY, ↑ 169% since 2021

450K +

California homes now insured through the FAIR Plan

Source: California Fair Plan,¹⁶ Property Casualty 360¹⁷

Technology and risk precision

Digital transformation is reshaping property underwriting and loss prevention. AI-driven imagery, aerial data, and predictive modeling are enhancing valuation and pricing accuracy, while connected sensors and smart-home diagnostics enable more proactive risk management. Emerging telematics programs are beginning to link driving behavior to homeowners pricing, signaling a broader shift toward data-driven, behavior-based underwriting that rewards verified resilience and transparency.¹⁸

Renovation, valuation, and disclosure risk

Renovation activity remains high, particularly for custom and luxury homes, yet coverage and valuation updates often lag. Many properties remain insured to market rather than replacement cost, widening coverage gaps as construction inflation and regional labor shortages drive rebuild costs higher.

Projects exceeding 10% of property value, occurring for more than 12 months, or requiring temporary relocation often warrant builder's risk reclassification but are frequently underreported. Missing contractor documentation or inadequate liability coverage can delay claims. Early broker involvement, mid-project valuations, and verified contractor insurance are essential to maintaining accurate coverage and preventing costly shortfalls.

Underinsurance and Renovation Realities

10x

potential deductible escalation when projects misclassified post-loss

44%

increase in construction costs (2019–2021) vs. 30% coverage adjustments

\$250K

average luxury-renovation spend, compounding insurance to value (ITV) gaps

Sources: Property Casualty 360¹⁹

Looking Ahead

Regional capacity constraints will persist as insurers recalibrate wildfire and coastal models and refine catastrophe pricing. With three approved wildfire models, several insurers are cautiously re-entering California, contingent on verified mitigation data and pricing adequacy. Mitigation frameworks such as FORTIFIED building standards are gaining traction, aligning public policy with underwriting strategy.

AI-driven property analytics and aerial imagery will further expand selective capacity, improving access for resilient homes. In parallel, updated flood maps, transparency mandates, and evolving valuation standards will influence affordability and coverage adequacy through 2026. Portfolios with high-value or complex properties will remain under closer scrutiny as concentration, renovation, and valuation drift continue to converge.

Recommendations

A stronger property profile begins with accurate valuations, proactive maintenance, and clear documentation. The Baldwin Group partners with homeowners to help strengthen insurability, reduce premium volatility, and preserve access in constrained markets. Turn to our experts for guidance with:

- 1 Valuations and appraisals**
Commission rebuild-cost appraisals and adjust limits after major renovations.
- 2 Ordinance and law coverage**
Increase code-upgrade provisions from 25% to 50% for older or custom homes.
- 3 Climate-risk resilience**
Invest in region-specific upgrades such as fire-resistant materials, automatic water shutoff systems, and impact-rated roofs to reduce loss severity.
- 4 Mitigation credits**
Pursue FORTIFIED certifications, wildfire-hardening, and smart-home programs for premium incentives.
- 5 Coverage structure**
Explore layered placements or private-flood solutions to reduce reliance on FAIR Plans.
- 6 Alternative options**
Evaluate excess and surplus (E&S) and parametric solutions that can supplement traditional coverage, providing flexibility and faster recovery when standard markets are limited.
- 7 Documentation of assets**
Maintain contractor certificates of insurance, photographic inventories, and digital records to expedite claims.
- 8 Claims navigation**
Keep a digital inventory and consult your advisor before filing smaller claims to avoid unnecessary premium impact.
- 9 Renewal coordination**
Engage your advisor and lender early in the home-buying process to align coverage requirements and prevent closing delays.
- 10 Maintenance planning**
Schedule biannual home reviews aligned with insurer inspection criteria to preserve eligibility and support favorable renewals

Explore our insights in "[Parametric Insurance for Individuals](#)" to learn how event-based coverage can complement traditional protection and provide faster recovery after major weather events.

Auto Insurance

Stability persists while economic and legal risks reemerge

Rate trend	Capacity and outlook
Flat to moderate increases, with regional variation	Broadly available; disciplined underwriting



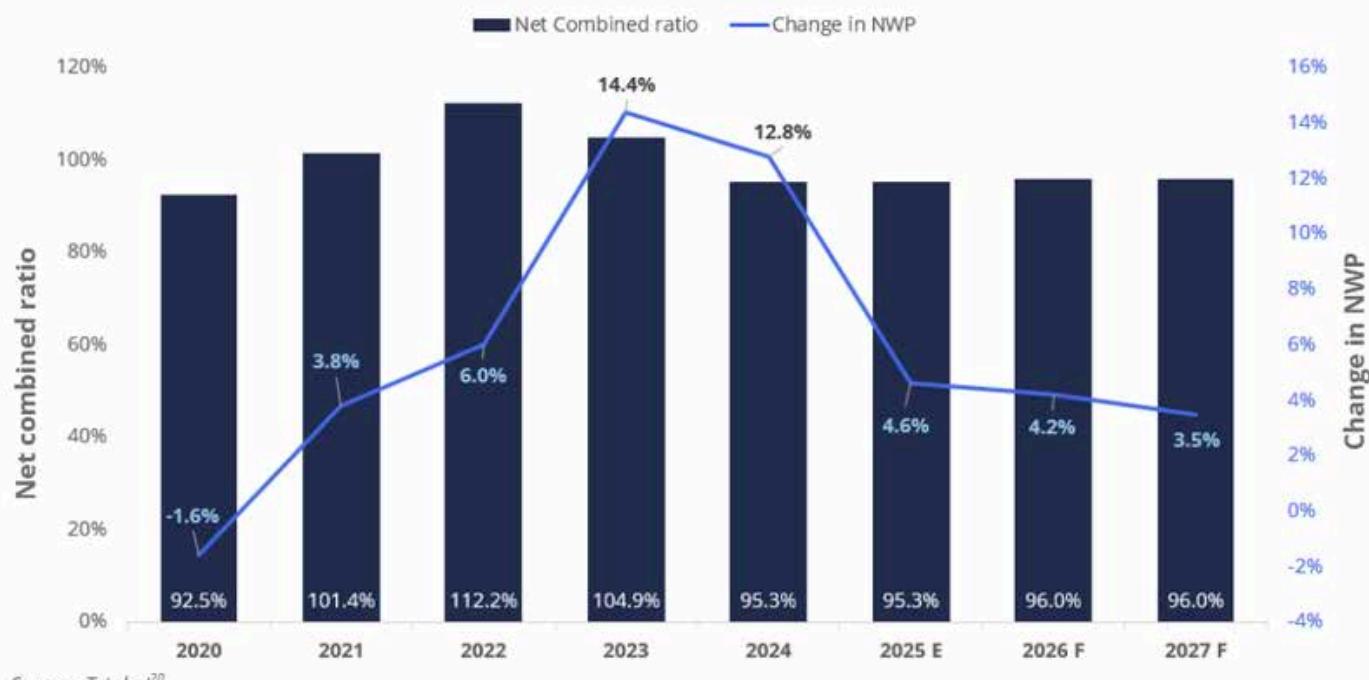
Overview

The personal auto market has regained stability after several years of correction, evolving into a more disciplined and competitive environment. Many insurers are filing rate decreases for the first time in years, though tariff exposure remains a potential headwind. Improved rate adequacy and stronger claims management have supported profitability, but repair costs, liability trends, and driver behavior continue to test consistency.

Cost pressures are prompting coverage adjustments and policyholder churn, and rising home premiums are driving bundled policy shopping as clients seek cross-line alignment. With regulatory lag limiting pricing flexibility, competition now centers on retention. Growing weather-related losses are also blurring the line between property and auto risk, underscoring the need for integrated protection through 2026.

Personal Auto

Net Combined Ratio and Change in NWP



Market Dynamics

Behavioral risk resurgence

Distracted and aggressive driving trends are reversing earlier safety improvements, sustaining elevated loss severity.

Safety-driven solutions

Telematics programs, dash cameras, and connected monitoring tools are reshaping driving behavior, improving claim defensibility, and creating new opportunities for personalized pricing.

Consumer mobility

Digital tools and rate sensitivity have fueled record-high shopping, including among older and long-tenured policyholders, raising acquisition costs and shifting competition toward service quality and retention.

Service expectations

Customer loyalty now hinges on proactive communication and transparent claims handling, supported by digital tools, telematics, and AI-driven pricing.

Market Signals from the Road

Profitability and Cost Trends	Emerging Risks and Technology	Consumer Behavior and Competition
Profit rebound 2024 combined ratio 95.3, best since 2020	Electric Vehicle (EV) growth EV ownership +40%, with EV claims costs +31% on average	Record shopping 46.5% shopped their auto policy in 2024
Premium growth +12.8% in 2024 after +14.4% in 2023, restoring rate adequacy	Tariff impact Tariffs could add \$60B in personal auto claims costs over the next year	Retention drop Policy retention down from 83% (2021) to 78% (2024)
Loss improvement Direct loss ratio down 21.7 points since 2022	Driving behavior Distracted driving +50% YoY with total moving violations +17%	Digital shift Direct-channel sales +22.8% YoY, reshaping competition

Sources: *Triple-I*,²¹ LexisNexis,^{22 23} *Insurance Business*,²⁴ *Carrier Management*²⁵



Key Developments

Post-pandemic normalization and profitability

The personal auto market has completed a rare, multiyear profitability reset. Pandemic-era rebates and mispriced risk books initially suppressed premium adequacy, but persistent inflation, medical cost growth, and parts scarcity forced corrective rate cycles from 2023 through 2024. Today, normalized loss ratios reflect both successful repricing and improved claims management, but future margins depend on cost control, especially with repair cost pressures. More frequent convective storms and flood events are also driving simultaneous home and auto losses, reinforcing the need for coordinated risk modeling across coverage.

Tariffs, supply chain, and repair inflation

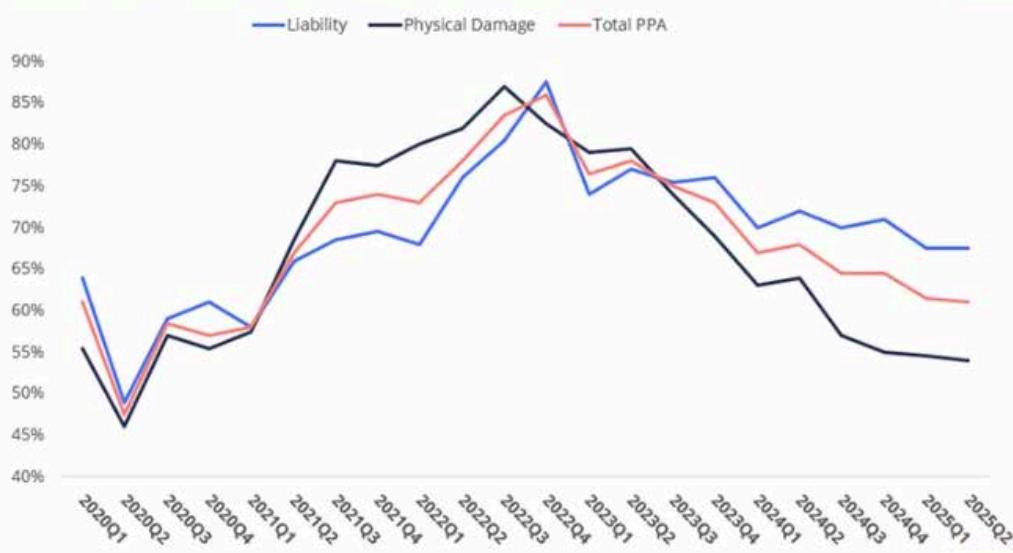
Shifts in global trade and increasing vehicle complexity are reshaping repair economics. Import tariffs and supply-chain constraints have lengthened claim cycles and lifted total-loss thresholds. A shortage of qualified repair technicians as well as the added expense of advanced driver assistance systems (ADAS) calibration and electric-vehicle repairs continue to elevate claims severity, prompting insurers to pilot specialized EV repair networks and usage-based pricing models to contain costs.

Sustained liability pressures

Expanding litigation funding, pervasive legal advertising, and record verdicts continue to elevate claim severity and defense costs, eroding recent underwriting gains. Litigation funding, uninsured motorists, and medical inflation continue to drive elevated claims costs, creating a widening imbalance between improving physical damage results and persistent liability losses. States with slower regulatory response remain especially exposed, and without continued tort-reform progress, liability trends could quickly reverse profitability gains.

Personal Auto

Direct Incurred Loss Ratio by Quarter



Source: Triple-I²⁷

Alongside rising claim severity, litigation complexity, and growing tail-risk exposure, liability and defense costs increased from **\$76.3B in 2014 to \$81.3B in 2023.**

Source: Triple-I²⁶

Looking Ahead

As 2026 approaches, personal auto stability will be characterized by sustaining profitability without additional rate support. Margin sustainability will hinge on expense control, claims efficiency, and portfolio mix as competition intensifies. If loss-cost moderation holds, selective premium easing may emerge in 2026.

Liability severity and social inflation remain key headwinds, while tariffs, EV repair complexity, and weather-related losses continue to test cost structures. Regional rate disparities are expected to persist, and greater use of AI in underwriting and claims will bring both efficiency gains and new fraud risks. The next phase of market evolution will emphasize retention, telematics integration, cross-line engagement, and service quality over price competition.

Recommendations

Strong protection on the road starts with informed choices about coverage, safety, and technology. The Baldwin Group partners with drivers to build resilient protection plans, manage premiums, and stay ahead of emerging auto trends. Turn to our advisors for support with:

- 1 Liability limits**
Rising jury awards and medical costs warrant higher protection beyond state minimums.
- 2 Telematics programs**
Good driving habits supported by usage data can strengthen eligibility, improve rates, and promote safer behavior behind the wheel.
- 3 Bundled coverage**
Pairing home and auto policies can enhance renewal retention and pricing leverage.
- 4 Coverage terms**
Policy terms evolve, which is why regular reviews are crucial to help ensure protection keeps pace with changing risk and market conditions.
- 5 Be selective with claims**
Small, out-of-pocket losses may not be worth filing if they risk higher premiums or reduced insurability.
- 6 Repair-cost exposure**
Stay informed about parts surcharges, supply-chain delays, and labor costs that can affect future pricing.
- 7 EV coverage terms**
Confirm limits reflect replacement parts, charging equipment, and specialized labor for electric vehicles.
- 8 Insurer communication**
Report claims promptly and track progress through online platforms to support timely resolution and better underwriting outcomes.

Explore our insights in "[Collector Car Insurance](#)" to learn how specialized coverage for high-value, exotic, or vintage vehicles differs from standard auto policies—and why specialized coverage is essential.

Cyber Insurance

*Safeguarding digital lives in
a hyperconnected world*

Rate trend	Capacity and outlook
Flat to decreasing	Softening, with stability and broadening participation

Overview

For households, the lines between online activity and real-world impact are increasingly blurring. While many people understand basic cybersecurity, awareness of personal cyber insurance as an added layer of protection is still developing.

Cyber coverage is becoming a must-have for successful households as threats grow more sophisticated. The private cyber market remains nascent and uneven—definitions, sublimits, and services vary widely and pricing and capacity are inconsistent across insurers. Meanwhile, AI-driven scams, ransomware, identity theft, and smart-home vulnerabilities are reshaping coverage design, with more emphasis on incident response, fraud remediation, and proactive digital hygiene.



Market Dynamics

Rising losses

Last year, the U.S. cyber insurance market recorded a new high of 33,561 reported claims, according to the NAIC.²⁸

Underwriting evolution

Insurers increasingly require pre-bind risk assessments, security questionnaires, and verified cyber hygiene before issuing a policy.

Targeted attacks

Successful individuals remain particularly attractive targets due to their digital exposure and financial assets.

Consumer adoption

Awareness is growing among successful households, yet more than half of surveyed advisors say clients still underestimate or question the value of personal cyber insurance.²⁹

By the Numbers: Digital Risk and Exposure

+52% YoY

Cybercrimes in 2025 involving misuse of personal information

28%

Consumers had a social media account hacked

+135% YoY

Incidents involving compromise of personal information in 2025

85%

Identity-credential misuse cases in 2024-2025 linked to financial accounts

+104% YoY

Increase in reports unauthorized computer or mobile device access

43%

Family offices reporting a cyberattack in the past two years

Sources: Identity Theft Resource Center,³⁰ Triple-I,³¹ Deloitte³²

Key Developments

Scale and sophistication

Cybercrime continues to grow, with successful individuals increasingly targeted for their wealth, visibility, and complex digital footprints. Attacks now extend beyond financial theft to reputational harm, while generative AI fuels deepfake scams and synthetic identity fraud that blur the boundary between digital and personal security.³³ Insurers are refining policy language and exclusions to address these evolving risks.

According to the Identity Theft Resource Center, from 2024 to 2025, **there was a 148% increase in impersonation scams.**³⁴

Smart-home vulnerabilities

From smart locks to voice assistants, successful households are increasingly relying on connected devices to manage daily life, creating new points of entry for cybercriminals. Breaches involving smart-home systems are rising, prompting insurers to explore endorsements that specifically address these types of incidents. Insurers and device manufacturers are also piloting joint loss-prevention programs that link verified IoT security compliance to preferred-rate eligibility.

Evolution coverage architecture

Cyber policies are becoming more tailored, with defined limits for ransomware, social engineering, and extortion. Digital asset endorsements are also emerging, often bundled with homeowners policies for efficiency in pricing and underwriting. Coverage for non-malicious events, such as human error, continues to expand, while exclusions for war, terrorism, and failure to maintain security protocols are being clarified.

This evolution reflects a broader market shift toward comprehensive digital-risk protection with clearer boundaries and stronger underwriting discipline.

Looking Ahead

The cyber insurance market is expected to remain stable through mid-2026, with modest pricing adjustments and continued coverage innovation. Federal and state regulators are expected to release guidance about AI-fraud liability, data privacy, and consumer-device security, developments likely to influence personal-cyber product design.

As AI-driven threats evolve and regulations expand, insurers will enhance offerings for identity protection, digital asset security, cyberbullying, and privacy liability. Adoption is likely to accelerate among successful families as exposure increases through smart-home systems, cloud reliance, and interconnected business interests.

Recommendations

Protecting digital wealth starts with visibility, vigilance, and the right coverage. The Baldwin Group helps clients assess exposure, strengthen cyber hygiene, and ensure insurance keeps pace with emerging threats. Turn to our advisors for guidance with:

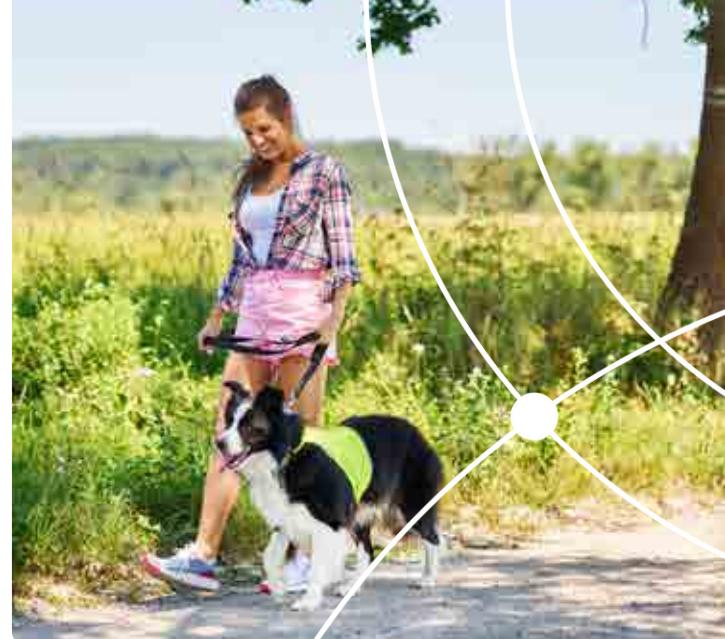
- 1 Coverage alignment**
Review policy terms and limits regularly to confirm protection for ransomware, phishing, identity theft, and extortion.
- 2 Risk mitigation**
Implement controls such as multi-factor authentication, timely software updates, and segmented networks to strengthen insurability and reduce loss likelihood.
- 3 Integrated protection**
Bundle cyber with homeowners or umbrella programs for cohesive coverage and greater underwriting efficiency.
- 4 Family education**
Promote ongoing cyber awareness and safe online habits across all household members to help prevent social-engineering and privacy breaches.
- 5 Professional support**
Engage trusted cybersecurity specialists for monitoring, response, and guidance tailored to your household's digital footprint.

Explore our insights in "[Cybersecurity Tips](#)" for actionable guidance about safeguarding personal data and building meaningful cyber awareness across your household.

Umbrella Liability

Preserving wealth amid evolving litigation and liability exposure

Rate trend	Capacity and outlook
Significant increases	Reduced appetite with continued pressure

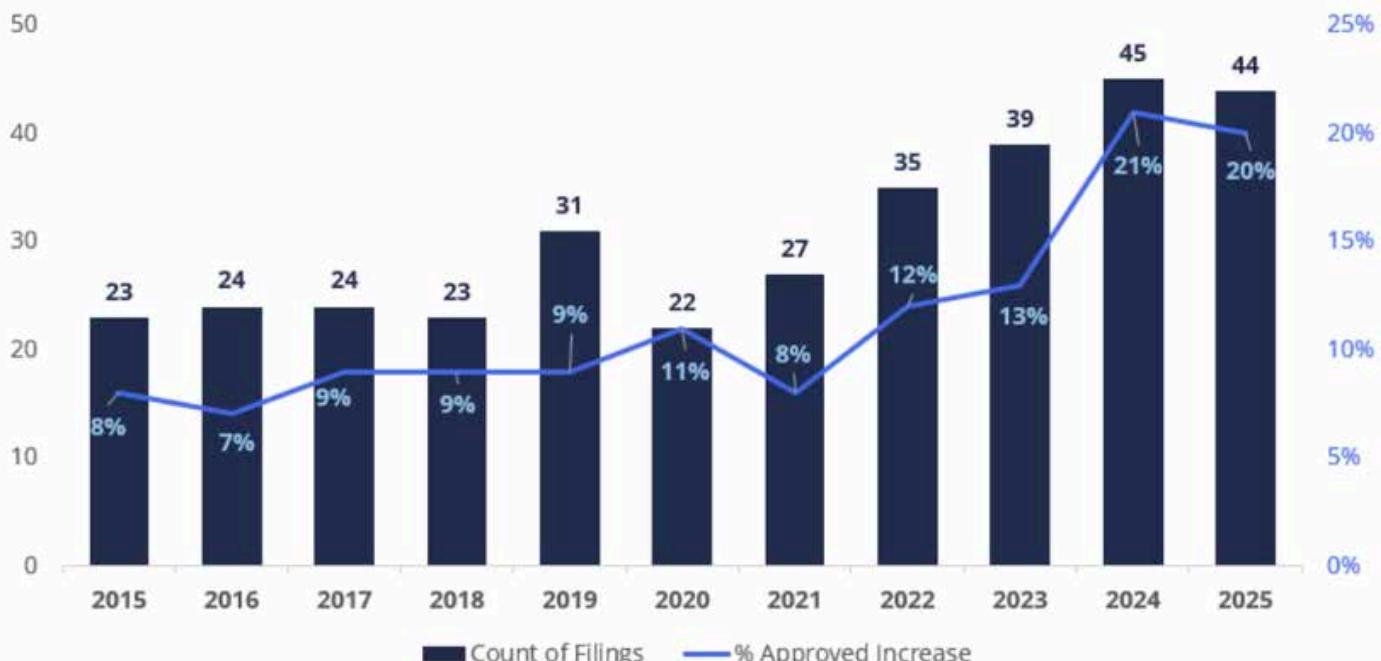


Overview

Market capacity remains constrained due to persistent challenges such as escalating social inflation, expanded litigation funding, and the rise in nuclear verdicts. Although demand for higher liability limits remains strong, many insurers are growing less willing to underwrite coverage or are exiting the private umbrella market altogether.

Umbrella liability coverage remains a critical safeguard for households with substantial assets. As premiums rise and capacity tightens, successful households are becoming more attuned to their exposure to large liability claims, relying on advisors to secure programs that reflect today's legal and financial environment.

Personal Umbrella U.S. Average Approved Rate Increase



Source: GenRe²⁵

Market Dynamics

Nuclear verdicts and third-party litigation funding (TPLF)

Outsized jury awards and the rise of TPLF are extending lawsuit duration, driving higher settlements, and increasing claims costs, prompting underwriting scrutiny and reduced capacity.

Growing awareness

Greater awareness of high-profile liability cases is prompting more individuals to seek excess liability protection.

Strategic bundling

Insurers increasingly offer favorable coverage terms for clients who combine umbrella coverage with home and auto policies.

A jury recently awarded **\$4.2 million to an 82-year-old Georgia woman who suffered significant injuries** when she was attacked by a neighbor's dog.³⁶

By the Numbers

200%

Combined ratio for personal umbrella insurance in 2024

\$31.3B

Total value of nuclear verdicts in 2024, a +116% YoY

135

Number of nuclear verdicts over \$10 million in 2024, +52% YoY

49

Number of "thermonuclear" verdicts that exceeded \$100 million in 2024

\$1.6B

Total amount dog-related injuries cost U.S. insurers in 2024

Sources: GenRe,³⁷ Marathon Strategies,³⁸ Independent Agent³⁹

Key Developments

Evolving coverage dynamics

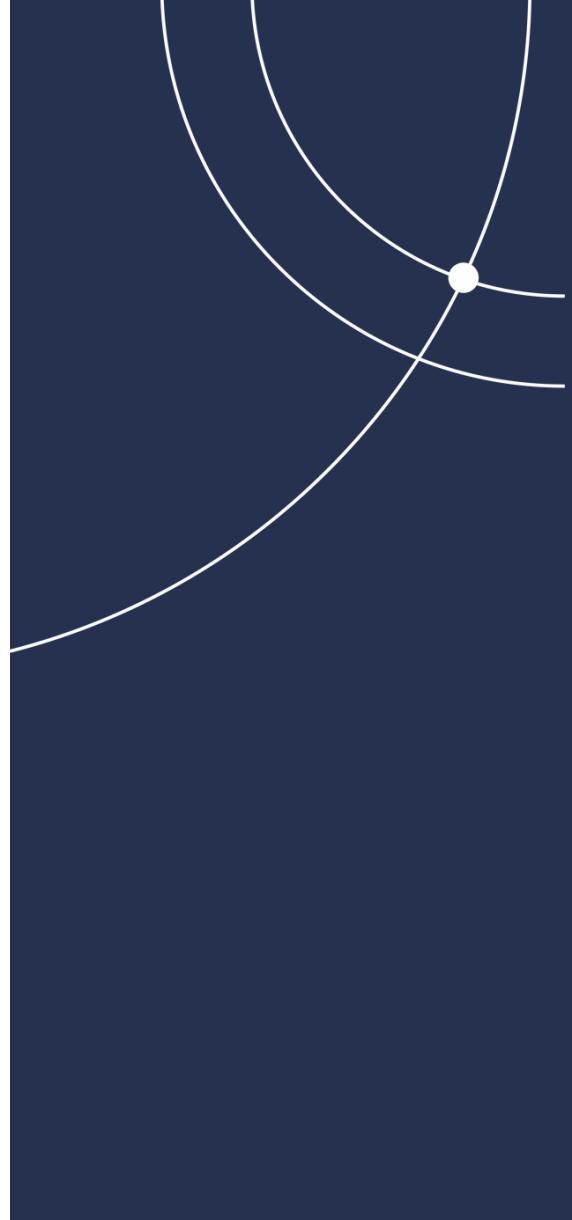
Where \$5M once represented a standard umbrella limit, many insurers now cap coverage at \$2M to \$3M. Some major insurers have also scaled back participation in higher-limit programs as reinsurance costs and verdict severity pressure profitability, making multi-insurer layering increasingly common.

To access higher limits, successful clients often must bundle umbrella policies with home or auto programs, an option typically available for households with clean claims histories. Increasingly, clients are layering policies across multiple insurers, adding complexity and cost. At the same time, insurers expect stronger underlying coverage and verified risk controls, including clean driving records, secure home systems, and accurate declarations, to qualify for preferred terms.

Scrutiny of lifestyle exposures

Short-term rentals, recreational vehicles, and online activity are creating new sources of liability that often fall outside standard homeowners or auto coverage. Domestic staff, private events, and personal aviation or marine assets are also introducing higher-exposure scenarios requiring specialized review.

Maintaining a public profile or running digital ventures can heighten exposure to defamation and privacy claims, prompting insurers to conduct more detailed underwriting reviews and, in some cases, require specialized coverage. As these exposures grow, umbrella insurance is becoming an increasingly essential safeguard for successful households.



Looking Ahead

The umbrella liability market is expected to remain firm over the next 12 months, with continued premium increases and disciplined underwriting. Emerging risks, including cyber, social media, and AI-related defamation or misuse of likeness, are prompting new exclusions and greater scrutiny of reputational-harm exposures. Legislative efforts around tort reform and litigation-funding transparency could influence pricing and participation, but strong demand for higher limits will persist among successful households seeking to protect rising asset values and complex exposures.

Recommendations

Comprehensive liability protection requires ongoing review and proactive alignment with lifestyle and asset growth. The Baldwin Group helps clients assess exposure, strengthen coverage, and navigate evolving eligibility requirements. Turn to our advisors for guidance with:

1 Coverage limits

Evaluate whether current limits adequately reflect total asset exposure and potential liability risks.

2 Policy exclusions

Identify exclusions that could create gaps in protection, particularly around property use, animal liability, or digital activity.

3 Layered programs

Build multi-insurer structures to achieve higher limits and stable coverage continuity.

4 Underwriting readiness

Strengthen insurability through favorable driving records, home safety measures, and verified risk mitigation.

5 Bundled solutions

Consolidate home, auto, and umbrella policies for pricing efficiency, streamlined management, and enhanced renewal outcomes.

Explore our insights in "[The Importance of Excess Liability & Umbrella Insurance](#)" for practical guidance about strengthening your liability protection and building a coverage strategy that preserves long-term financial security.

Excess & Surplus Market

Flexibility drives access as personal risk complexity expands

Rate trend	Capacity and outlook
Rising	Expanding with strong demand

Overview

Growth in the personal lines excess and surplus (E&S) market remains strong as admitted insurers withdraw from high-value coastal, wildfire, and flood-prone regions, leaving surplus lines to absorb demand from successful households requiring bespoke protection. The personal-lines E&S market has evolved from a safety valve into a structural source of capacity for complex and catastrophe-exposed risks.

Macroeconomic pressures, climate-related risks, and persistent reconstruction inflation continue to drive pricing upward. Yet flexibility and speed remain defining advantages: E&S insurers are using rating and form freedom to design tailored solutions, higher limits, and innovative structures that balance affordability with risk transfer in constrained markets.



Market Dynamics

Climate and CAT losses

Global insured catastrophe losses are breaking the \$100B mark for yet another year. Natural disasters in high-risk zones continue to drive risks to the market.

Persistent expansion

Surplus lines remain the primary outlet for homeowners in California, Florida, and other catastrophe-prone regions. Product innovation and rapid quoting sustain growth as capacity migrates from admitted channels.

Evolving policy structure

Insurers continue to rely on sublimits and event-specific exclusions for wildfire, flood, and wind to manage claims volatility, but the growth of named-peril and parametric policies signals a strategic shift toward precision underwriting and faster claims resolution.

Market Momentum

\$130B

Estimated U.S. surplus-lines premium volume

+12.3% YoY

Growth in 2025 direct premiums written

\$2.2B

Homeowners' E&S premiums in 2024, +45.2% YoY

Sources: AM Best,^{40,41} S&P Global⁴²

Key Developments

Expanding eligibility and geographic reach

Excess and surplus markets are increasingly the only viable option for properties in wildfire-, coastal-, and flood-exposed regions. Insurers are deploying tiered deductibles, buffer layers, and shared-risk models to balance affordability with capacity. Growth is strongest across the Midwest, Mountain West, and California, where climate events and secondary perils are reshaping underwriting priorities. California remains the focal point of E&S expansion as admitted insurers pull back, leaving surplus lines as the primary outlet for many high-risk communities until regulatory reforms take hold.

Agility and technology-driven precision

Rapid quoting, flexible underwriting, and customized coverage remain hallmarks of the E&S market, especially for complex portfolios, prior losses, or non-standard construction. AI, machine learning, and geospatial analytics now enable real-time assessments of property condition, valuation, and exposure—capabilities proving vital for high-value and architecturally distinctive homes.

Regulatory flexibility

As successful and multistate portfolios grow, demand for customized forms, higher limits, and coordinated umbrella programs continues to rise. The E&S market's adaptability allows insurers to respond quickly where admitted markets are constrained by rate filings, capacity limits, or exclusions. Freed from state rate and form approvals, surplus lines insurers can innovate faster across emerging exposures such as short-term rentals, private collections, and personal cyber—flexibility that remains essential as personal risk profiles become more complex.



Looking Ahead

Excess and surplus personal-lines growth is expected to remain strong through 2026, though pace may moderate from recent highs. Climate exposure, reinsurance cost, and admitted-market retrenchment will sustain demand, while technology integration and parametric solutions expand insurability. Expect continued innovation in climate-adaptation coverage, personal cyber protection, and vacation-rental risk transfer.

Recommendations

A resilient personal-risk program begins with visibility, valuation accuracy, and proactive risk documentation. The Baldwin Group partners with clients to enhance insurability, optimize coverage, and position complex portfolios for competitive placement. Our experts help you:

- 1 Assess exposure annually**
Evaluate property valuations, risk-mitigation upgrades, and geographic accumulations.
- 2 Engage early**
Begin renewal discussions well ahead of storm or wildfire seasons to preserve leverage and access.
- 3 Review exclusions**
Pay close attention to sublimits and perils-specific wording, particularly for wildfire, flood, and wind.
- 4 Leverage mitigation**
Document defensible space, roof upgrades, and other improvements to strengthen underwriting appeal.
- 5 Coordinate coverage**
Align homeowners, umbrella, and specialty placements to help ensure seamless protection across assets.
- 6 Partner strategically**
Work with experienced brokers who maintain relationships with top-tier E&S insurers and reinsurers to secure optimal outcomes.

Protecting the Possible®

Building personal resilience today requires more than maintaining coverage at renewal. It begins with understanding how evolving risks intersect with your lifestyle, assets, and goals. A proactive approach—grounded in exposure awareness, strong safeguards, and early preparation—lays the foundation for stronger, more predictable insurance outcomes.

Individuals and families who take an active role in prevention and planning are better positioned to manage costs, preserve insurability, and protect the possible. Tailored solutions, trusted insurer relationships, and advisors who understand your unique goals are essential to sustaining that protection over time.

The Baldwin Group serves as a trusted partner, helping you adapt to change, address emerging risks, and build lasting resilience through strategic guidance, specialized expertise, and strong insurer partnerships. Together, we help ensure your coverage evolves as your life does—protecting your success today and for generations to come.







Executive Summary

Throughout 2025, U.S. employers navigated a benefits landscape shaped by rising healthcare costs, evolving employee expectations, and a more complex regulatory environment. As a result, healthcare spending and employer-sponsored benefits continue to experience significant shifts, prompting organizations to rethink how they manage cost, quality, and access to benefits.

According to the 2026 Employer Health Care Strategy Survey from the Business Group on Health, employers are seeing the steepest health care cost increases in years. While the average cost trend for 2026 is predicted at 9%,¹ many employers recently saw double-digit renewal increases for their health plans, driven largely by a trifecta of pharmacy spending, chronic condition management, and higher utilization of medical services.

"The compounding effect of high health care increases means that by 2026 health care costs are projected to be 62% higher than they were in 2017."²

Recent data from the Kaiser Family Foundation shows that the average annual premium for employer-sponsored family coverage is now \$26,993 with workers contributing about \$6,850 toward that total.³ Overall, U.S. health spending is expected to reach \$8.6 trillion by 2033,⁴ accounting for more than 20% of Gross Domestic Product (GDP) and signaling that affordability is likely to remain a concern for some time.

As healthcare costs continue to rise, employers, especially those with self-funded plans, are also navigating a more selective stop-loss market. Reinsurers are becoming more cautious, applying more lasers, and tightening underwriting standards, making it more challenging for employers to secure favorable terms, and increasing the need for strategic planning and expert guidance.



A "laser" is a provision in a stop-loss policy that sets a higher deductible or limitation for a specific high-risk individual, rather than applying the standard deductible to everyone.

Other trends contributing to the upward pressure on benefits spending include:

General inflation

Elevated prices and interest rates continue to affect operating costs along with the uncertainty around tariffs and global trade.



Medical inflation

It is now at its highest in a decade, fueled by:

- Labor shortages impacted by retirements and burnout
- Shifts in site-of-care delivery, which are increasing costs and reducing transparency
- Rising utilization, especially for mental health and substance use services, and more frequent “smaller large claims” instead of large catastrophic ones

Drug inflation

Pharmacy costs are outpacing medical costs most notably due to:

- LP-1 medications driving increases for pharmacy benefits
- Specialty drugs for cancer and autoimmune conditions
- Consolidation of retail pharmacies, which is reducing competition and influencing pricing

Employee shifts in expectations

Employees expect benefits that not only support their financial security and overall wellbeing, but also help them manage uncertainty in their lives (e.g., mental health support, financial wellness tools, flexible leave options, etc.)

“66% of employees are **stressed about their financial situation.**”⁵

Regulatory and compliance complexity

A growing number of changing requirements that employers must contend with include:

- Affordable Care Act (ACA) subsidies enhanced by the Inflation Reduction Act which are set to expire by the end of the year, potentially increasing the roles for employer health plans and out-of-pocket costs for employees.
- New rules around leave policies, retirement plan reporting, and health plan transparency, which are adding to employers’ administrative workloads.

What's next?

With costs rising and employee needs rapidly evolving, employers are increasingly exploring new strategies to manage benefits more effectively, such as:

- Plan design changes, including reference-based pricing, value-based plans, and direct contracting
- Innovative population health strategies, high-performing networks, and digital health tools to improve outcomes and control costs
- Co-pay plans and narrow networks to limit premium increases passed on to employees

As 2025 came to a close, the employee benefits market demonstrates signs of reaching an inflection point. Discussions have moved from debating the necessity of change to strategizing its effective implementation. Employers are now evaluating innovative strategies to better manage costs, while considering the critical role benefits advisors play in guiding them through this evolving landscape. As the market continues to shift, the focus remains on identifying actionable solutions and anticipating future developments.

Currently, employers demonstrate a greater openness to innovation and collaboration than ever before. The Baldwin Group's 2026 State of the Market Report offers a comprehensive analysis of key market trends, delivering timely insights and actionable solutions. It aims to help employers seize opportunities to effectively manage costs, enhance care quality, expand access to services, and address rapidly changing dynamics—all while staying aligned with the evolving needs of today's employee populations.



Introduction

The employee benefits landscape is undergoing significant transformation. In 2025, employers faced escalating healthcare costs, evolving employee expectations, and increasing regulatory complexity, prompting a reevaluation of benefits strategies, budget management, and workforce support.

Healthcare costs are rising at an unprecedented pace, and renewals are far exceeding initial projections, driven by inflation, increased pharmacy expenditures, chronic health conditions, and higher medical service utilization. At the same time, employees are demanding greater support, particularly in areas such as mental health resources, financial wellness initiatives, and flexible working arrangements.

Adding to the challenges, employers managing self-insured plans are encountering a more selective stop-loss market, while regulatory obligations continue to grow in complexity.

As these challenges converge, employers are tasked with addressing critical questions, such as: How can costs be controlled without sacrificing quality of care? What strategies can personalize benefits to meet the diverse needs of today's workforce? How can businesses navigate and stay ahead in an increasingly complex regulatory and operational environment?

This report offers actionable insights to address these pressing concerns, empowering employers to make informed decisions, adapt to change, and protect what is possible in an evolving benefits landscape.



Key Trends

Trend #1: General Inflation

The past year has brought rapidly evolving economic conditions in the U.S. for both employers and employees. While inflation has moderated from its peak in prior years, many sectors continue to experience elevated prices, creating new challenges for workforce planning and benefits management.

In September, the Federal Reserve made a modest 0.25% cut to the federal funds rate, bringing it to a target range of 4.00% to 4.25%. While this move indicated a potential easing of borrowing costs, inflation remains above the Fed's target of 2%. The Consumer Price Index (CPI) rose 2.9% year over year in August⁶, with notable increases in groceries (3.2%), housing (4%), and car insurance straining both employer budgets and employee paychecks.

Medical inflation remains elevated, with healthcare costs rising 4.2% annually,⁷ which contributed to higher health plan renewal rates in 2025 and increased pressure on employer-sponsored benefits.

“National health expenditures are projected to grow by 7.1% in 2025, significantly outpacing projected GDP growth...”⁸

Labor challenges

At the same time, U.S. employers responded to economic uncertainty and competition for talent by increasing wages. A recent World-at-Work survey reported that U.S.-based employers are anticipating 3.5% average salary increases this year, depending on industry, job role, and function. For instance:

Examples of Projected Salary Increases in 2026 (By Industry)



Source: World-at-Work⁹

While these projected salary increases can help retain talent, they're also boosting the overall cost of employment for today's employers, especially when paired with rising benefits expenses.

Tariff uncertainty

The scope and uncertainty of new tariffs are also influencing employer costs. According to Price Waterhouse Cooper's (PWC's) U.S. Tariff Industry Analysis, annual costs tied to tariffs on pharmaceuticals and medical devices could rise from \$500 million to as much as \$63 billion. While many companies increased inventory to buffer against immediate impacts, the full effect of the new tariffs may not be felt until later in 2026. Nonetheless, tariffs on imported medical equipment and prescription drugs could further drive up healthcare costs for employers that offer comprehensive health insurance coverage to their employees.



Opportunities for employers to navigate inflation

Despite the challenges posed by inflation, employers can refine key strategies to effectively manage health benefits expenses.

1

Consider cost-sharing options

Employers are increasingly considering greater cost-sharing with employees through deductibles, copays, and coinsurance. While these strategies can help manage rising healthcare costs, they must be balanced with employee satisfaction and access to care. In 2025, employees contributed about 25% of the total \$26,993 average annual premium for family coverage,¹⁰ with employers absorbing the remaining cost. Although shifting more costs to employees is one avenue for containment, employers remain cautious about passing premium increases directly to their workforce, mindful of the challenges posed by the competitive labor market.

“Employee cost sharing has likely reached a saturation point, with consumer inflation and macroeconomic conditions making employees increasingly cost-sensitive.”¹¹

2

Leverage tax-advantaged accounts

Health savings accounts (HSAs) continue to be a valuable tool for helping employees manage out-of-pocket healthcare costs while offering employers a way to support long-term affordability. HSAs offer significant financial benefits, including triple tax advantages: tax-deductible contributions, tax-free earnings growth, and tax-free withdrawals for qualified medical expenses. Moreover, recent provisions introduced by the One Big Beautiful Bill Act (OBBA) are further enhancing accessibility of HSA funds for employees, making them an even more valuable resource for managing healthcare expenses.

As of January 1, 2026, the changes aim to remove barriers and open the door for more employees, including part-time workers, gig workers, and those in rural areas, to benefit from HSAs. For example:

- Direct primary care (DPC) health plan models will become HSA-compatible, provided the monthly fee for membership does not exceed \$150/month for individuals or \$300/month for families.¹² And since DPC membership fees will be considered medical expenses starting in 2026, this means members can pay them with pre-tax HSA funds.¹³
- The telehealth safe harbor will be permanently reinstated, allowing high-deductible health plans (HDHPs) to cover telehealth services before deductibles are met without disqualifying participants from HSA contributions.

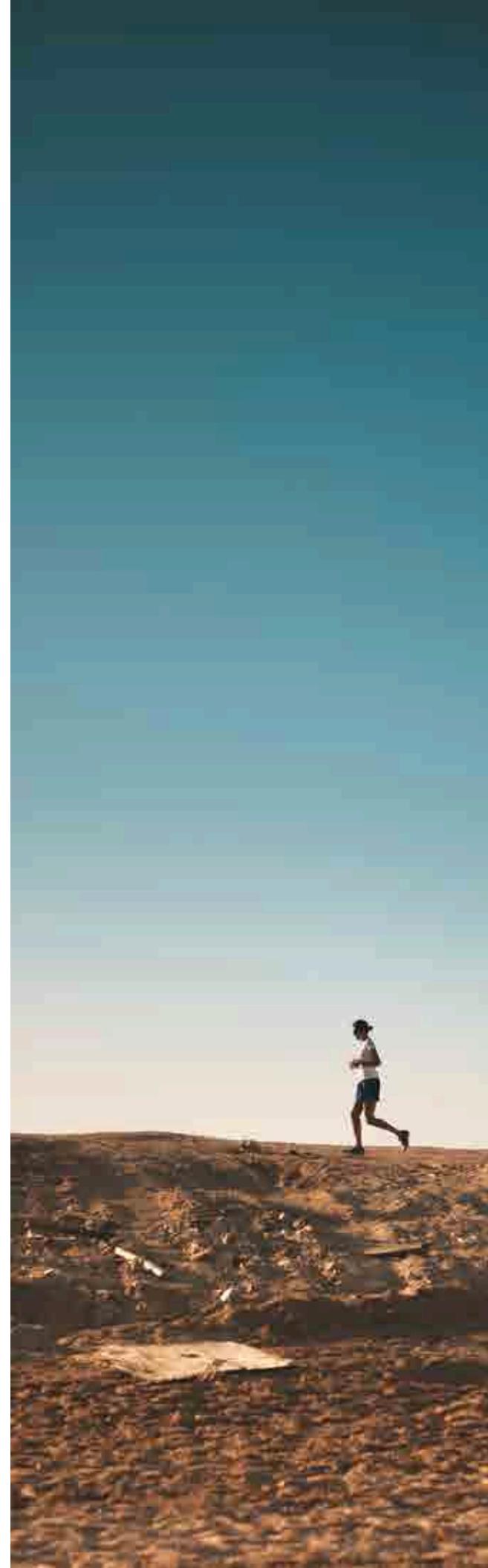
Employers should review their plan documents and eligibility rules to ensure they're aligned with the new law and consider how expanded HSA access can support financial wellness and healthcare affordability among their employees.

3

Review health plan design

According to McKinsey's Employer Health Benefits Survey, a growing number of employers are considering switching health insurers to improve cost efficiency and employee experience. Not only are many exploring value-based plans, direct contracting, and reference-based pricing to gain more control over spending, but:

- **About two-thirds** of respondents in the survey say they are looking to switch insurance companies over the next four years or less,¹⁴ and
- **About two-thirds** also indicate they are looking for cost savings of greater than 10%¹⁵

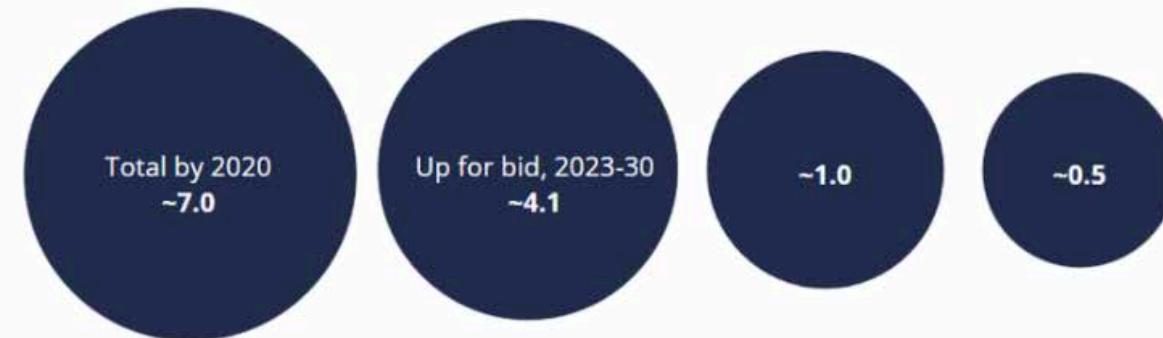


By 2030, potentially 12 million people could be covered under a newer, alternative plan design, representing roughly \$500 million in value at stake.

Commercial members at stake in US by 2030, millions



Fully insured value at stake in US by 2030, \$ billion



Source: McKinsey & Company¹⁶

4

Explore smart technology and data analytics

Employers are increasingly utilizing technology platforms and health services data to direct employees to high-performing providers at the most cost-effective rates within their health networks. These tools can:

- Analyze health services data to identify cost-saving opportunities
- Improve benefits administration and employee engagement
- Support better health outcomes by guiding care to top-rated providers¹⁷



Insight

Benefits leaders reveal that despite inflationary pressures, employers want to maintain strong, resilient benefits programs and find smarter ways to manage costs.

Trend #2: Medical Inflation

As employers reviewed their health plan renewals for 2026, many encountered near double-digit increases in premiums. This upward trend is being shaped by a combination of healthcare workforce shortages, utilization, and delivery pressures.

Labor challenges

One of the key contributors to the current state of medical inflation is the impact of staffing shortages and rising labor costs for healthcare providers, which are getting passed along to employers through higher reimbursement rates and claims costs. Among the labor challenges:

- **Physicians are retiring** - The U.S. healthcare system is approaching a "physician retirement cliff."¹⁸ According to the Association of American Medical Colleges (AAMC), more than 46.7% of practicing physicians were over the age of 55 as of 2021, and two in ten are already 65 or older.¹⁹ This aging trend means a significant portion of the physician workforce is nearing retirement. As a result, the AAMC projects that the U.S. could face a shortage of up to 124,000 physicians within the next decade, driven largely by this wave of impending retirements.
 - In addition, 70.6% of physicians who changed their retirement plans post-COVID are expected to retire earlier, moving up their retirement age by an average of 5.25 years.²⁰ According to Jackson Physician Search, this trend is already being felt in hospitals and clinics, where staffing gaps are driving up wait times and the cost of care.
- **Nurses are burning out** - Nurses are experiencing high levels of burnout. The American Nurses Association reports:
 - Nearly 18% of new graduate nurses leave the profession within the first year, citing stressful working conditions and understaffed locations
 - 69% of nurses under 25 years of age experience burnout of some kind²¹

"Nearly 40% of nurses and more than 41% of LPN/VNs **reported an intent to leave the workforce or retire** within the next five years."²²



Delayed procedures

At this time, utilization patterns are stabilizing, with many employees rescheduling elective surgeries and preventive care that were previously postponed during the COVID shutdowns. According to medical research, these surgical delays have been associated with a number of cost-driving factors, such as increased infections and longer hospital stays. For conditions like cancer, where progression can occur quickly, these delays escalate routine procedures into higher risk and higher cost treatments. This not only impacts patient outcomes but also contributes to extended employee absences and rising employer healthcare expenditures.

Contract renewals

Many provider contracts originally negotiated between 2020 and 2022 are now reaching the end of their terms and undergoing renewal. These new agreements are reflecting significantly higher reimbursement rates for medical services, hospital care, and supplies, driven by inflationary pressures, workforce shortages, and increased demand for care. As a result, employers are seeing a direct impact through rising claims costs.

For example, spending on hospital care rose by 10.4% and prescription drug costs increased by 11.4% in 2023,²³ according to the American Medical Association. These trends persisted in 2025, with actuaries projecting continued elevated medical cost growth. In turn, this translates into higher insurance contract renewal rates, which are passed on to employer-sponsored health plans.

Site-of-care shifts

With an aging U.S. population and a rise in chronic illness, demand for drugs to treat conditions has increased. More medications, especially infusions and specialty drugs, are being administered in outpatient clinics or physician offices under the medical benefit of insurance plans rather than the pharmacy benefit. While this can improve access, it often leads to higher costs and less pricing transparency, making it harder for employers to manage spend.

Here or there?

Cost comparison for different sites of care²⁴

Site of care:

Hospital

Average cost per infusion:

\$5,500 - \$11,500

Site of care:

Doctor's Office

Average cost per infusion:

\$3,500 - \$5,500

Site of care:

Ambulatory Infusion Center

Average cost per infusion:

\$3,500 - \$5,000

Site of care:

Home

Average cost per infusion:

\$1,700 - \$3,500

Based on costs from infusioncenter.org

Emerging claim patterns

Over the past year, employers have experienced a significant increase in health claims ranging from \$50,000 to \$300,000. These "smaller large claims," which typically fall below stop-loss thresholds, present unique challenges as they still impact benefits costs. Unlike catastrophic claims, these claims are more difficult to absorb and add complexity to cost containment efforts.

Million-dollar health claims, however, are also rising. High-cost health claims jumped 29% in the past year and 61% over four years.²⁵ Cancer remains the leading driver of high-cost claims, with incidence rates continuing to climb, according to the latest edition of the American Cancer Society's Cancer Facts & Figures. Cardiovascular and musculoskeletal conditions are also significant contributors to these costly claims.



1% of employees drive 29% of total claims, and 5% can account for 57%.²⁶

Mental health services utilization

Over the past year, mental health services continued to see rising utilization across employer health plans, driven by reduced stigma, increased awareness, and a growing demand for care. This surge includes a notable increase in behavioral health claims that escalate into inpatient stays, one of the costliest forms of treatment.

According to a 2025 Wellhub study, 47% of employees say work-related stress is negatively impacting their mental wellbeing, underscoring the need for proactive mental health support in the workplace. The same study found that Gen Z is the most actively engaged work demographic in mental health practices, yet they report struggling the most with their mental wellbeing, highlighting a disconnect between awareness and outcomes.

This growing demand for mental health support is occurring alongside broader societal and economic pressures that are compounding emotional strain. In its 2025 Work in America™ survey, the American Psychological Association reports that economic uncertainty, job security concerns, and policy changes are all contributing to widespread stress among today's employees. These stressors are not only affecting mental health, but also leading to increased absenteeism, presenteeism, and long-term disability claims for employers.

Even more notably, the World Health Organization notes that depression and anxiety alone cost the global economy an estimated \$1 trillion per year,²⁷ primarily due to lost productivity. While direct healthcare costs are substantial, it's the indirect costs, such as reduced performance and workforce disengagement, that pose significant challenges for employers moving forward.

Medicaid coverage shifts may amplify mental health demand in 2026

As Medicaid eligibility redeterminations continue into 2026, millions of Americans may lose coverage, particularly those who gained access during pandemic-era expansions. This shift could lead to a surge in employer-sponsored health plan enrollments, especially among lower-income workers who may have previously relied on public coverage.

For employers, this transition may result in a higher volume of claims and increased demand for behavioral health services, as newly enrolled members seek care they may have deferred. If providers lose government funding tied to Medicaid patients, they may adjust pricing, potentially increasing reimbursement rates for health plans.

Combined with the already rising utilization of mental health services, this coverage shift could further strain employer benefits budgets and reinforce the need for scalable, cost-effective behavioral health strategies.



Opportunities for employers to manage medical inflation

With medical inflation pressuring budgets, employers are actively exploring ways to reverse the trajectory of rising health plan costs, including:

Evaluation of benefits and vendor performance

By identifying offerings that deliver less value or engagement, organizations can redirect resources to solutions that better support employee wellbeing and financial sustainability.

Plan design reassessment

In response to rising healthcare costs and evolving employee expectations, employers are increasingly adopting innovative plan designs that balance affordability, transparency, and quality of care. These models are helping organizations manage spend while offering meaningful choices to their workforce:

1

Copay-based plans

Plans like Surest, Coupe, Clarity, and SimplePay are gaining traction for their no-deductible, fixed copay structures, which simplify the member experience. Employees can see upfront costs for services, often via mobile apps, and make informed decisions without worrying about surprise bills or complex billing. These plans also promote cost transparency and provider comparison, helping drive smarter utilization.

2

Value-based plans (VBC)

These models shift the focus from volume to outcomes by rewarding providers for quality care and patient results. In fact, value-based arrangements are expanding with employers partnering with accountable care organizations (ACOs) and high-performing provider groups with the goal of improving care coordination, reducing unnecessary procedures, and lowering the total cost of care.



3

Reference-based pricing (RBP)

Reference-based pricing (RBP) allows employers to establish fixed reimbursement rates for services, typically tied to a percentage of Medicare rates. This approach helps contain hospital costs, which, in certain markets, can be as much as three times higher than Medicare benchmarks. By guiding employees toward providers that accept RBP, employers can significantly reduce claims volatility while promoting cost-effective care delivery.

4

Direct contracting

Employers are increasingly bypassing traditional insurance networks to contract directly with health systems or provider groups, especially for high-cost services, like surgeries, maternity care, and chronic condition management. By offering greater pricing transparency, reduced administrative overhead, and tailored care bundles, employers can align incentives around outcomes, cost control, and a better healthcare experience for employees.

Guidance to high-quality care

Employers are increasingly using advanced primary care models and high-performance networks to guide employees toward top-performing providers. According to the Business Group on Health, 46% of large employers will offer a high-performance, narrow network in 2026.²⁸

Some employers are adopting incentive-based models that allow employees to choose any provider, while rewarding those who select high-performing options with additional reimbursements or reduced out-of-pocket costs. This strategy promotes informed healthcare decisions while preserving employee autonomy.

Expansion of virtual health options

Virtual care remains a valuable tool for enhancing convenience and generating cost savings. By minimizing unnecessary emergency room visits, improving access to behavioral health services, and supporting the management of chronic conditions, virtual care contributes to both improved outcomes and reduced claims costs.



Insight

Ultimately, building benefits programs that are both sustainable for employers and supportive of employees is not just about cutting costs, it's about making smarter decisions.

Trend #3: Prescription Drug Inflation

In 2025, the cost of prescription drugs outpaced overall medical inflation, increasing three times faster than the general rate of inflation since 1985²⁹, with cardiovascular and antidiabetic medications leading the surge. Moving into 2026, this trend is expected to continue, further pressuring employer health plans.

While the full impact of proposed tariffs on imported pharmaceuticals remains uncertain, several other factors continue fueling higher drug costs:

Employer coverage of GLP-1s is expanding:

55%

cover GLP-1s for diabetes

36%

for both diabetes and weight loss³²

Accelerating GLP-1 utilization

Originally approved for diabetes, GLP-1 receptor agonists, like Ozempic, Wegovy, and Mounjaro, are now widely prescribed for weight loss and chronic condition management. In fact, Food and Drug Administration (FDA)-approved uses not only include Type 2 diabetes but have also expanded to cardiovascular disease and chronic kidney disease. Their monthly cost, often around \$1,200 according to GoodRx, is increasingly being absorbed by employer plans as usage of the drugs shift toward long-term treatment. Employers recently surveyed by the International Foundation of Employee Benefits Plans reported that the average representation of GLP-1 drugs used for weight loss in total annual claims was 10.5% for 2025, an increase over the 2024 average of 8.9% and the 2023 average of 6.9%.³⁰

Expanding FDA-Approved Usage for Semaglutides (e.g., Ozempic)

Current Approvals	Potential Approvals
Type 2 Diabetes	Liver disease
Cardiovascular Health	Alzheimer's disease
Chronic Kidney Disease	Parkinson's disease
Weight Loss	Polycystic ovary syndrome
	Substance use disorders
	Asthma

Source: GoodRx³¹

To help drive costs down over the long term, oral versions of these drugs are in development, and pairing GLP-1s with lifestyle coaching and condition management programs is showing improved outcomes. While actual results of these measures are not fully known, price reductions appear to be imminent from other efforts.

In November 2025, President Trump announced agreements with pharmaceutical companies Eli Lilly and Novo Nordisk to dramatically reduce the price of weight-loss drugs (e.g., Ozempic, Wegovy, etc.). In its official statement, The White House said:

- *"The prices of Ozempic and Wegovy will fall from \$1,000 and \$1,350 per month, respectively, to \$350 when purchased through TrumpRx.*
- *The price of Zepbound and Orforglipron, if approved, will fall from \$1,086 per month to an average of \$346 when purchased through TrumpRx.*
- *In the event that the FDA later approves the Wegovy pill, or certain similar "GLP-1" drugs in each company's pipeline intended to be taken orally rather than as a shot, the initial dose of those drugs will be priced at \$150 per month through TrumpRx."³³*

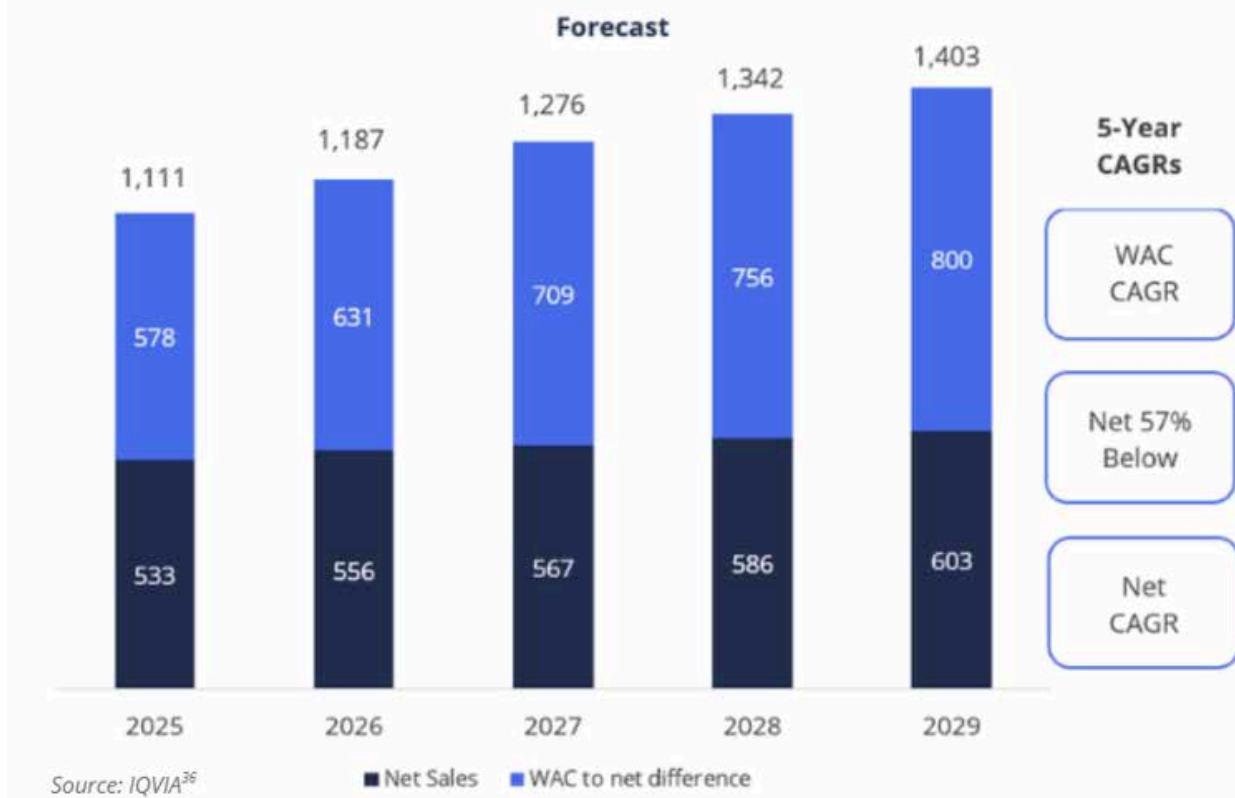
Escalating chronic condition drug costs

The cost of maintenance drugs for chronic conditions continues to climb, creating financial pressure for employer-sponsored health plans. Cardiovascular and antidiabetic drugs have seen price increases of over 400% since 2002. For example, a cardiovascular drug that cost \$100 in 2002 now costs about \$455 in 2025, while antidiabetic drugs have risen to \$442 over the same period.³⁴ Not only does this price escalation outpace general inflation, but it also underscores the growing burden on employers.

At the same time, overall prescription drug use in the U.S. is increasing, further compounding the challenge. According to recent IQVIA data:

- Total prescription medicine use increased 1.7%, reaching 215 billion days of therapy in 2024
- The use of prescription medicines in the U.S., based on defined daily doses, has grown 14% in the last five years to more than 215 billion days of therapy in both retail and non-retail settings
- The use of prescription drugs dispensed from retail pharmacies has continued to grow at an average annual rate of 3.0% over the last five years³⁵

U.S. medicine spending is forecast to grow 3 to 6% through



Ever-increasing cost of specialty meds

Specialty medications, particularly oncology drugs, remain the most significant driver of pharmacy spend for employer health benefits. Although only 2% of the population uses these medications, specialty drugs now represent over 50% of all prescriptions.³⁷

As the availability of specialty drugs continues to grow, employers and other payers will need to determine how they will manage coverage, not only to shape policies but also to ensure employees have access to necessary, and possibly life-saving, treatments.

Beyond the development of additional and more expensive drugs, current cancer treatments involve therapies often priced between \$15,000 and \$30,000 per month, depending on the drug and stage of disease. These treatments frequently require trial dosing and adjustments due to poor tolerance, which adds waste and unpredictability to claims and makes oncology drugs not only expensive but also difficult to manage within traditional benefit structures.

“Average annual treatment costs for oncology and rare diseases [are] both approaching \$300,000 per patient.”³⁹

At this point, industry projections call for specialty drug spending to continue rising, driven by new approvals, expanded indications, and personalized therapies. For employers, this means oncology medications will remain a top priority for cost-containment strategies well into 2026 and beyond.

“Last year, the FDA approved 16 new biologics, including nine cell and gene therapies.”³⁸

Sourcing international drugs

In recent years, importing prescription drugs from countries like Canada or Mexico has emerged as a way for self-insured employers to reduce pharmacy spend. While industry sources report that drug prices in the U.S. can be five to ten times higher than in other countries, the reality is that international sourcing introduces significant legal and safety risks that can outweigh potential savings.

The recent Gilead Sciences vs. Meritain Health lawsuit, filed late last year, centers around allegations of illegal importation of HIV medications from foreign markets, trademark infringement, and data privacy violations tied to pharmacy benefit administration. While the case is still ongoing, it indicates heightened scrutiny of international drug sourcing practices and other issues for U.S. employers, including:

- **Legal situations:** Employers using pharmacy benefit managers (PBMs) or third-party administrators (TPAs) involved in unauthorized importation man open themselves up to potential litigation or compliance penalties in the future.
- **Safety issues:** Imported drugs may bypass FDA quality standards, increasing the risk of counterfeit or substandard medications.
- **Regulatory implications:** Tighter enforcement and oversight is expected over the foreseeable future, making international sourcing a high-risk, low-reward strategy for cost control.

Moving forward, it's recommended that employers focus on domestic cost-control measures. (See "opportunities for employers to manage pharmacy costs".)

Consolidating retail pharmacies

Over the last year, the U.S. retail pharmacy market has become increasingly consolidated, leaving a few major players in control of prescription drug access and pricing. Independent pharmacies continue to close, while large chains and their affiliated PBMs dominate the landscape.

Today, nearly 80% of all equivalent prescription claims are processed by just three companies:

- **CVS Caremark**, a subsidiary of CVS Health
- **Express Scripts**, owned by CIGNA
- **Optum Rx**, a subsidiary of United Health Group

This concentration gives these vertically integrated organizations significant leverage over drug pricing, formulary design, and rebate structures. For employers, however, it's resulted in limited negotiating power, opaque pricing practices, and fewer choices for pharmacy networks, all of which are contributing to rising pharmacy benefit costs.

To counter this trend, new models are emerging:

- Cost Plus Drug Company, for example, offers transparent pricing on common prescription medications based on acquisition cost plus a fixed markup
- Direct health system partnerships and pass-through PBMs that can provide employers with greater visibility and control over drug spend
- Retail chain pilots for cost-plus reimbursement programs that provide more pricing clarity for consumers⁴¹



Opportunities for employers to manage pharmacy costs

As 2026 approaches, employers can implement proactive strategies to manage pharmacy benefit costs effectively. Key approaches include:

Promote biosimilars and generics

While biosimilars for drugs like Humira offer savings of greater than 80%,⁴² adoption remains slow due to PBM rebate structures.

Employers should consider:

- Excluding overpriced drugs from formularies
- Educating employees about the efficacy and safety of biosimilars and generics
- Urging PBMs to update formularies more frequently to stay current with new generic drug formulations
- Using dose optimization and utilization management to reduce waste and improve predictability

Reevaluate PBM contracts for transparency

In 2025, transparency reforms under the Consolidated Appropriations Act (CAA), along with new state-level PBM laws, ushered in significant changes to pharmacy benefit management. These regulations now require PBMs to disclose all rebates and fees, as well as spread pricing practices. Most notably, new rules mandate that 100% of manufacturer rebates be passed directly to employers—eliminating hidden margins and enhancing cost clarity.

To take full advantage of these reforms, employers should:

- Conduct regular RFPs to compare PBM pricing and performance
- Demand pass-through pricing models, which eliminate spread pricing and offers full visibility into drug costs



“52% of employers are considering switching PBMs within 1–3 years, and mid-sized transparent PBMs report record RFP activity.”⁴³

Carve out pharmacy benefits

Separating pharmacy benefits from medical plans emerged as a growing trend in 2025, especially among self-insured employers. By allowing direct contracting with PBMs, as well as improving visibility into claims data, rebates, and specialty drug management, carve-outs can help employers reduce pharmacy spend. This approach also enables custom formularies and better oversight of high-cost specialty drugs, which now account for more than half of pharmacy spend.⁴⁴

Optimize rebates

Traditional PBM contracts often retain a portion of rebates, creating misaligned incentives. While pass-through PBM models gained in popularity over the past year, most likely because rebates and discounts go directly to employers and eliminate spread pricing, there's an opportunity for employers to:

- Audit rebate flows regularly
- Require contract-level visibility into fees and rebate retention
- Align PBM incentives with cost control and clinical appropriateness

Consider outcomes-based payment models

For high-cost therapies, employers can implement pay-for-performance agreements. Under these contracts, payment is tied to patient outcomes; if the treatment fails to deliver expected results (e.g., fewer hospital visits or improved lab markers), the manufacturer refunds part of the cost.

“58% [of U.S. health plans] had at least one outcomes-based contract in place.”⁴⁵

Among self-insured employers, there's rising interest in these models as part of broader efforts to manage costs and improve care quality. At this time, many are reassessing vendor contracts and demanding proof of value, leading to increased adoption of “pay-for-performance” models.



Insight

It's time for employers to rethink pharmacy benefit strategies, demand greater transparency, and leverage innovative solutions to ensure affordability and access.



Trend #4: Employee Engagement Downturn

Employee sentiment continues to reflect a complex and evolving landscape. According to a recent Gallup poll, only 31%⁴⁶ of U.S. employees report being engaged at work, which not only highlights a general sense of detachment but also signals room for improvement.

Financial insecurity remains a key driver of dissatisfaction with one in five employees unhappy with their benefits packages.⁴⁷ Compounding this issue is the emergence of a new workplace phenomenon known as “quiet cracking”⁴⁸ which refers to a form of silent burnout and disengagement that is increasingly impacting morale, retention, and productivity across organizations.

Wellbeing expectations are also rising, creating pressure for employers to expand offerings beyond traditional health coverage. Today’s workforce increasingly views wellbeing as a core part of the employment value proposition, not just a nice-to-have. According to Wellhub’s 2025 Workplace Wellness Report, a striking 78% of employees believe their employer has a responsibility to support their wellbeing, and 88% say it’s just as important as salary.⁵⁰

This shift in mindset isn’t just philosophical. It’s also driving measurable business outcomes. In a separate study, Wellhub found that 95% of companies that track the ROI of their corporate wellness programs reported seeing positive returns. Even more compelling, 91% of HR leaders said their wellness initiatives led to a reduction in healthcare costs.⁵¹

Opportunities for employers to drive engagement

As employees increasingly seek wellbeing support from their employers, organizations have a unique opportunity to enhance benefit offerings to address these evolving needs. Benefits that are currently considered important to employees include:

- **Leave benefits**, particularly paid leave, are expanding under federal policy changes and competitive trends.
- **Mental health support**, like teletherapy, EAPs, and mental health days, are increasingly expected by employees.
- **Financial wellness resources**, such as emergency savings plans and debt management tools, can help combat economic stress.
- **Flexible work arrangements**, like hybrid and remote options, remain top priorities for many employees.
- **Professional development** that encompass upskilling programs can help counter feelings of career stagnation.

Ancillary benefits, such as dental, vision, disability, life insurance, and supplemental health coverage, can provide financial and wellbeing support that today’s workforce wants and needs at a relatively low cost to employers. With 99% of employers offering dental insurance, and 96% offering optional vision plans⁵² these types of benefits have become almost universal in competitive benefits packages, providing the financial protection and preventive care employees value.

In today’s market, where **many employees say they are financially stressed**, these benefits offer a practical solution to support wellbeing and retention, as well as provide flexibility without straining budgets.

“Work isn’t working for many people. The current state of the **economy and job market** has left employees feeling **frozen** in place.”⁴⁹

Employee communication and education

Equally important as offering competitive benefits is ensuring employees understand what's available and how to optimize them to meet their needs and preferences.

1 Tailor messaging by demographic and life stage

As workforces become increasingly diverse, effective benefits communication requires tailoring messages to align with employees' unique career stages and life circumstances. Customizing communications based on factors such as age, family status, and job role can enhance engagement and improve enrollment outcomes. For instance, younger employees might prioritize student loan repayment or mental health support, while older employees may place greater emphasis on retirement planning.

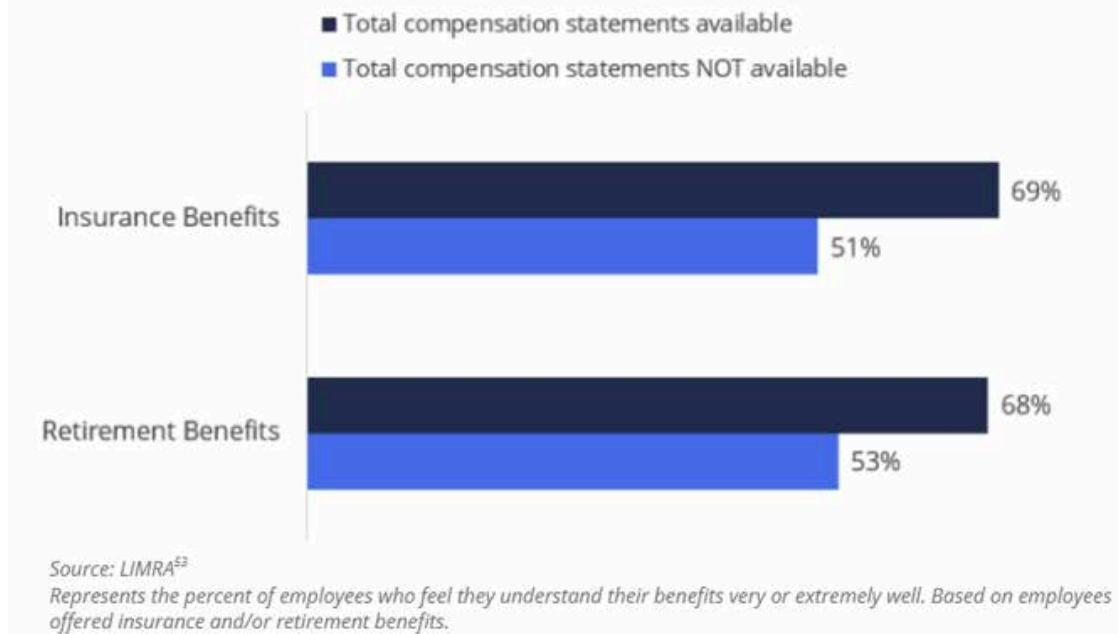
2 Offer benefits education sessions and digital tools

The complexity of benefits can often be overwhelming for employees. In 2025, best practices emphasize the use of interactive webinars, mobile applications, and decision-support tools to streamline benefit choices and deliver real-time guidance. Notably, employer adoption of these tools has increased by 33% over the past three years.

3 Provide total compensation statements

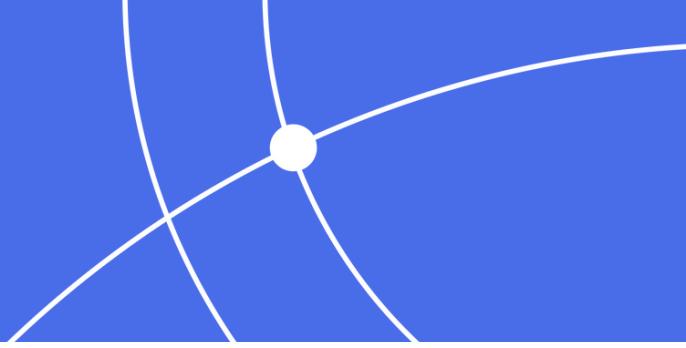
Regardless of the benefits provided, transparency is essential. Presenting the monetary value of employer-provided benefits outside of salary in a comprehensive total compensation statement highlights what some experts refer to as "the hidden paycheck." By outlining employer-paid contributions to health coverage, retirement plans, and additional perks in a single summary, employees gain a clearer understanding of their full earnings beyond take-home pay. This approach helps foster greater appreciation for their benefits and strengthen their connection to the organization.

Understanding of Benefits by Availability of Total Compensation Statements



Insight

Employers that align benefits with well-being, flexibility, and financial security—and communicate them effectively—will gain a competitive edge in retention and engagement in 2026 and beyond.



Trend #5: Regulatory and Compliance Matters

A push toward government efficiency and deregulation under the current Trump administration is translating into shifts in employment laws, especially around AI, leave benefits, and privacy.

Employers should expect more employees and dependents to [move onto group health plans](#), driving up costs and administration challenges...

One Big Beautiful Bill Act (OBBA)

Signed into law on July 4, 2025, OBBBA is the most significant employee benefits legislation since ERISA and ACA. It reshapes key areas of benefits and introduces several impactful changes, including:

- **Telehealth** – Permanently extends the safe harbor for HDHPs, allowing telehealth services to be covered before the deductible without affecting HSA eligibility. This applies retroactively to plan years starting after December 31, 2024.
- **Dependent care assistance** – Raises annual pre-tax limits to \$7,500 (or \$3,750 for married individuals filing separately), effective for plan years beginning January 1, 2026.
- **Direct primary care (DPC)** – Participants in HDHPs can now enroll in DPC arrangements without losing HSA eligibility. HSA funds can cover DPC fees, capped at \$150/month for individuals and \$300/month for families.
- **Student loan repayment assistance** – Previously set to expire in 2025, this program is now permanent. Employers can contribute up to \$5,250 annually toward student loans tax-free through an approved educational assistance program.
- **Trump accounts** – Employers may contribute up to \$2,500 annually as non-taxable income to accounts designed to give children born between 2025 and 2028 a financial head start.

Expiring enhanced ACA subsidies

The enhanced ACA subsidies are set to expire on December 31, 2025. If they do, health insurance premiums could jump, resulting in \$1,016 more per month on average next year.⁵⁴ Losing these enhanced subsidies means higher costs for millions of Americans, especially lower-income families. Congress is debating an extension, but without action, the “subsidy cliff” is projected to hit hard. Employers should expect more employees and dependents to move onto group health plans, driving up costs and administration challenges, particularly for those with large numbers of low-wage workers who previously relied on subsidized exchange plans.

Potential impacts for employers

- **More employees enrolling in employer health plans** as marketplace coverage becomes less affordable. In addition, 2026 eligibility changes could push even more toward employer-sponsored coverage.
- **Higher plan costs** as enrollment grows, especially if new participants have greater healthcare needs.
- **Affordability and compliance pressures** from new ACA rules in 2026, which require employee contributions to stay below 9.96% of household income. Employers may need to adjust contributions and plan designs to avoid penalties, which are increasing to \$3,340 per full-time employee for the “A” penalty and \$5,010 for the “B” penalty.
- **Added administrative workload** from updating communications, enrollment systems, and handling more questions from employees.

Mental health parity enforcement

Moving forward, mental health parity enforcement remains uncertain. The U.S. Departments of Labor, Health and Human Services, and Treasury announced a temporary pause on enforcement, which has raised questions about what may be coming.

Even so, the agencies have made it clear they plan to revisit their approach and could roll out updates in the future. For now, employers and compliance teams should keep a close eye on any changes and continue following the existing 2013 MHPAEA regulations, as well as the updates introduced under the 2021 Consolidated Appropriations Act.

Transparency requirements

Transparency rules are changing how health plans operate, and the coming year is primed to bring even more focus on clear pricing, better communication, and stronger oversight. These rules are designed to help employees make informed choices and avoid surprise bills. Here's what plan sponsors should keep in mind:

- **Gag clause compliance**
 - Confirm contracts don't include clauses that block access to provider pricing or quality data each year by December 31
 - Review contracts with vendors (e.g., TPAs, PBMs, insurers) and document steps taken to get needed data or fix issues
- **Prescription drug reporting**
 - Work with vendors to submit annual drug cost and rebate data to the Centers for Medicare & Medicaid Services (CMS)
 - Confirm vendors submit accurate, complete data
 - Keep documentation for your records
- **Cybersecurity and data access**
 - Check vendor security practices
 - Follow DOL guidance for ERISA plans around transparency rules for sharing sensitive data
- **Mental health parity**
 - Expect ongoing enforcement of rules that ensure mental health benefits aren't more restrictive than medical benefits
 - Make sure vendors can provide detailed documentation to prove compliance
- **Advance cost estimates**
 - Confirm vendors can give participants cost estimates before services are provided
- **Broker/consultant pay disclosure**
 - Review annual disclosures of all payments to brokers and consultants to make sure fees are reasonable
- **Annual notices and communications**
 - Check that vendors provide required disclosures (ex., surprise billing notices) in explanation of benefits (EOBs) and online
- **IRS limit changes**
 - Update payroll systems with 2026 contribution and benefit limits
 - Communicate these changes to employees in the plan
- **Fiduciary oversight**
 - Use transparency data (e.g., drug cost reports, compensation disclosures) to monitor vendor performance and costs to avoid lawsuits over high fees or poor plan management.
- **Price comparison tools**
 - Confirm non-grandfathered plans keep providing online tools and machine-readable files showing negotiated rates
 - Monitor vendors closely for necessary increasing compliance



Opportunities for employers to manage pharmacy costs

- 1 Review contracts for gag clause compliance
- 2 Set up a process to manage transparency reporting
- 3 Document how to oversee vendors and costs
- 4 Check vendor readiness and add protections in contracts for non-compliance
- 5 Plan a communication strategy for cost estimates and online price tools

Uptick in ERISA and fiduciary lawsuits

A recent U.S. Supreme Court decision clarified standards for alleging ERISA violations related to health insurance plans, making it easier for plaintiffs to sue employers and leading to more of these claims. In fact, ERISA-related lawsuits spiked by about 183% in 2024, a major jump from the prior year.⁵⁵ Emerging trends in these lawsuits include:

- Plan fees and expenses as more lawsuits argue that health plans are charging too much or making questionable investment decisions
- Shift in settlements where more are being decided on their merits, with some ending favorably for plan sponsors

These developments show how ERISA litigation is evolving and why strong fiduciary oversight in the administration of health plans is critically important. Clear documentation, well-structured decision-making, and regular monitoring of plan costs are essential to help protect employers from these growing concerns.



Multi-state employee management

Managing compliance for employees in multiple states is likely to grow even more challenging in 2026 as new laws and regulations emerge. Currently, key considerations for employers include:

- Paid family and medical leave: 14 jurisdictions (13 states and D.C.) have adopted paid leave funded by payroll taxes, with key implementation milestones approaching. These policies need to coordinate with FMLA and other regulations.
- Technology adoption: Several states now require businesses to audit AI screening tools and automated assessments for bias and greater transparency. For instance, starting in 2026, employers in the state of Illinois cannot use video or screening AI systems that create discriminatory outcomes and must notify candidates when AI is used.
- AI regulation and employment discrimination: Effective February 1, 2026, Colorado's Artificial Intelligence Act (CAIA) will require employers to ensure that high-risk AI systems don't cause algorithmic discrimination in decisions like hiring, lending, or healthcare. If other states follow Colorado's lead, that could leave companies managing different AI rules across the country unless a single federal standard is introduced.
- Employee data privacy: Companies using monitoring tools to track productivity or work habits must meet disclosure standards similar to those found in consumer privacy legislation.

Opportunities for employers to manage compliance

Although regulations are changing fast, there are smart ways to manage compliance and keep health plans competitive:

- Partner with experienced benefits advisors who actively monitor current market trends and state-specific legislation to ensure policies remain both competitive and compliant.
- Run thorough compliance assessments of plan designs, coverage options, cost-sharing arrangements, and employee needs to optimize overall effectiveness.
- Allocate budget resources to enhance compliance management, including investing in technology solutions for tracking regulatory changes, state leaves, and training staff about relevant legal obligations.
- Strengthen fiduciary oversight by reviewing plan performance, documenting decisions, and maintaining transparency with employees and stakeholders.



Insight

"Many employers still assume that ERISA fiduciary duty only applies to retirement plans, but it also governs a wide range of health and welfare benefits. And if a plan falls under ERISA, so do fiduciary obligations, documentation requirements, reporting standards, and strict enforcement provisions."⁵⁶

Looking Ahead

As employers prepare for 2026, taking decisive action will be crucial to maintain competitiveness, support workforce wellbeing, and address rising costs. In an ever-evolving employee benefits landscape, organizations that leverage data-driven strategies, prioritize personalization, and embrace innovation will be best positioned for long-term success.

1

Focus on data-driven decision-making

Employers are increasingly leveraging data to inform benefits decisions. Ninety-four percent are raising expectations for their wellbeing vendors to deliver measurable outcomes, with many turning to wellbeing dashboards and analytics to evaluate program effectiveness.⁵⁷ This shift underscores the importance of partnering with benefits experts who can help employers translate data into actionable strategies that align with workforce needs and business goals.

2

Balance cost control with employee expectations

As healthcare expenditures continue to outpace economic growth, employers face the ongoing challenge of managing costs while maintaining employee satisfaction and ensuring access to necessary healthcare services. Strategies that emphasize reevaluating plan designs, implementing high-performance networks, and reassessing coverage for high-cost therapies are expected to play a central role in addressing this challenge effectively in the years ahead.

3

Personalize benefits

Employees expect offerings that reflect their unique life stages, family dynamics, and career goals. Current data from the Bureau of Labor Statistics shows that benefits now represent nearly 30% of total compensation,⁵⁸ underscoring their significance in employee engagement and retention. Employers who invest in flexible benefits platforms and empower employees to maximize their offerings are better positioned to meet the diverse needs of their workforce and strengthen organizational loyalty.

4

Prioritize mental health and wellness

Mental health remains a critical focus in employer health and wellness strategies. According to the 2025 Employer Wellbeing Strategy Survey conducted by the Business Group on Health, mental health is now a core component of the well-being strategies adopted by 100% of surveyed employers. Nearly half ranked mental health as their top priority, with an additional 44% identifying it as the second most important focus.⁵⁹

While employee assistance programs, teletherapy, and mindfulness initiatives are among the most common offerings, forward-thinking employers are taking the next step by investing in resilience training, digital cognitive behavioral therapy, and peer support programs. By making emotional wellbeing an integral part of workplace culture, organizations can support their people in achieving long-term health and productivity.

5

Support a multigenerational workforce

With several generations—including Gen X, Millennials, and Gen Z—now active in or entering the workforce and engaging in employer benefits programs, employee demographics are more diverse than ever before. Each generation brings its own distinct values and priorities, from retirement readiness and workplace flexibility to mental health support. By tailoring benefit programs to reflect these differences and allowing employees to select the options most relevant to their needs, employers can better address the varied preferences of today's workforce while fostering inclusivity and support for all.

6

Leverage technology and AI

Advances in technology, particularly artificial intelligence, continue to transform benefits delivery, empowering employers to streamline processes, personalize communications, and enhance decision-making. As it becomes more embedded in HR systems and grows more important for automating routine tasks, and generating actionable insights from complex datasets, employers can become even more effective at optimizing benefits, improving engagement, and tracking ROI.



Protecting the Possible®

In an era marked by rising costs, shifting employee expectations, and rapid industry evolution, employers must be proactive to succeed in the changing landscape. The Baldwin Group equips organizations not only to respond to emerging trends but to stay ahead, leveraging deep expertise, actionable data insights, and a steadfast commitment to enhancing workforce wellbeing and helping employers protect what's possible for their own organizations.

Dedicated population health expertise

Effectively managing workforce health is a cornerstone of cost control and improved health outcomes. The Baldwin Group's dedicated population health team collaborates with employers to:

- **Support chronic condition management** – Working together, we'll identify and engage those employees living with conditions like diabetes, hypertension, and obesity—conditions that often drive a large portion of healthcare spending. Through targeted programs and resources, our team of clinicians and other professionals work to help improve health outcomes and reduce avoidable claims.
- **Uncover cost-driving behaviors** - By analyzing health claims and utilization data, our team helps employers identify patterns, such as low preventive care usage or high incidences of emergency room visits, that may be increasing plan expenses. The Baldwin Group then implements actionable strategies like education, plan redesign, or focused outreach to reverse cost-driving trends.
- **Personalize programs** - Because every workforce is unique, our team uses data to tailor wellness initiatives, care navigation, and communications to meet the specific health needs of employees and their families.

Predictive underwriting expertise

Understanding current healthcare spending drivers while anticipating future trends is critical to help manage costs. Our predictive underwriting capabilities give employers a clearer picture of what utilization trends may be on the horizon for their employees, so they can make smarter, more confident decisions moving forward. The Baldwin Group's capabilities include:

- **Medical claims analysis** - By analyzing claims data at a granular level, we provide insights into high-cost claimants and utilization patterns. This approach uncovers trends, identifies outliers, and highlights opportunities for improvement, enabling a clearer understanding of what is driving healthcare costs.
- **Actuarial modeling** - Using advanced modeling to forecast future costs and test different plan design scenario, we empower employers to make informed decisions about funding strategies, benefit changes, and vendor partnerships.
- **Analytics platform utilization** – With intuitive tools that turn complex data into clear, actionable insights, employers can monitor performance, track ROI, and adjust their strategy in real time.



Pharmacy consulting

As prescription drug costs continue to rise and pose a challenge to manage, our pharmacy consulting team leverages a structured, multi-step approach to deliver clarity and control within this complex landscape, including:

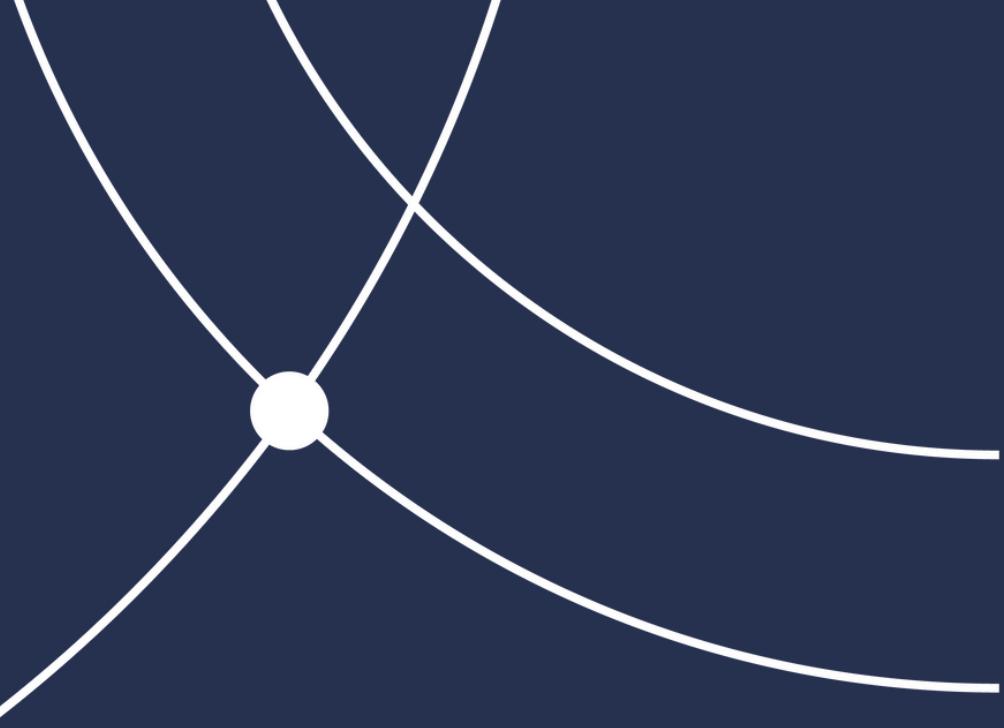
- **Evaluation of current PBMs** - Through review of an organization's PBM contract, plan designs, and utilization data, we'll help identify hidden costs and inefficiencies.
- **Benchmarking and optimization** - With the help of our pharmacy consulting team, current arrangements are compared to industry standards and PBMs are renegotiated or restructured to better align with strategic goals.
- **Management of high-cost drug usage** - Employing clinical oversight and strategies that can monitor specialty medications and GLP-1s helps employers ensure appropriate use without compromising care.
- **Monitoring and adaptation** - Manage fast-evolving pharmacy trends with ongoing reporting and insights that can help employers stay ahead of emerging cost drivers.

Tailored technology solutions

Technology is redefining the delivery and experience of employee benefits, making it essential for employers to understand their options and leverage appropriate tools. The Baldwin Group helps employers:

- **Streamline administration** - Understand platforms that are available to help simplify eligibility, enrollment, compliance, and reporting, as well as improve accuracy and reduce manual work.
- **Tailor solutions** - Implement customized solutions that are aligned with strategic goals to support broader business objectives, from improving retention and supporting a hybrid workforce to enhancing DEI efforts.
- **Increase efficiency and reduce costs** - Integrate systems and automate tasks that can generate measurable savings, both in terms of time and money.
- **Ensure cybersecurity** - Protect sensitive employee data by utilizing vendors that meet the highest standards for data protection and help employers implement best practices to safeguard their systems.

The Baldwin Group goes beyond benefits management, partnering with employers to unlock the full potential of their programs. We empower organizations to design benefits strategies that are not only sustainable but also strategically aligned to protect the possible and drive long-term success.



2026 STATE OF THE MARKET

Industry-specific updates

Construction

Overview

The construction industry heads into 2026 on the heels of a year defined by economic turbulence and operational uncertainty. Protectionist regulations, tariff costs, immigration policies, wage pressures, material inflation, elevated borrowing costs, and supply chain challenges all contributed to one of the most difficult periods recently for achieving budget and schedule certainty.

Yet despite these headwinds, the sector demonstrated notable resilience. Megaproject activity and the rapid expansion of data center development helped offset slower performance in other segments, supporting overall construction volume throughout the year. Looking ahead to 2026, cautious optimism is emerging.

While borrowing costs remain elevated, modest rate relief in the second half of 2025 has improved the financing environment. The national housing shortage continues to fuel demand, and federal priorities remain focused on revitalizing infrastructure, expanding power and energy capacity, and catalyzing new building activity. Adaptive reuse, particularly office-to-residential conversions, also continues to accelerate as cities look for solutions to underutilized commercial space and housing constraints.

For the construction insurance market, a stable and growing construction economy provides a meaningful counterweight to broader volatility. Although certain lines, including commercial auto and umbrella/excess liability, remain challenged, many other segments of the market are competitive, well-capitalized, and actively seeking construction business heading into 2026.

As contractors navigate a landscape shaped by shifting economic forces, operational complexity, and evolving risk profiles, strategic insurance planning becomes increasingly essential. The Baldwin Group partners with construction firms nationwide to strengthen risk management practices, optimize program structure, and secure insurance solutions that support project delivery, financial stability, and long-term resilience.

Current trends

Primary casualty insurance

The primary casualty market for contractors remains broadly stable entering 2026. Overarching underwriting results and loss performance remained strong, and new market entrants with growth ambitions are keeping competition healthy across much of the segment. Rate pressure is largely isolated to higher-risk trades, residential construction, and contractors operating in challenging jurisdictions, where underwriting selectivity remains significantly tighter.

Workers' compensation

Workers' compensation remains one of the most stable lines for contractors, with more states reducing loss costs than increasing them. Most contractors can expect continued stability in 2026, barring adverse loss activity or expansion into higher-risk operations.

General liability

General liability outcomes vary widely based on contractor operations, project mix, and geography. Higher-risk classes, such as residential builders and heavy civil/highway contractors, continue to face limited market appetite and rate inflation. Capacity also narrows significantly in jurisdictions such as New York, Florida, Louisiana, and California, where severity trends and litigation environments remain challenging.

- **Residential construction constraints** – The market for residential construction remains extremely limited, with definitions varying widely by jurisdiction. Several insurers classify apartments, hotels, student housing, and senior living as “residential.” Many of these projects are insured under project-specific policies, such as OCIPs or CCIPs, which often require a comprehensive quality-control program with third-party inspections during and after construction, funded by the owner or general contractor. Policies commonly include allocated loss adjustment expense (ALAE)-within-limits provisions to control defense costs.
- **Coverage restrictions** – Per- and polyfluoroalkyl substances (PFAS) exclusions, biometric privacy exclusions, and expanded wildfire exclusions are becoming more common as insurers refine their risk appetite and shift exposure to other lines of coverage.
- **Excess-of-wrap tightening** – Once considered a routine addition, excess-of-wrap capacity is now heavily restricted. Insurers increasingly require detailed logs of wrap-up participation, including project and program specifics. This issue becomes exacerbated as project owners try to balance the desire to purchase adequate OCIP coverage against the rising cost of excess capacity.

Contractors with disciplined documentation, strong quality control, and proactive geographic risk management are best positioned to maintain favorable general liability terms.

Commercial auto liability

Commercial auto remains one of the most challenging casualty lines for contractors entering 2026. Despite modest underwriting improvements, severity continues to outpace premium growth, driven by accident frequency, vehicle complexity, inflationary repair costs, and ongoing legal system abuse. Rate escalation is expected to continue, particularly for fleets with challenging loss histories or limited telematics adoption.

- **Distracted driving exposure** – Insurers view driver behavior as one of the strongest predictors of loss. Telematics participation, documented coaching, and consistent performance monitoring are now baseline expectations. Gaps in behavioral data or weak enforcement of safety protocols signal elevated risk and reduce market competitiveness.
- **Vehicle technology complexity** – Advanced materials and advanced driver assistance systems (ADAS) features continue to push repair costs higher and extend cycle times. Technology-heavy vehicles, particularly those reliant on sensors or electric vehicle (EV) components, face disproportionate increases in physical damage severity due to calibration requirements and ongoing parts delays.
- **Social inflation and nuclear verdicts** – Large jury awards involving commercial vehicles remain a significant driver of liability severity. Plaintiff-bar tactics, venue risk, and litigation funding are prolonging claims and inflating settlements, keeping liability results under pressure even as physical damage performance improves. High-hazard fleets increasingly depend on facultative or international reinsurance layers with tighter attachment points and pricing.
- **Persistent underwriting losses** – Commercial auto liability remains one of the least profitable casualty lines. Loss costs outpace rate increases, extending a long-running underwriting-loss trend. While physical damage results have stabilized, litigation, medical inflation, and elevated verdict severity continue to erode margins and sustain upward pricing pressure.

Fleets with strong leadership engagement, documented fleet-safety policies, telematics-driven oversight, and proactive non-owned auto controls are best positioned to mitigate rate pressure and remain competitive in a difficult auto liability environment.

Commercial auto liability loss trends, in focus

Property damage claim frequency: +2.5% in 2024

Bodily injury claim frequency: +9.2% in 2024

Physical damage and liability divergence: 88.6 CR for physical damage vs. 113 CR for liability (tenth consecutive year above 100)

Behavioral challenges: 25% of employees report work-related crashes caused by mobile-device distractions

Average auto premium increase: +10% YoY

Commercial auto underwriting loss: \$4.9B in 2024, down from \$5.5B in 2023

Average nuclear verdict (>\$1Mb): increased from \$2.3M to \$22.3M over nine years

Operational impact: 64% of employers cite distracted driving as a major liability concern

Sources: LexisNexis,¹ Insurance Journal,² Travelers,³ American Transportation Research Institute⁴



Umbrella/excess liability

Umbrella and excess liability remain among the most pressured lines for construction firms entering 2026. After a brief period of stabilization in 2024 and early 2025, conditions deteriorated again in the second half of 2025—trends that are likely to persist into 2026, with some insurers exiting the U.S. excess liability market entirely.

- **Market volatility and shrinking capacity** – Hard-market conditions resurfaced as nuclear verdicts, litigation funding, and escalating defense costs eroded underwriting performance. Several insurers have scaled back or withdrawn participation, tightening capacity and pricing.
- **Sector-specific challenges** – Capacity varies significantly by contractor profile. General building contractors retain broader insurer appetite, while civil and infrastructure firms face reduced capacity due to higher loss severity and more frequent excess-layer breaches in both general liability and auto liability.
- **Pressure on large-limit towers** – High-limit programs remain difficult and expensive to structure. Contractors with \$100M+ towers must reassess limit architecture and consider creative layering as per-project limits with reinstatement become harder to obtain. Balancing costs, contractual requirements, and coverage availability is an increasingly complex but critical decision.
- **Tightening excess-of-wrap protection** – Excess of owner controlled insurance program (OCIP)/contractor controlled insurance program(CCIP) coverage is also becoming harder to secure. Insurers expect detailed logs of all wrap-up enrollments, including participating insurers, limits, and project scope, to gauge aggregate exposure and layering needs.
- **Limit adequacy concerns in OCIPs** – Contractors are frequently asked to enroll in general liability (GL) OCIPs with insufficient limits, creating tension between project owners and underwriters. Inadequate wrap limits can push risk back onto corporate excess programs or worse, an uninsured exposure. This disconnect has often lead to general contractors seeking a limitation of liability within their owner contract tied to available insurance under the OCIP.

Maintaining rigorous documentation, evaluating limit structures proactively, and engaging insurers early is critical to secure adequate excess protection in a market where capacity remains constrained and pricing pressure persists.

Builder's risk

Builder's risk outcomes entering 2026 vary widely by construction type, project complexity, and geography. While wood-frame rates have improved meaningfully, other segments—particularly mass timber and large non-combustible projects—continue to face stricter underwriting, reduced capacity, and more rigorous loss-control expectations. Wind, water, and defect-related performance remain central to insurer decision-making across all project classes.

- **Wood-frame improvement** – After several years of deterioration, wood-frame conditions have strengthened. Average rates decreased by roughly 15% year over year for our clients. Underwriting remains rigorous, but insurers are showing more flexibility around site-security specifications and approved list of electronic monitoring vendors, even as core protections remain mandatory.
- **Mass timber risk classification** – Despite meaningful engineering distinctions, many insurers continue to treat mass timber as standard wood-frame, limiting market appetite and keeping pricing elevated. Only a small group of insurers has invested meaningfully in understanding mass timber performance across perils such as fire, water intrusion, structural defect, and installation error.
- **Mass timber underwriting scrutiny** – Mass timber projects face extensive underwriting review. Insureds must articulate protective measures across manufacturing, transit, storage, handling, installation, moisture control, and quality assurance. Underwriters increasingly expect architects, engineers, and contractors with demonstrated mass-timber experience to validate project readiness.
- **Non-combustible project constraints** – Conditions for steel, concrete, and other non-combustible structures are more challenging than in past years. While pricing is firming moderately, reduced insurer capacity is exerting greater pressure. Many projects now require shared or layered placements as insurers limit single-site exposure. Retentions continue to rise across the sector, particularly for wind and water.
- **Convective wind scrutiny** – Tornadoes and SCS events have driven substantial losses in typically non-hazardous regions. As a result, more geographies are now subject to wind sublimits and percentage deductibles. Underwriters are scrutinizing temporary works, tie-down protocols, and site-security measures during high-wind periods.
- **LEG III coverage constraints** – LEG III ("cost of making good" faulty workmanship) is becoming scarcer. Once a common enhancement, it is now offered selectively and typically with higher premiums, higher deductibles, or reduced sublimits—particularly on highly engineered or design-intensive projects.
- **Water-damage challenges** – Water damage remains a leading cause of builders risk loss. Deductibles continue to rise, and sublimits are now common across most building types. Underwriters are prioritizing water-mitigation plans, including moisture controls, temporary protection, monitoring technology, and off-hours oversight.

Organizations that demonstrate detailed project controls, strong partner experience, and clear loss-mitigation planning—especially around wind, water, and installation quality—are best positioned to secure capacity and competitive builders risk terms in a bifurcated 2026 market.



Environmental liability

Environmental liability remains stable entering 2026, supported by abundant capacity, new entrants, and consistent retention levels. While overall rate movement remains modest, underwriting scrutiny is increasing across higher-risk classes. Insurers continue refining appetite and adjusting terms to address emerging contaminants exposures, rising claim severity, and evolving regulatory considerations.

Pollution legal liability

Pollution legal liability (PLL) benefits from strong market capacity and competitive conditions for well-managed accounts. However, tightening around emerging contaminants and high-risk occupancies is shaping underwriting expectations and influencing terms.

- **Stable rate environment** – For accounts with desirable risk characteristics, pricing remains largely flat to low- to mid-single-digit increases, supported by favorable loss experience and strong capital availability.
- **Ample capacity** – New entrants in the environmental market are expanding capacity. Large towers remain achievable, though often requiring more insurers deploying smaller individual limits.
- **PFAS/perfluorooctane sulfonic acid (PFOS) exclusions** – PFAS exposures, which remain difficult to quantify and underwrite, are now broadly excluded by many insurers. Limited bodily injury/property damage (BI/PD)-only coverage may be offered in specific scenarios, but cleanup coverage is increasingly rare.
- **Mold limitations** – Mold claims continue to rise in frequency and severity. Insurers are responding with higher deductibles, reduced limits, and shorter policy terms for mold-related coverage.
- **Restricted terms for higher-risk classes** – For class-action susceptibility, accounts in sectors with elevated exposure (e.g., habitational, military housing, low-income properties) are seeing tighter terms, lower limits, and in some cases per-claimant deductibles.
- **Communicable disease exclusions** – More policies now exclude communicable disease, and first-party disinfection cost coverage is being further restricted through lower sublimits and higher deductibles.
- **Energy sector shifts** – A reduced appetite for sudden and accidental pollution coverage in casualty markets has created coverage gaps for upstream and midstream energy accounts. Environmental insurers are increasingly stepping in with options to sit lower in the tower or even primary, but at additional rate.
- **Stable retentions** – Despite tightening terms in certain segments, retentions remain broadly stable across most industries.

Strong environmental controls, disciplined documentation, and well-defined operational practices are strategies contractors can leverage to secure favorable terms in today's pollution legal liability (PLL) market—particularly as underwriting scrutiny increases around emerging contaminants and higher-risk occupancies.

Contractors pollution practice and project specific policies

Capacity for contractor practice policies and project-specific environmental coverage remains strong heading into 2026. Competition among insurers contributes to favorable market conditions.

- Stable rates and terms – Pricing, coverage terms, and retentions remain steady, with limited upward pressure even in segments facing broader casualty challenges.
- Abundant market options – New entrants and managing general underwriters (MGUs) have increased competition, expanding availability for both practice and project placements, giving contractors greater flexibility in structuring environmental programs.

To achieve competitive outcomes across both practice and project-specific pollution placements, maintain clean work practices, demonstrate clear scopes of work, and present comprehensive environmental protocols.

Construction professional liability

Professional liability conditions for contractors remain generally stable entering 2026, supported by steady rates, consistent retentions, and healthy market capacity. While underwriting discipline is sharpening around design delegation, high-hazard classes, and public-sector project requirements, capacity remains sufficient for both practice and project-specific placements. New market entrants with growth mandates are helping counterbalance tightening from incumbent insurers.

Professional liability programs for contractors

Professional liability for contractors, including practice policies, owner's protective professional indemnity (OPPI), architects and engineers (A&E) professional coverage, and project-specific professional liability, continues to benefit from a stable rate environment and strong capacity. However, underwriters are refining appetite around design responsibility, workmanship exposure, and contract terms on large or complex builds.

- **Stable rates and retentions** – Pricing remains steady, generally flat to +5%, with retentions holding firm across most contractor segments.
- **New entrants shaping market dynamics** – Some insurers are tightening terms or adjusting attachment points, but new capacity is offsetting impact. Larger towers increasingly rely on multiple insurers contributing smaller shares.
- **Project-specific variability** – Many insurers require a contractor's practice program before offering project-specific contractor's protective professional indemnity (CPPI). Appetite varies widely, with heightened scrutiny on projects with material design delegation or elevated technical risk.
- **Faulty-workmanship enhancements** – Sublimited faulty-workmanship extensions are becoming more common, particularly for trade contractors and at-risk construction managers with targeted self-performance.
- **Class-specific exclusions** – Bodily injury exclusions are appearing more frequently among contractors with heightened exposure or historically adverse loss experience.
- **Public-sector pressures** – Public entities (e.g., MTA, DOT, Port Authority) continue to drive high professional liability limit requirements. Ambiguous insurance specifications often require creative compliance approaches—ranging from CPPI for only the design-build contractor to project-specific structures covering both the prime contractor and design firm. Some structures may trigger insured-versus-insured exclusions, limiting a design-builder's ability to pursue claims against the prime designer.

Contractors that clearly document design delegation, maintain disciplined QA/QC controls, and partner with experienced design professionals are best positioned to secure favorable terms and avoid coverage gaps on complex or public-sector projects.

Combined general liability, pollution, and professional programs

Combined liability programs, integrating GL, pollution, and professional liability, remain a strong fit for environmental contractors and consultants, including firms supporting upstream and midstream energy projects.

- **Strong capacity for combined forms** – The market remains competitive with ample insurers offering blended general liability, pollution liability, and professional coverage, especially when workers' compensation and auto liability are placed separately.
- **Placement challenges** – Insurer options narrow when workers' compensation or auto must be included in the combined program, with auto liability in particular mirroring broader market challenges and restricting available excess capacity.
- **Adequate excess capacity** – Despite auto liability headwinds, contractors can still assemble sizable excess towers when supported by strong submissions and clean operational controls.

Contractors with clean operational practices, well-defined scopes, and strong environmental and safety controls continue to achieve favorable outcomes in the combined-form market.



Wrap-ups and project-specific policies

The market for project-specific liability placements remains highly competitive entering 2026, supported by strong capacity, stable pricing, and flexible program structures across most construction segments. Wrap-up programs—both two-line and general liability only—continue to gain traction as owners and contractors seek greater cost certainty, streamlined risk transfer, and consistent coverage across complex stakeholder groups.

- **Robust market conditions** – Project-specific placements remain favorable across most construction types, with competitive terms and multiple insurers willing to participate.
- **Strength in wrap-up programs** – Wrap-ups remain highly competitive across both two-line and general liability-only structures. Two-line CCIPs continue to perform especially well, with stable pricing and increasing design flexibility as new entrants expand market capacity. GL-only OCIPs and CCIPs are gaining momentum among owners and developers seeking cost control without the administrative burden or long-term collateral obligations associated with workers' compensation placements.
- **Alternative project-specific solutions** – Owners interest liability policies are gaining broader adoption among owners, developers, and lenders. Market conditions remain stable, with pricing and terms primarily influenced by the underwriting profile of the project's general contractor.
- **Shared programs** – Owner/general contractor (GC) liability structures are increasingly used as an alternative to wrap-ups, offering cost and coverage consistency while preserving downstream contractual risk transfer. These programs have become particularly common in New York, where general liability-only wrap-ups remain difficult to obtain.
- **Course of construction (COC) concerns** – The broader project-specific market remains flexible, but the increased use of COC exclusions can create significant coverage gaps if liability policies are not aligned with builders risk or first-party property terms. In theory, a COC exclusion is manageable when a comprehensive builders risk policy covers all contractors on a project. However, gaps can emerge when builders risk coverage is unavailable or contested, particularly on phased or partially occupied projects, where insurers have argued that the exclusion applies to the entire site once any section is deemed complete. In *Liberty Surplus Lines Insurance Corporation v. Kaufman Lynn Construction*, the court upheld this broad interpretation, resulting in uninsured exposure. Subcontractors insured only "as their interests may appear" under builders risk may also face subrogation if COC exclusions apply, as insurers may dispute their insurable interest in damage to other contractors' work.
- **Higher-risk project considerations** – Appetite remains narrow for higher-risk profiles, including for-sale residential developments and projects in New York. These often require surplus-lines solutions or substantial self-insured retentions due to limited insurer participation.

Project teams that actively manage documentation, engage insurers early, and align wrap-up, builder's risk, and contractual structures can navigate shifting conditions with greater certainty. Clear risk allocation and rigorous oversight remain the strongest advantages in a market where exclusions and capacity vary by project type.

Cyber liability

The cyber insurance market for contractors remains stable but increasingly selective, with underwriting now focused on access controls, vendor management, and jobsite-technology security. Cyber risk has become a mainstream exposure for construction firms as digital tools, connected jobsites, and complex vendor ecosystems expand the attack surface. Incidents can trigger operational delays, contractual disputes, and direct financial loss, making cyber liability increasingly relevant to contractors of all sizes.

- **AI-enhanced social engineering** – Business email compromise schemes are evolving, with attackers using AI-generated messages, deepfake audio, and multi-factor authentication-bypass tactics to redirect payments or impersonate executives. These attacks frequently target billing cycles, lien releases, and subcontractor disbursements.
- **Ransomware and jobsite disruption** – Ransomware groups continue to target contractors due to the high cost of downtime. Locked project files, delayed schedules, and data exfiltration create cascading operational impacts.
- **Compromised jobsite technology** – Connected devices such as cameras, drones, access controls, wearables, and semi-autonomous equipment are increasingly exploited to enable physical theft, unauthorized access, or reconnaissance as jobsite digitization accelerates.
- **Third-party exposures** – Construction's networked operating model amplifies downstream vulnerability. A single compromised vendor, platform, or cloud provider can trigger disruption across multiple projects simultaneously.
- **Human error and payment fraud** – Unverified banking changes, shared credentials, and unsecured devices continue to drive preventable but costly losses. Financial-fraud attempts targeting accounts payable/accounts receivable workflows remain one of the most frequent claims in the sector.
- **Strengthening cyber readiness** – Firms that modernize access controls, improve data governance, secure jobsite technology, and require minimum subcontractor cyber standards are better positioned to secure favorable coverage outcomes. Robust incident-response plans, tested backups, and clear payment-verification procedures are essential.

Cyber liability insurance continues to be a critical resilience tool, offering both financial protection and access to pre-breach services. Contractors who leverage insurer resources—including vulnerability scanning, dark-web monitoring, vendor-risk assessments, and incident-response partnerships—can strengthen their cyber posture and reduce operational disruption.



Market spotlight: New York construction

The New York construction market remains one of the most challenging environments in the country, shaped by stringent labor laws, elevated fraud activity, severe litigation trends, and longstanding underwriting constraints. Capacity, pricing, and program design continue to be heavily influenced by New York Labor Law exposure, auto liability stress, and the dominance of the excess and surplus (E&S) market for many contractor classes.

- **Labor Law fraud** – Fraudulent schemes involving New York Labor Law continue to drive loss severity and insurance costs. Many wrap-up programs created in recent years are experiencing deductible aggregation pressure, prompting underwriters to apply higher aggregate charges going forward. Some insurers now offer only fronted programs with no aggregate deductible, reflecting heightened severity concerns.
- **Excess liability pressure** – Contractors with favorable loss experience are seeing mid- to high-single-digit rate increases as excess markets account for elevated claim severity and ongoing Labor Law volatility.
- **Hired and non-owned auto (HNOA)** – The HNOA market continues to harden, driven by loss frequency and litigation severity. Demand for excess auto liability continues to rise as New York-based fleets face increasingly stringent underwriting thresholds.
- **E&S market reliance** – The E&S market remains the primary avenue for many New York trade contractors due to limited standard-market appetite. Single-digit rate increases are common, dependent on loss history and class of business. A growing number of first-tier insurers are exploring workers' compensation and auto liability solutions, though availability remains selective.
- **Technology as a defensive tool** – Investment in AI-enabled camera systems, worker badging, and other verification technologies has proven effective in mitigating fraudulent claims and strengthening defensibility. Robust claims management practices and stringent subcontractor vetting remain essential for managing overall risk in a fraud-prone environment.
- **Owner/GC liability programs** – Owner/GC programs are increasingly used when wrap-ups are not viable due to project size or structure. These programs can offer stronger control over subcontractor qualifications and insurance compliance, providing a viable alternative for complex New York projects.
- **Adaptive reuse risks** – Zoning changes have accelerated office-to-residential conversion activity in New York City. These adaptive reuse projects introduce unique risks due to aging structures, significant mechanical, electrical, and plumbing (MEP) upgrades, and the unknown conditions uncovered during renovation, requiring heightened underwriting scrutiny and robust project controls.

In a jurisdiction defined by legal nuance and elevated severity, disciplined risk governance remains essential. Firms that treat risk mitigation as a daily practice rather than a renewal exercise will be better equipped to secure capacity and manage volatility across lines.



Turn insight into action

As construction firms navigate shifting market conditions, evolving project delivery models, and rising contractual and regulatory demands, a strategic insurance partner becomes essential. The Baldwin Group helps contractors, developers, and owners strengthen their risk posture by enhancing documentation, aligning program design with operational realities, and building insurance structures that support project execution and long-term resilience. Through proactive guidance and industry-specific expertise, we help construction organizations secure capacity, manage complex exposures, and position their projects for success in a dynamic 2026 landscape.



Energy

Overview

Heading into 2026, the energy and marine industry continues to balance strong global demand with an evolving policy landscape and persistent geopolitical uncertainty. Global energy needs remain elevated, and recent federal priorities have continued to support traditional energy development, while near-term conditions for renewables remain mixed across certain geographies.

Geopolitical tensions—including instability in the Middle East and ongoing disruptions tied to major power conflicts—continue to influence energy security, supply chains, and cyber-physical risk. In parallel, global trade and tariff volatility has intensified since mid-2025, reshaping logistics flows and adding new complexity for marine operators and energy supply chains. Insurers are also placing greater focus on subsea infrastructure resilience, reflecting the heightened importance of undersea cables and offshore facilities to global energy and data networks.

The insurance market overall remains competitive, with strong capacity, healthy appetite, and improved pricing for CAT-exposed risks sustaining favorable conditions across much of the industry. Well-managed traditional energy accounts continue to see rate relief, and renewables benefit from maturing loss experience and improved underwriting clarity. Meanwhile, recent shifts within Lloyd's allowing broader participation in underwriting higher-emission energy classes signal a nuanced recalibration of appetite across certain traditional segments. However, challenges persist for offshore construction and complex, large-scale projects, where capacity can contract quickly if loss trends accelerate.

Looking ahead to 2026, insureds with clear risk differentiation, disciplined loss controls, and strong risk-management practices will remain best positioned to capture market advantages. Still, the current soft-leaning environment could shift quickly in the event of significant CAT activity, supply-chain disruption, or geopolitical escalation.

As organizations evaluate their strategies and coverage needs for the year ahead, The Baldwin Group's Energy and Marine Practice brings deep sector expertise and strong insurer relationships to help protect operations, assets, and workforces in a dynamic and interconnected global environment.

Current trends

Capacity and rate drivers

As 2026 begins, the global energy insurance market remains broadly stable, with strong capacity across most segments. Previously challenging areas such as natural catastrophe (Nat Cat) exposure have continued to show modest improvement, though insurers remain focused on climate resiliency, particularly for renewables and newer technologies.

Investment in the energy transition and digital infrastructure continues to align well with insurer appetite, helping maintain competitive pricing for well-managed risks. Notably, the market is becoming increasingly micro-segmented, with underwriters differentiating more sharply between strong and weak risks. Selective tightening is emerging in subsea and offshore construction, as well as parts of the downstream sector following recent loss activity.

Looking ahead, capacity is expected to remain healthy into 2026, but accounts with exposure to severe weather, cyber-physical risk, or complex construction will continue to face heightened underwriting scrutiny and potential pressure on terms. Well-controlled risks, supported by robust engineering and operational discipline, should continue to benefit from the broader competitive environment.

Renewable energy

In 2026, the renewable energy market continues to soften, supported by new market entrants, lower Nat Cat reinsurance costs, and ambitious growth targets that are sustaining strong competition among insurers. Insurers remain aggressive on clean risks, with higher line sizes (especially in London) and broader Nat Cat sublimits, which continue to stretch from \$25 million to \$50 million even in higher-risk states like Texas. MGA capacity from players such as Volt, Novagen, and Immaculata remains active, keeping follow capacity healthy and reinforcing the importance of broad marketing.

Solar remains under close watch for natural hazard and wildfire-driven losses, but improved rate adequacy and stronger reserves continue to stabilize the segment. The battery energy storage system (BESS) market is softening rapidly, with rates down significantly from three years ago for well-controlled accounts. Driven by reduced EV demand and expanded battery production, lower component costs continue to push insured values and premiums down. Onshore wind remains a stable, mature class, giving buyers leverage as underwriters pursue predictable, lower-loss portfolios.

Renewable power generation overall continues to attract strong insurer appetite, particularly for established technologies like utility-scale wind and solar, which offer clearer loss patterns and operational maturity. However, offshore construction and new builds in severe weather or grid-stressed regions still require robust risk engineering to secure full capacity. Recent trade and tariff shifts have also increased insurer attention to supply-chain resilience and equipment sourcing, especially for imported components.

Emerging transition technologies such as carbon capture and hydrogen infrastructure are gaining interest but remain subject to tighter underwriting and narrower capacity due to limited loss experience and evolving engineering standards. Developers pursuing these projects should expect more rigorous submission requirements, cautious deployment of limits, and heightened scrutiny of long-term viability.

Looking ahead to 2026, buyers should continue to see favorable pricing conditions but remain vigilant with program design. Nat Cat exposure, wildfire risk, supply-chain dependencies, and project design standards will continue to be key underwriting focus areas.

Traditional energy

The traditional energy market continues to benefit from expanded capacity heading into 2026, supported by a stable loss environment and the absence of significant upstream claims. Upstream profitability has remained strong through late 2025, reinforcing favorable conditions for buyers. Physical Damage, OEE, and Control of Well renewals are trending flat to -5%, with some placements achieving deeper reductions as competition intensifies, reflecting continued rate softening across the segment.

Casualty markets remain measured, with flat to +2.5% movement depending on loss experience and exposure changes. Underwriters continue to manage deployed limits carefully, and lead umbrella stretches have contracted from roughly \$25 million to about \$5 million over the past several renewal cycles.

OPA 90 remains a persistent challenge, with no meaningful improvement since midyear. Capacity remains restricted after prior market withdrawals, and London continues to be the primary source of this statutory offshore coverage. Pricing remains elevated, and insureds should expect constrained options through 2026.

Under the current administration, LNG and energy infrastructure activity is picking up, driving increased submission volume across liquefaction, export, and midstream projects. While insurer appetite remains generally strong, underwriting is disciplined and focused on engineering quality, contractor performance, and execution risk across these capital-intensive projects. Recent policy signals from Lloyd's leadership have also suggested greater flexibility toward traditional energy underwriting, though any market-wide impact remains to be seen.

Some traditional energy organizations remain active in transition-aligned technologies, but underwriting for these emerging areas—such as hydrogen infrastructure—remains cautious due to limited loss history and evolving engineering standards. This contrasts with the more favorable conditions seen across core upstream segments, where loss performance has been consistently strong. Appetite for sudden and accidental pollution remains consistent across London, Bermuda, and European markets, with any recent shifts occurring primarily among domestic insurers.

Looking ahead, stable to soft conditions are expected to continue into 2026 for core traditional energy lines, while OPA 90 and large, complex risks will remain areas of pressure. Strong risk engineering, disciplined maintenance practices, and well-documented controls will continue to drive the most favorable outcomes.

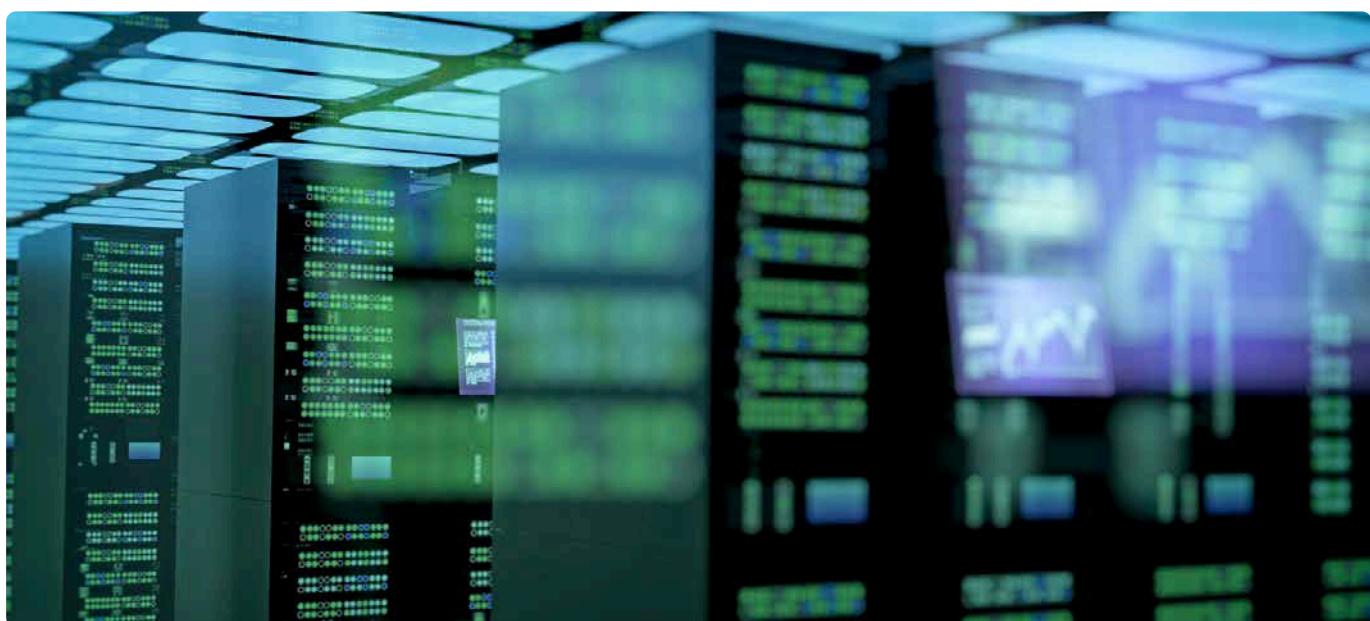
Digital infrastructure

Digital infrastructure remains on a fast-paced growth trajectory heading into 2026, continuing to drive new power generation demands well into the next decade. Surging need for hyperscale data centers, AI and high-performance computing, edge sites, and deeper grid interconnection is straining critical equipment supply chains, as manufacturers race to deliver new units, spares, and emergency replacements.

This accelerating buildout is also renewing interest in nuclear power to meet long-term baseload requirements, while near-term gaps continue to boost gas-fired generation and corresponding upstream activity. Recent federal actions aimed at streamlining data-center permitting are expected to further increase project volume and infrastructure demand.

Capacity for digital infrastructure projects remains strong, but large grid-connected assets, LNG-supported generation, and hyperscale campuses face heightened cyber underwriting scrutiny and rising aggregation concerns as multi-gigawatt clusters become more common. Sites in CAT-exposed regions, such as coastal hurricane zones or wildfire-prone areas, may also encounter more selective capacity and higher deductibles as reinsurers reassess exposure.

Insurers remain focused on cyber resilience, supply-chain security, and clear incident-response protocols when deploying large limits. For 2026, stable capacity and competitive pricing should persist for well-controlled projects, but buyers must remain vigilant around emerging risks—including cyber-physical threats, grid reliability pressures, and extended equipment lead times. Underwriters are likely to continue raising expectations for cyber engineering and contingency planning, particularly for mission-critical power and data assets.



Marine

The marine insurance market remains stable entering 2026, with no significant losses driving major capacity shifts. Most hull, cargo, and liability placements are seeing competitive conditions, supported by healthy insurer appetite and steady global demand. Offshore energy assets remain a watchpoint, with more selective capacity and higher deductibles for operations in hurricane-prone regions such as the Gulf of Mexico and the Caribbean.

Global trade and tariff volatility has become a more material influence on marine exposures, reshaping cargo flows, altering accumulation patterns, and increasing operational variability across key transit corridors. Port congestion and rising vessel valuations have also intensified underwriting focus on accumulation, dwell time, and total insured values across hull and cargo placements. Underwriters are responding with closer attention to routing, storage concentrations, and supply-chain resilience as trade policies continue to shift.

Sustainability trends also remain relevant, as more operators invest in greener fleets and alternative propulsion. While positive for long-term risk profiles, new vessel designs and technologies still present performance and maintenance uncertainties that underwriters are evaluating carefully. Cyber resilience continues to be a priority, with modern fleets and port operations relying heavily on connected systems and requiring strong controls to secure full limits.

Rate expectations for 2026 are consistent across major segments: Hull is seeing 10%–20% reductions, Cargo remains flat to -5%, Protection & Indemnity is trending +10% or more due to loss development, and Marine Liabilities are renewing at +2.5%–5%. Buyers should expect stable conditions for most placements, with more disciplined underwriting for offshore and CAT-exposed risks. Strong safety standards, proactive risk management, and clear cyber protocols will continue to support preferred capacity and pricing.

Turn insight into action

As the energy and marine landscape continues to evolve, having an experienced insurance partner is essential to safeguarding your assets and supporting long-term resilience. The Baldwin Group's Energy and Marine Practice delivers deep expertise across all sectors, providing solutions built to support complex, capital-intensive operations. Acting as an extension of your team, we help you strengthen risk culture, enhance safety practices, and design insurance strategies that protect your business and position you to capture today's opportunities while preparing confidently for tomorrow's challenges.



Financial Institutions

Overview

Financial institutions continue to navigate a complex and shifting risk landscape shaped by persistent inflation, elevated interest rates, and stress within the post-COVID commercial real estate market. These factors continue to drive uncertainty around credit demand, loan defaults, and deposit base stability. At the same time, advances in digital banking, artificial intelligence, and cybersecurity are transforming how banks operate and compete. These dynamics contributed to failures among significant regional banks and forced others to sell assets well below book value, underscoring the need for continued vigilance in the months ahead.

Looking ahead in 2026, banks will remain under mounting pressure to strengthen their risk profiles and adapt quickly to evolving market conditions. Common factors that we anticipate continuing to draw heightened underwriting scrutiny include:

- Weaker earnings driven by higher rates and rising deposit costs
- Increasing levels of non-performing assets
- High commercial real estate (CRE) and office lending concentrations, which can strain earnings through higher loan loss provisions and additional regulatory oversight
- Growing activist investor activity
- Intensified DOJ enforcement focused on fair lending and consumer protection

Naturally, these pressures—combined with expanding digital footprints and new fintech partnerships—invite greater regulatory scrutiny and amplify cyber risk exposure. As more banks integrate emerging technologies and partnerships to modernize operations, regulators have been quick to issue memorandums of understanding (MOUs) focused on Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance. Larger digital footprints also expand the potential surface area for cyber-related losses.

Given these trends, it is critical for banks to review the adequacy of their insurance programs in 2026, with directors and officers (D&O) liability and cyber liability coverages remaining essential components of any robust risk mitigation plan. The rapidly evolving regulatory environment under the new presidential administration is also adding complexity, as potential shifts in oversight and enforcement priorities could reshape how banks manage compliance and disclose risks going forward.

Current trends

M&A activity

M&A activity remains a defining trend for the banking sector heading into 2026, continuing to push the total number of banks lower. Each year, far more community banks are acquired than new de novo banks are formed, and this consolidation trend is expected to persist this year. The evolving regulatory climate under the Trump administration could also influence deal structures, due diligence processes, and approval timelines, adding another layer of uncertainty for banks pursuing M&A opportunities.



Key coverages and rate drivers

Given continued consolidation, regulatory oversight, and the pace of technological disruption, D&O liability and cyber liability remain two of the most impacted coverages for banks. In addition to M&A exposures, these lines are shaped by factors such as governance practices, fair lending compliance, and emerging cyber threats tied to expanding digital footprints and fintech partnerships. Within this context, the market still sees a steady flow of the 'bread-and-butter' funds transfer and wire fraud losses, which are most often addressed under the fidelity bond coverage for financial institutions.

Management liability

In the banking sector, D&O underwriters continue to take a closer look at key factors, including deposit outflow trends, CRE loan-to-value ratios, vacancy rates, and net interest margins, among other risk indicators. To secure favorable outcomes in 2026, it is essential for banks to show how they are proactively addressing these concerns. Hosting a D&O underwriting call is one of the most effective ways to communicate risk mitigation efforts. This approach fosters transparency and helps build relationships with insurers.

With clear communication and strong financial governance, competitive D&O insurance rates and multi-year options remain achievable, despite a more complex risk environment. When available, we recommend multi-year structures to help mitigate ongoing rate volatility and market uncertainty. The broader D&O market for non-bank financial institutions remains stable at the beginning of this year, with trends shifting from modest decreases on average to mostly flat renewals as underwriting discipline holds.

Cyber

The cyber liability market for financial institutions reached continued stability in 2025, driven by disciplined underwriting and improved loss controls, even as threat actors remain active. Stability in the cyber market is expected to continue throughout the year. After enduring a surge in ransomware and wire-fraud claims, insurers now expect and reward robust security practices, which have helped loss ratios normalize and encourage renewed pricing competition.

However, cyber risk remains dynamic. Financial institutions increasingly face more complex threats from continuous digital expansion, fintech integrations, and a broader cyberattack surface. A key trend last year was the growing role of AI, both as a threat (prompt injection, deepfake social engineering) and a defense (AI-powered anomaly detection and fraud monitoring). Insurers are continuing to watch closely to understand how AI may shape loss patterns and risk mitigation tactics this year. Supply chain incidents surged again in 2025, underscoring systemic vulnerabilities in vendor ecosystems. In March, an undisclosed vulnerability in Oracle Cloud led to a breach that exposed 6 million records across 140,000 tenant organizations.^[1] This highlights the systemic risk indirect breaches can pose, reinforcing the need for banks to audit vendor ecosystems, tighten third-party risk protocols, and verify that their policies include dependent business interruption coverage for supply chain events. Additionally, the SEC now requires public financial institutions to disclose the materiality of cyber events in their public filings. Determining materiality and ensuring compliance can be as costly and complex as any direct claim. Most standard cyber forms do not cover this reporting exposure, although specialized coverage is increasingly available from select insurers.

Looking ahead in 2026, financial institutions can secure favorable coverage terms by maintaining resilient security postures and proper governance, especially regarding the use and oversight of AI in business operations.

Fidelity bond

Funds transfer fraud and social engineering losses remain a persistent threat to banks. And while some cyber insurers are starting to offer this coverage for banks, especially since these claims are often triggered by cyber events, traditionally, this has been covered under fidelity bond policies exclusively for banks. A key determinant as to whether these claims may be covered by the fidelity bond policy is often based on the level of written agreement with the customer and the level of callback the bank provided in comparison to what is required in the policy.

Considerations and recommendations

Even with increased scrutiny in the banking space, capacity and appetite remain healthy at the start of 2026, particularly for community and regional banks under \$5 billion in assets. Banks that can differentiate themselves and highlight their governance, financial resilience, and risk management culture are often able to secure better results.

To secure the best possible outcome, begin the renewal process at least 120 days before expiration to ensure all financial and underwriting data are ready for review. Additionally, hosting a dedicated D&O underwriter meeting 45 to 60 days prior helps build trust and maximize transparency. This process includes gathering questions in advance from the underwriting community and sharing them with leadership to ensure productive dialogue. The underwriting call, which typically runs 30 to 60 minutes, begins with a general overview from the leadership team to the 15 to 20 bank D&O underwriters (including incumbents). The conversation then shifts to live Q&A.

The benefits of this approach include:

- Strengthening personal connections with underwriters, who then rely on direct insights instead of only what is in applications or filings. This helps ensure underwriters extend the benefit of the doubt rather than assume the worst.
- Reducing follow-up information requests, streamlining the binding process.
- Leveraging competitive dynamics, as underwriters see their peers actively engaged in the process.

Turn insight into action

As the risk landscape for financial institutions continues to evolve, it is critical for organizations to stay vigilant and adopt a proactive approach to risk management. With specialists deeply embedded across the financial sector, The Baldwin Group delivers tailored strategies that help institutions navigate uncertainty and strengthen their overall risk posture. For D&O, cyber liability, and other critical coverages, our centers of excellence provide dedicated resources to help address even the most complex exposures. Through close partnership and forward-looking solutions, we help protect your organization's stability and growth, now and into the future.

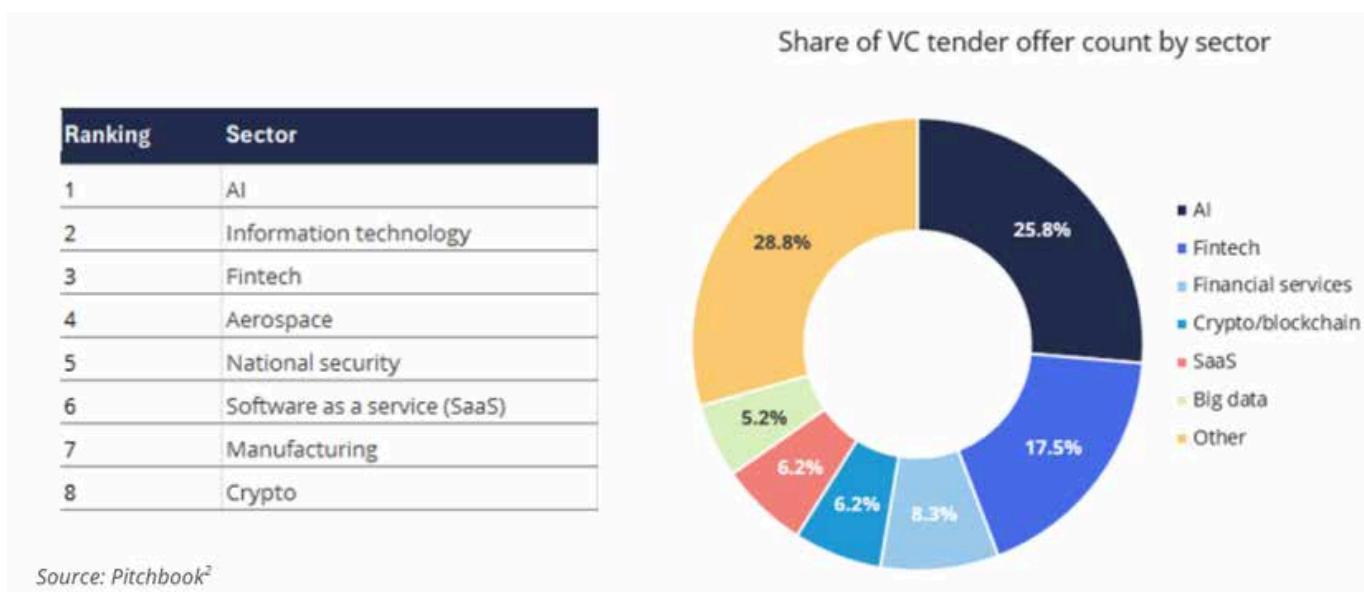


Innovation Economy

Overview

The innovation economy has shifted from its “grow at all costs” mindset to one defined by profitable efficiency and strategic integration. Seed and Series A valuations are back to their 2021 peaks, and in some cases above, with the median U.S. Seed valuation reaching \$16.4M in Q3 2025, up \$2.6M year over year.¹ Although capital is flowing, entry costs are far higher than before, forcing companies to exercise extreme spending discipline and strengthen governance to ensure a profitable exit later.

Alongside this shift, generative AI is no longer a niche technology but a foundational infrastructure layer, with AI venture capital now accounting for more than 25% of the secondary market. This development is reshaping how both early-stage companies and legacy players plan for the future. Internalizing complex AI ethics and governance has become nonnegotiable.



With leaders embracing a cautious, disciplined approach to traditional IPOs, the theme “stay private longer” is one that could have defined the entire year. Investors and employees are selling stakes in private companies prior to listing, effectively creating a parallel IPO market, especially as the public aftermarket remains fragile and major tech names—including Figma and Gemini Space—continue trading well below first-day highs.

Unsurprisingly, the mergers and acquisition (M&A) landscape has become a primary exit vehicle, as reflected in Alphabet’s acquisition of Wiz, OpenAI’s purchase of io Products, and Xero’s investment in Melio. Acquirers remain highly selective, favoring companies that demonstrate clean balance sheets, resilient business models, and clear paths to positive cash flow.

As these dynamics reshape the innovation landscape, these shifts carry meaningful implications for insurance placements, with underwriters emphasizing governance maturity, data stewardship, AI model transparency, and operational discipline. With risks becoming more interconnected and systemic, the ability to present a clear, defensible risk profile is essential. The Baldwin Group works with innovation economy companies to articulate controls, mitigate emerging exposures, and build coverage architectures that support long-term scalability and investor confidence.

Current trends

Overarching market conditions

Insurance dynamics within the innovation economy are being reshaped by rapid technological advancement, evolving regulation, and growing systemic failure exposure. As companies scale on digital infrastructure rather than physical assets, underwriting models are shifting accordingly. Two niche segments, space technology and the shared economy, are also experiencing pressures that extend beyond typical innovation sector volatility.

- **Systemic and intangible exposures** – Underwriting is prioritizing risks tied to data dependency, digital infrastructure, operational disruption, and governance maturity rather than traditional asset-based losses.
- **AI governance convergence** – Insurers increasingly evaluate AI model oversight, data provenance, and disclosure accuracy as core underwriting variables across cyber liability, tech errors and omissions (E&O), and directors and officers (D&O) liability lines, reflecting heightened regulatory and enforcement activity.
- **Regulatory uncertainty** – AI, crypto, and biotech operators face sharper rate pressure as insurers contend with unclear regulatory frameworks, evolving enforcement, and hard-to-model liability profiles.
- **Space technology challenges** – Rising launch costs and growing asset valuations, as well as mounting geopolitical tensions targeting high-value orbital infrastructure, are driving premium escalation and reduced capacity for space-related risks.
- **Shared economy strain** – Ride sharing, delivery, and platform-based models confront significant commercial auto cost inflation driven by social inflation, litigation severity, and underwriting scrutiny.

Innovation economy companies that can demonstrate strong governance, regulatory awareness, and defensible technology risk controls are best positioned to maintain insurance stability as markets recalibrate around these emerging exposures.

Private D&O

The private D&O market has entered a period of sustained stability, with abundant capacity and strong competition, keeping pricing largely flat. The CRC Private D&O REDY Index reflects a stagnating market year over year, with many insureds renewing at flat or modestly reduced rates, particularly in excess layers. At the same time, shifting capital-markets activity, evolving regulatory expectations, and expanding liability tied to technology governance are reshaping underwriting priorities across the innovation economy.

- **Stable capacity and competitive pricing** – Market equilibrium continues, with broad participation from both established and newly active insurers. Excess layers remain especially competitive, contributing to flat renewals and occasional reductions for well-performing risks.
- **Crypto and digital asset volatility** – Uncertain regulatory frameworks and extreme valuation swings in digital asset markets continue to generate outsized D&O liability and crime liability claims. Underwriters remain cautious, emphasizing governance controls, audit readiness, and financial transparency.
- **Increasing private market transactions** – Occurring outside the rigorous diligence of public markets, heightened secondary market activity and private stock sales are driving demand for robust D&O and transactional risk solutions. Insurers are pivoting accordingly, expanding product offerings and enhancing policy language to compete for high-quality private companies.



- **Post-transaction liability** – Increased secondary market activity and private M&A are contributing to more D&O claims tied to earn-out disputes, misrepresentation, and post-close integration issues.
- **AI governance and disclosure exposure** – The EU AI Act, U.S. enforcement trends, and rising scrutiny around “AI washing” are elevating liability for misstatements, model governance failures, and product capability disclosures. Underwriters are now evaluating AI oversight as closely as financial controls.
- **Broader macro pressures** – Directors and officers face rising exposure from geopolitical instability, increasing insolvencies, and unpredictable severity trends, including the potential for nuclear verdicts in shareholder and mismanagement claims.
- **Insolvency-related exposure** – Elevated insolvency and capital shortfalls among non-AI, growth-stage companies are driving higher D&O severity, particularly in claims alleging mismanagement, inadequate disclosure, or financial distress.

Obtaining favorable D&O terms as insurers refine appetite in response to evolving technology and liability trends requires maintaining strong governance, regulatory readiness, and clear disclosure practices.

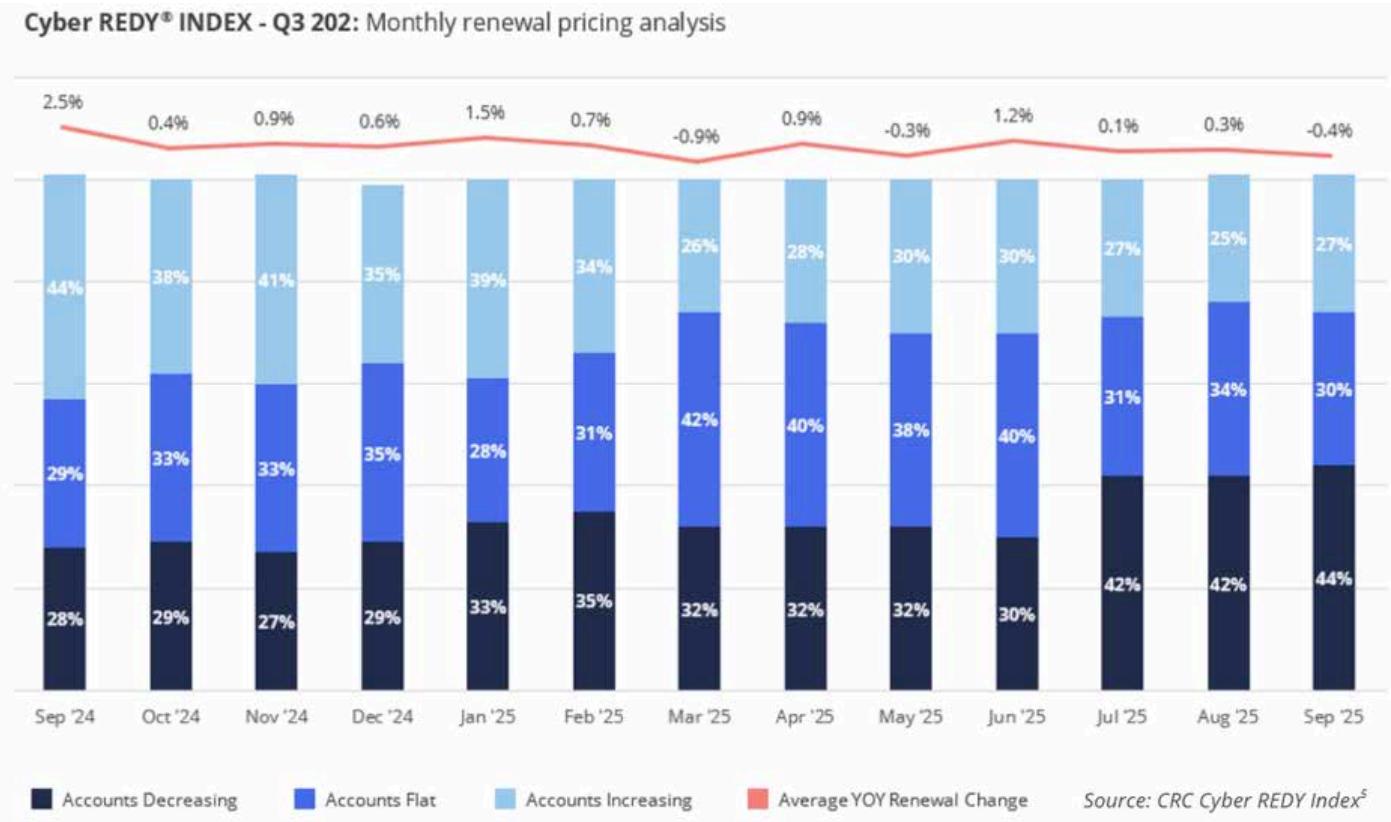


Cyber liability

The cyber insurance market continues to reflect a “barbell” dynamic. Clean, mid-market risks are benefiting from stable, competitive conditions supported by ample capacity and growing insurer comfort with automated underwriting. In contrast, sectors with elevated regulatory exposure are seeing higher retentions and rate pressure.

- **Competitive conditions available** – Broad capacity and pricing stability continue for organizations with strong control maturity, clean loss history, and transparent vendor management. Automated underwriting is accelerating quoting speed and expanding participation across primary and excess layers.
- **Distressed sectors** – Crypto, fintech, and healthcare face increased scrutiny, driven by regulatory oversight, fraud exposure, and higher-severity events. Underwriters are responding with elevated retentions, narrower terms, and greater control requirements.
- **Frequency and severity trends** – Global cyber claims frequency declined 7% year over year, but severity remains high, with average losses exceeding \$115K and ransomware driving the most significant events. Even moderate incidents can materially impact growth-stage companies.⁴
- **Vendor aggregation risk** – High-profile outages in 2025 underscored systemic dependency on major cloud providers, prompting underwriters to scrutinize vendor architecture, failover plans, and accumulation exposure. Third-party outages and performance failures are fueling higher severity and growing coverage restrictions, with insurers tightening terms around performance guarantees, uptime representations, and consequential-damage exposures.
- **Mandatory control expectations** – Phishing-resistant MFA, endpoint detection, privileged access management, and documented incident response testing remain nonnegotiable underwriting standards. Gaps in any of these areas rapidly increase pricing or restrict available capacity.
- **Evolving regulatory risk** – As regulatory scrutiny extends beyond traditional data breaches, the market is reassessing privacy coverage and exclusions. Emerging liability tied to AI product representations, particularly “AI washing,” is creating new intersections between cyber, tech E&O, and D&O risk.

Maintaining strong control maturity, rigorous vendor oversight, and defensible governance practices is essential to securing stable cyber terms as markets recalibrate around evolving technology and regulatory exposures.



Turn insight into action

The convergence of a strict, efficiency-first mandate and a constrained public market has redefined executive risk. With AI serving as foundational infrastructure and M&A as the dominant exit path, liability is increasingly concentrated in technology oversight and governance. The Baldwin Group's expertise lies in navigating this dichotomy—from understanding the new price of admission in higher valuations to securing protection against systemic claims such as "AI washing" and nuclear verdicts. We help innovation-economy companies design D&O and cyber strategies that convert high-pressure growth into a successful, protected exit.



Life Sciences

Overview

The life sciences industry enters 2026 with strong momentum, fueled by rapid advances in biotechnology, artificial intelligence (AI), and personalized medicine. Global market growth remains robust, with the sector valued at approximately \$98.6 billion in 2025 and projected to expand at an 11.8% CAGR through 2034.¹ This acceleration is reshaping how organizations discover, develop, and deliver therapies, creating a landscape defined by innovation, integration, and global scale.

Digital transformation, data modernization, and advanced analytics powered by AI and machine learning are now table stakes. While these advancements increase operational velocity, they also create unique exposures. At the same time, evolving regulatory expectations, rising consumer influence, and growing operational complexity—from globalized R&D networks to advanced manufacturing requirements—are influencing risk profiles across the sector.

Companies are navigating more intricate supply chains, heightened scrutiny of clinical and commercial practices, and continued pressure to modernize governance to keep pace with emerging technologies.

As companies expand, risk mitigation and insurance strategy will be critical to sustaining growth, managing complex operational dependencies, and protecting global investments. With deep expertise across the life sciences ecosystem, The Baldwin Group helps organizations strengthen governance, understand emerging exposures, and design insurance programs that support innovation while positioning them for resilient, long-term growth.

Current trends

Capacity and rate drivers

The life sciences insurance market remains stable entering 2026, supported by a continued influx of new product liability and professional liability entrants. This expanded capacity has sustained a competitive environment. Across all lines, underwriting rigor remains high, but organizations with mature quality systems, strong documentation, and disciplined operational practices are benefiting from stable capacity and a competitive market environment.

Product liability and professional liability

Rates are generally 0% to +10%, with most renewals falling in the 3%–5% range. Underwriters remain cautious as product liability claims grow more complex and costly, driven by component and CMO failures, software-enabled device issues, labeling errors, and data-related performance exposures. As products become more digitally integrated, scrutiny around design controls, post-market surveillance, and AI use continues to increase.

Property and business interruption

Property remains more favorable than the broader commercial market, but insurers are closely evaluating large limit placements, cold chain and R&D business interruption, single-site dependencies, and visibility into tier-2 and tier-3 suppliers. Accounts demonstrating strong redundancy, supplier diversification, and validated contingency plans continue to secure the most competitive terms.



Product recall

Product recall activity remains elevated across the life sciences sector, particularly for pharmaceuticals and medical devices. Class I recalls continue to be driven by a consistent set of root causes, including component quality issues, CMO and sterilization failures, labeling errors, and software malfunctions in device technologies. As supply chains globalize and products become increasingly digitized, these issues are growing more interconnected and harder to isolate, contributing to higher frequency and more complex remediation efforts.

Underwriters are responding with heightened scrutiny of manufacturing controls, supplier qualification processes, real-time monitoring capabilities, and documentation around change management. Companies with strong quality systems, validated sterilization protocols, robust vendor oversight, and clear traceability across components and data flows are best positioned to maintain stable recall coverage terms.

Legal system abuse

Nuclear verdicts and social inflation remain significant challenges for life sciences companies, particularly those with healthcare-adjacent products. Product liability claims continue to grow more complex and costly, often involving long-tail health allegations, software-enabled device issues, or inadequate warning claims.

In this environment, plaintiff counsel frequently positions manufacturers as "deep pockets," intensifying class action activity and increasing the likelihood of multimillion-dollar jury awards which often fall outside standard policy coverage.

Insurers are placing elevated emphasis on:

- Clinical documentation and adverse event reporting
- Design controls and real-world evidence
- Post-market surveillance
- Governance and safety culture

Given the influx of newer market entrants, policyholders should be selective when choosing insurers, prioritizing those with demonstrated claims expertise and sufficient capital to handle large verdicts in today's litigation landscape.

Regulatory Shifts

Regulatory oversight continues to evolve across global markets, reshaping liability, compliance, and operational expectations for life sciences organizations.

- **European Union** – In the EU, Product Liability and AI reforms broaden exposure for manufacturers and supply chain partners, especially for software-enabled and AI-driven products.
- **Global pricing and access** – In the U.S. and U.K., ongoing debates around drug pricing and market access continue to pressure margins and influence where companies make investments. Pricing scrutiny is likely to remain a headwind for biopharma portfolios in 2026.
- **Global regulation** – Regulators worldwide remain focused on accelerated approvals, post-market surveillance, and real-world evidence, all of which affect clinical trial, product liability, and D&O exposures. Heightened expectations around data integrity, safety reporting, and monitoring of digitally enabled products are driving more rigorous oversight across the product lifecycle.

Companies with strong governance, clear documentation, and proactive regulatory engagement will be best positioned to manage emerging exposures and maintain insurer confidence.

Globalization and operating models

Life sciences companies continue to globalize R&D, clinical operations, and commercialization to access diverse patient populations, regulatory incentives, and specialized talent. This shift is increasing reliance on regional manufacturing hubs, localized supply chains, and cross-border collaboration models that support speed and scalability. Investment in advanced manufacturing remains strong. Organizations are adopting automation, robotics, AI, and IoT-enabled systems to reduce errors, scale output, and strengthen compliance with expanding GMP requirements. Suppliers with validated processes and strong digital capabilities are becoming essential partners as production networks grow.

As operating models expand globally, insurers are closely evaluating:

- Supply-chain transparency and tier-2/tier-3 dependencies
- Governance across distributed R&D and production teams
- Documentation quality and process control
- Geographic accumulation exposures
- Depth of technical and analytical talent

Companies with integrated digital systems, disciplined oversight, and well-documented global processes are best positioned to secure favorable terms while scaling operations across markets.

AI and digital transformation

AI is now central to drug discovery, clinical development, and commercial execution, compressing timelines and improving decision accuracy across the product lifecycle. Organizations are using AI and machine learning to accelerate target identification, optimize study design, streamline manufacturing, and enhance supply-chain visibility.

Digital transformation continues to raise expectations around data quality, automation, and governance. Cloud platforms, digital health solutions, and real-time analytics are reshaping how companies collect evidence, engage patients, and manage compliance. Success increasingly depends on AI-literate talent, integrated digital infrastructure, and strong oversight of data integrity and algorithmic risk.

As dependence on digital systems grows, insurers are closely evaluating:

- Data governance and validation
- Cyber-physical risk across connected devices
- Transparency in AI-enabled decision tools
- Documentation supporting safety and performance claims

Companies with mature digital capabilities and disciplined governance are best positioned to maintain insurer confidence as AI-driven transformation accelerates.

Consumer expectations

Consumerism is increasingly shaping the life sciences and healthcare ecosystem. Patients expect experiences that mirror retail and technology—convenient, transparent, personalized, and digitally enabled. Nearly half of consumers already use generative AI for health-related questions, outpacing the speed at which many organizations are modernizing their processes and governance.²

This expectation gap is widening. Consumers want affordable, intuitive products and direct access to information, while many life sciences and medtech organizations continue to rely on slower, fragmented, or indirect engagement models. Trust remains a challenge: a Deloitte survey found that only 13% of consumers trust biopharma companies as reliable sources of information.³ Organizations that fail to adapt risk losing loyalty and market share.

Insurers and stakeholders increasingly evaluate how digital engagement, patient communication, and data governance influence exposure. Companies that prioritize user-centered design, transparency, and digital trust are better positioned to navigate shifting expectations and strengthen long-term brand resilience.

Cell and gene therapies

Cell and gene therapies (CGTs) continue to scale rapidly, moving from niche applications to broader clinical adoption. The global CGT market is projected to grow from \$5.92 billion in 2024 to \$14.68 billion by 2034, driven by advances in CAR-T therapies, CRISPR-based editing, and emerging off-the-shelf platforms.⁴

As adoption increases, operational demands are intensifying. CGTs require specialized manufacturing, highly controlled logistics, and coordinated patient access pathways. Any disruption—whether equipment failure, contamination, or transport delays—can result in critical losses.

Insurers are closely evaluating:

- GMP compliance and environmental controls
- Cryogenic storage and transport risk
- Chain of identity and chain of custody safeguards
- Validation of cell banking and chain-of-custody processes
- Point-of-care coordination and documentation quality

Companies with robust quality systems, redundancy in manufacturing partners, and strong process oversight are best positioned to maintain coverage stability as CGT adoption accelerates.

Turn insight into action

As the life sciences landscape continues to evolve, having an experienced insurance partner is essential to protecting innovation, strengthening operational resilience, and supporting long-term growth. The Baldwin Group's Life Sciences Practice brings deep sector expertise across biotechnology, pharmaceuticals, medical devices, diagnostics, and digital health, delivering solutions tailored to complex global operations. Acting as an extension of your team, we help you enhance governance, manage emerging exposures, and design insurance strategies that safeguard critical investments and position your organization to capture today's opportunities while preparing confidently for tomorrow's risks.



Manufacturing

A look back at 2025

The manufacturing sector entered 2025 with resilience built through years of disruption. Core pressures—labor shortages, uneven supply chains, inflation, and geopolitical uncertainty—persisted, but manufacturers continued to demonstrate adaptability. Workforce constraints remained the most significant operational challenge, driving wage growth, hiring competition, and renewed investment in training, automation, and culture-driven retention strategies. Supply chains were more predictable than in earlier post-pandemic years, yet still vulnerable to geopolitical tensions, sourcing concentration, PFAS regulation, weather-related disruptions, and transportation volatility. To counter this, manufacturers expanded nearshoring, diversified suppliers, strengthened relationships, and increasingly applied AI, analytics, IoT and robotics to improve transparency and continuity.

Economic conditions stabilized, supported by moderating inflation, industrial investment, and federal incentives like the CHIPS and Science Act, Infrastructure and Jobs Act, and Inflation Reduction Act. Still, regulatory uncertainty, particularly around environmental compliance and PFAS, heightened operational and insurance risk.

From an insurance perspective, 2025 reflected cautious but stable market conditions. Property and Casualty underwriters maintained discipline, tying pricing, deductibles, and capacity to exposure quality. Cyber liability remained accessible with competitive pricing for insureds demonstrating mature cybersecurity controls. Workers' compensation stayed favorable due to reduced claim frequency and strong wage growth. However, insurers continued scrutinizing supply chain resilience, PFAS exposure, technology adoption, quality controls, and workforce safety as key loss drivers.

Overall, 2025 rewarded manufacturers that invested in resilience—workforce strategy, technology modernization, loss control, and proactive insurance program design.

What to expect in 2026

2026 is positioned to be a strategic evolution year rather than a reactive one. Manufacturers will continue accelerating automation, AI adoption, digital factory initiatives, and technology-enabled supply chain management—not only to offset labor scarcity but to drive productivity and long-term cost competitiveness. Capital investment is expected to continue, though influenced by interest rates, global trade policy shifts, and regulatory enforcement.

Risk complexity will increase as physical, digital, environmental, and geopolitical exposures converge. Climate-driven property losses, cyberattacks targeting operational technology, evolving PFAS litigation and regulation, and supply-chain-driven business interruption will remain top insurance concerns. Insurers are expected to maintain selective underwriting, with stronger data requests, site-specific risk evaluation, and continued emphasis on documented mitigation efforts. Cyber pricing and terms may firm as loss patterns evolve, while workers' compensation conditions remain generally stable.

Manufacturers that can demonstrate transparency, operational risk maturity, safety excellence, diversified sourcing strategies, and a forward-looking insurance philosophy, including retention strategies, captives, parametric tools, and environmental coverage planning, will be best positioned to secure capacity and manage cost.

Key takeaways

- **Workforce pressures remain structural**, reinforcing the need for talent pipelines, automation, training, and competitive benefits.
- **Technology adoption accelerates**, bringing efficiency gains but heightening cyber, regulatory, and product-liability exposure.
- **Supply chains stabilize but stay fragile**, requiring diversification, visibility, and financial risk transfer solutions.
- **PFAS liability will remain a prominent concern for manufacturers in 2026**, driven by expanding federal and state regulations, increased enforcement activity, and ongoing litigation. As testing, disclosure, and reporting requirements widens, more manufacturers, whether directly using PFAS or exposed through suppliers, may face compliance, remediation, and reputational risk. Insurers are responding with heightened underwriting scrutiny and broader PFAS-related exclusions across general liability, product liability, and umbrella policies, pushing many organizations to evaluate standalone environmental coverage. To stay ahead, manufacturers should continue mapping PFAS within their supply chain, pursuing reformulation or substitution strategies, strengthening contractual risk transfer, and reviewing insurance programs for potential gaps.
- **Global trade and tariff policy are expected to play a larger role in shaping manufacturing supply chains in 2026**. Potential new or expanded tariffs—particularly involving China, Europe, and key raw material-producing regions—may increase input costs, alter sourcing economics, and extend lead times. As manufacturers adjust, many will accelerate nearshoring, diversify suppliers, renegotiate contracts, and evaluate pass-through pricing strategies. This evolving trade environment reinforces the importance of supply-chain visibility, scenario planning, and financial and insurance tools that address geopolitical and business interruption risk.

Turn insight into action

As manufacturers move into 2026, the insurance landscape will play a more strategic role in protecting growth and operational continuity. Property, cyber, environmental, and supply chain-related exposures are becoming more complex, prompting insurers to maintain disciplined underwriting and heightened scrutiny of data, safety practices, and mitigation efforts. Manufacturers that demonstrate strong risk controls, diversified sourcing strategies, cybersecurity maturity, and proactive PFAS and regulatory compliance will be better positioned to secure capacity, negotiate favorable terms, and manage total cost of risk. Leveraging tools like our proprietary RiskMap process enables organizations to better anticipate emerging exposures, optimize program structure, evaluate retention and alternative risk financing options, and align coverage with evolving operational realities. In 2026, disciplined risk management and intentional insurance strategy will be critical for drivers of resilience, cost stability, and long-term competitiveness.



Nonprofit

Overview

The nonprofit industry encountered significant headwinds in 2025, grappling with a complex mix of economic, technological, and political disruptions. Nonprofits face unique challenges compared to other industries, requiring a consistent focus on initiatives to expand non-dues revenue, enhance and retain membership, and address challenges associated with a hybrid workforce—all while evolving their value proposition to remain relevant in a competitive landscape. Moving into 2026, artificial intelligence (AI) will bring both opportunities and risks to nonprofits, driving innovations but also requiring thoughtful strategies to mitigate its complexities.

From a macroeconomic perspective, associations and other nonprofits are navigating the challenges of maintaining membership retention while striving to ensure their activities, events, and overall offerings remain relevant and purposeful. Members are increasingly seeking more personalized value that aligns with their needs while reducing unnecessary demands on their time.

Shifting political dynamics, including a new administration in Washington, have prompted organizations to closely monitor changes in the regulatory and funding landscape. In today's risk environment, boards of directors and finance and risk committees are placing heightened emphasis on risk management strategies, including protecting directors and officers from associated liabilities. The nonprofit sector continues to face persistent claims activity, particularly employee litigation and evolving regulatory actions. To help mitigate these risks, securing employment practices liability (EPL) coverage remains a cornerstone of a comprehensive risk and insurance strategy, helping nonprofits address employee-related exposures confidently and effectively.

Technology adoption across business operations in nonprofits has also prompted organizations to strengthen their cyber risk management. Implementing cybersecurity tools, response procedures, and employee training has become essential not only to mitigate potential losses but also to meet requirements laid out by cyber insurers for policyholders seeking coverage. Encouragingly, as more nonprofits adopt robust cybersecurity solutions, the cyber liability insurance market has exhibited notable stabilization over the past 18 months.

As nonprofits move forward into 2026, strategic resilience, whether through innovative technologies, regulatory adaptability, or enhanced risk management, is essential to overcoming current challenges while unlocking future opportunities for impactful growth.



Key coverages and rate drivers

We continue to monitor how loss patterns, regulatory developments, and socioeconomic trends impact critical coverages for nonprofits.

Event cancellation

The COVID-19 pandemic demonstrated that a widespread event could cause massive disruption and economic harm to various industry segments. At the time, event cancellation programs offered a viable option for transferring this risk. Currently, there is no coverage available for widespread communicable disease events. We remain committed to expanding this coverage grant if and when capacity returns to the market.

Widespread weather and natural disaster events also remain pertinent risks to organizations hosting large-scale events in vulnerable locations. Additionally, in today's political climate, uncertainty about civil and political unrest is top of mind for many nonprofit CFOs as they plan events they intend to host in the future.

Management liability

Directors and Officers' (D&O) liability rates have stabilized greatly, and individuals in governance positions remain focused on this coverage area. Often, nonprofit boards are composed of leaders from other industries who are aware of the risk environment from their sector. Since the nonprofit realm has its distinct exposures, The Baldwin Group's dedicated nonprofit experts help boards, finance, and risk committees navigate, understand, and mitigate these risks. For EPL, rates are steady, but insurers have asked buyers to increase retentions, especially in more litigious employment environments, such as California.

Cyber liability

Cyber insurance has stabilized from the hard market cycle characterized by precipitous rate hikes we experienced in the 2020 to 2022 period. The implementation of cybersecurity controls, due diligence, and board focus on cyber risk has positively impacted rates and led to market stability. Despite this progress, cyber insurance remains a dynamic and evolving area of coverage, where conditions can shift rapidly from year to year. Cyber threats continue to pose significant risks to organizations' digital assets, with bad actors capable of causing disruption at any time. As such, The Baldwin Group's advisory teams maintain keen attention to changes in the cyber landscape and are committed to proactively updating clients about relevant market developments and emerging risks. The Baldwin Group's Cyber Center of Excellence helps bolster our clients' ability to navigate cyber risk with deep insights into all aspects of cyber risk management, along with practical tools and guidance to help organizations strengthen their cybersecurity posture and resilience.

Property insurance

Associations and other nonprofits often deploy reserves into the ownership of their headquarters' property. Owning a dedicated physical space provides many advantages as a diversified asset but to safeguard this investment, nonprofits need to ensure proper maintenance and onsite safety. In addition to these operational constraints, property rates softened somewhat in 2025 creating new opportunities for premium relief for nonprofits and associations that own real estate. This is due in large part to natural disasters, such as wildfires, hurricanes, and severe convective storms, that typically cause massive and widespread damage that ripples through the property insurance marketplace.

Turn insight into action

Looking ahead to 2026, we are ready to provide steady guidance and leverage our cultivated expertise to help steer our nonprofit clients toward continued success. As the nonprofit industry's leading risk and insurance experts, The Baldwin Group has over three decades of experience and is equipped to help you navigate the ebbs and flows of the insurance market and the global events that impact the nonprofit sector. We'll help you understand trends and their potential impact and will provide clear, differentiated guidance that helps you protect the possible.

Real Estate - Habitational/Condo/HOA

Overview

Throughout 2025, insurers maintained a highly selective approach in the habitational real estate market as they worked to limit exposure to high-cost claims—a trend expected to persist into 2026. For condominium associations, particularly older buildings with outdated wiring, aging plumbing, or lacking full sprinkler protection, securing affordable coverage remains a significant challenge. Layered property programs through the excess and surplus market continue to be standard for coastal or higher-risk communities.

Insurers are also placing sustained emphasis on accurate insurance-to-value, requiring current replacement cost assessments to ensure premiums reflect actual risk. While valuation increases have moderated, with most insurers applying roughly a 4% adjustment at renewal, it remains important for associations to budget accordingly to navigate renewals effectively.

Every association's insurance profile is unique, shaped by claims history, geographic location, and property age. Entering 2026, proactive measures such as maintaining property conditions, addressing known exposures, and prioritizing resident safety can help strengthen an association's position, control costs, and adapt to evolving market expectations. The Baldwin Group supports these efforts, helping communities build long-term stability and resilience.

Key coverage updates

In addition to higher replacement costs, the following represent typical market wide rate changes for Q2 2025, alongside The Baldwin Group's observed trends for habitational clients.

Commercial auto liability: +8.7%

The Baldwin Group's habitational clients: +10%

Cyber liability: +0%

The Baldwin Group's habitational clients: flat

Directors & officers liability (D&O): flat to -2.5% for favorable accounts, though results vary widely based on financial condition and governance maturity

The Baldwin Group's habitational clients: +30% to +40% absent claims, and higher for associations with loss activity

Employment practices liability: +0%

The Baldwin Group's habitational clients: Most of our clients carry this coverage within their D&O programs

Flood: +1.1% or higher

The Baldwin Group's habitational clients: 13%–16% annual increases for RCBAP/condo building policies, with variation based on elevation, mitigation features, and prior losses

Flood coverage may see further disruption pending federal approval. After expiring on October 1, 2025, the NFIP received only a short-term extension through January 30, 2026. Private flood markets remain limited and expensive.

General liability: +5.6%

The Baldwin Group's habitational clients: +5.8%

Property: +0%

The Baldwin Group's habitational clients: +12% to +15% or higher depending on building attributes, claims, and market segment (condominiums should expect double-digit increases on average)

Umbrella: +9.3%

The Baldwin Group's habitational clients: +20% to 100%+, with older and/or non-sprinklered high-rise associations experiencing the steepest increases

Umbrella pricing for commercial risks appears to have stabilized, but community associations continue to see the most significant increases of any line. Legal system abuse remains a key driver. Property age, building height, and life-safety features, particularly sprinklers, continue to influence both availability and cost, and some associations may need to consider reduced limits due to limited market appetite or affordability constraints.

Workers' compensation: -0.5%

The Baldwin Group's habitational clients: +4% (payroll dependent)

Terrorism coverage: -0.1%

The Baldwin Group's habitational clients: Premiums remain competitive ahead of the December 31, 2027 expiration and anticipated renewal of the Terrorism Risk Insurance Program (TRIP), per the Government Accountability Office.

Data sources: Council of Insurance Agents & Brokers¹ and The Baldwin Group

Property: An in-depth look



Properties experiencing the highest increases

- Coastal and catastrophe-prone communities (wind and water exposure in particular; wildfire-prone areas will be scrutinized more closely, as well)
- Communities located anywhere in a county that borders the coast, and within five miles of a large body of water
- Communities with large wood frame structures (over \$4 million per structure)
- Communities with wood frame structures of four or more stories (with or without masonry pad)
- Communities with frequent and/or severe claims
- Communities with building defects or issues, including:
 - Older roofs (roofs 12-15 years or older may be insured only on an actual cash value (ACV) basis rather than replacement cost (RC) basis) and may exclude cosmetic damage entirely
 - Older wiring problems, including aluminum wiring, knob and tube, and Federal Pacific, Zinsco, Challenger, Stab Lok, or similar electric panels
 - Older or troublesome plumbing, including galvanized pipes, polybutylene pipes, and copper with pinholes
 - Downspouts that empty onto paved surfaces, creating slip and fall exposures, particularly in winter
 - Older buildings with high values that are not fully sprinklered
 - High-rise buildings, in general
- Communities currently insured through the excess/surplus insurance market; re-entry into the standard market may take longer than in previous years



Property rate drivers

Multiple factors continue to influence property insurance rates, contributing to more frequent underwriting adjustments and elevated premiums. Key drivers include:

Increased catastrophe losses

Climate change is contributing to more frequent and severe natural catastrophe events, increasing loss costs for insurers. According to Swiss Re, global insured losses from natural catastrophes—including hurricanes, wildfires, tornados, and winter storms—reached \$137 billion in 2024, with an additional \$318 billion in economic losses.² An unusually quiet Q3 (with minimal losses between July and September) may reduce total anticipated losses for 2025, but natural disaster claims are still expected to exceed \$100 billion for the eighth consecutive year, continuing a trend that has significantly impacted pricing and underwriting appetite.

Housing and labor costs

COVID-19 created historic supply chain disruptions, and today, ongoing tariffs, quotas, and other import restrictions continue to affect the cost and availability of materials. Global conflicts, labor strikes, and severe weather events are further constraining supply chains. Construction labor shortages remain a persistent challenge: the Associated Builders and Contractors estimates the U.S. will require 439,000 additional workers to meet demand.³ This shortage, combined with elevated material costs, continues to drive reconstruction expenses and extend repair timelines, directly influencing insured loss costs.

Reduced capacity

To stabilize profitability and limit exposure to catastrophic events, insurers have become increasingly selective. Many are reducing the total insurable values (TIVs) they are willing to cover or declining risks that exceed their internal thresholds. Some insurers are turning to loss limits—providing a limit below full replacement cost but sufficient for probable maximum loss—or relying on layered programs shared across multiple insurers unwilling to take on full exposure.

Several insurance companies have exited high-risk counties or states altogether, while others facing financial strain have withdrawn from the market. Although new programs are slowly emerging, they come with strict underwriting parameters. This reduced competition enables insurers to be more selective about the risks they assume and the pricing at which they offer terms.

Higher deductibles

Insurers are increasingly transferring more risk back to associations through higher deductibles. Historically, well-performing condominium associations often carried \$10,000 per-occurrence deductibles. Today, it is increasingly common to see deductibles of \$25,000, \$50,000, \$100,000, or higher. Once used primarily for water damage, per-unit deductibles are also becoming more common, with each affected unit subject to its own deductible. Higher deductibles are now being applied not just as a response to previously paid losses, but also as a preventive measure against potential future losses.

While homeowners' associations with no loss history may still secure deductibles in the \$5,000 to \$10,000 range, associations with loss ratios exceeding 35% to 40% of written premium are far more likely to see elevated deductibles at renewal. This trend reflects insurers' heightened focus on mitigating risk, curbing loss frequency, and encouraging stronger loss management practices.



Property coverage

Replacement costs and insurance-to-value

Ensuring proper building valuation remains a key priority for insurers, as accurate insurance-to-value is essential at the time of loss. As insurers reassessed building replacement costs through late 2025 and into 2026, replacement cost trends point to an expected 4% or higher increase. Tariffs on materials such as lumber, aluminum, and steel may further influence valuations.

Insurers that previously offered extended replacement cost or guaranteed replacement cost may begin offering premium savings by removing these endorsements and reverting to standard replacement cost coverage. While replacement cost coverage avoids depreciation, properly aligning building limits at each renewal helps ensure values remain accurate. Importantly, hiring a professional appraiser is still the most reliable way to confirm building valuations. Insurance advisors and insurers are not qualified appraisers, and insurers may apply their own valuation if none is provided.

When available, securing coverage from insurers that offer extended or guaranteed replacement cost remains beneficial. These endorsements help protect against underinsurance during the policy term by accounting for escalation in material and labor costs. Insurers may, however, scrutinize values more closely when applying these features and often incorporate inflation guards ranging from 1% to 5%.

Associations using standard replacement cost coverage should verify that their policies include agreed value (waiving coinsurance) and are written on a blanket basis, ensuring the full limit is available across all buildings rather than being restricted by scheduled building values.

Umbrella/excess liability: An in-depth look

After nearly a decade of stable, near-flat premium rates (2009–2019), umbrella and excess liability pricing began rising sharply in 2020 and has remained elevated through 2026. The primary drivers are social inflation, shifting jury sentiment, and the growing frequency of nuclear (>\$10M) and thermonuclear (>\$100M) verdicts. These awards are increasingly normalized across many jurisdictions, and their visibility through media coverage and litigation networks continues to influence both claim expectations and settlement values.

Several forces are fueling this trend: the erosion of tort reform, evolving plaintiff-attorney strategies, and the expanded use of litigation funding, alongside a public environment more inclined to assign broad corporate responsibility. As verdict severity climbs, insurers face larger loss exposures, and the umbrella limits required to respond to these awards place ongoing upward pressure on premiums.

In response, insurers are increasingly adjusting their approach by offering lower limits, reducing percentage participation, or relying more heavily on layered program structures to manage capacity. High-limit availability remains constrained as markets evaluate the sustainability of large liability towers amid continued severity pressure.

Underwriting scrutiny has also intensified. Many insurers are re-underwriting entire books and non-renewing long-term insureds that fall outside updated age, maintenance, or life-safety thresholds. They are also tightening requirements for reserve planning and capital improvement commitments. Additional measures include reduced capacity and increased pricing, including higher retentions or newly introduced retentions where none previously existed. Narrowed coverage terms, including limitations on D&O liability, and amended insuring agreements are also becoming more common, with some insurers exiting the umbrella and excess liability markets altogether.

What to expect in 2026

Insurance rates for your association are determined by a combination of factors, including property values, liability exposures, and claims history, as well as broader market conditions that are outside your control. Because these variables can shift from year to year, it is essential to focus on the aspects you can influence, as changes in any one area may affect your premiums.

While factors such as geographic location, building age, construction type, unit quantity, and available amenities may be fixed, associations can still take proactive steps to strengthen their underwriting profile. Although these efforts may not produce immediate premium reductions, they can help reduce future claim risk, temper rate increases at renewal, and position your association as a stronger candidate for insurers in a competitive market.

Deductibles

The use of higher deductibles continues to grow more common, particularly for associations in coastal areas or those with a history of property claims. Many insurers now require wind or hail deductibles of 1%, 2%, or even 5%, applied to each building's replacement value. These elevated deductibles are typically mandated for associations located in coastal counties or within five miles of major bodies of water. Wind buyback policies remain available to reduce these deductibles, though they can be prohibitively expensive.

Associations renewing their policies are also seeing shifts in deductible structure, with insurers moving away from per-occurrence deductibles (a single deductible applied regardless of unit count) and toward per-unit deductibles, where each impacted unit is subject to its own deductible. Per-unit deductibles are most commonly applied to water-related losses, including damage from pipe breaks, sprinkler leakage, sewer backup, and ice damming. High-rise buildings are experiencing this trend most acutely, particularly for water damage, as insurers use per-unit deductibles to mitigate future loss frequency and severity.

For associations in states without unit-owner deductible responsibility laws, it is strongly recommended to amend governing documents to formally shift deductible accountability. This can be done by assigning responsibility either to the owner whose unit was the source of the loss or to the owner who directly benefits from the insurance proceeds.

Lender caps on deductibles

For per-unit deductibles, associations must also consider updated lending guidelines. Effective February 7, 2024 and still in force, Fannie Mae and Freddie Mac cap allowable per-unit deductibles according to the following formula:

Building value ÷ unit count × 0.05%

Example:

\$40,000,000 building value ÷ 130 units × 0.05% = \$15,385
→ The per-unit deductible cannot exceed \$15,385.

Higher per-unit deductibles are permitted when the deductible applies to certain geographic perils (such as ice damming or wind). Fannie Mae and Freddie Mac also limit per-occurrence deductibles to 5% of the blanket building limit.

Over the past year, insurers have responded by adding endorsements (where feasible) that cap the total per-unit deductible to 5% of the blanket limit. However, insurers are not obligated to apply this endorsement. If an association's loss history warrants a deductible higher than the lending cap, the insurer will still apply it.

Turn insight into action

Navigating an evolving insurance market can meaningfully impact the communities you manage, the budgets you set, and the reserves you allocate to sustain your properties—both now and in the years ahead. The Baldwin Group's advisors work to secure comprehensive coverage at competitive premiums to help protect your assets and support long-term financial stability. When opportunities arise to strengthen your insurance program, our team will help you evaluate additional insurers and explore options that optimize coverage.

Value sits at the intersection of broad coverage, competitive pricing, and responsive service—providing the protection needed to safeguard your communities today while helping you plan confidently for the future.



Real Estate - Hospitality

Overview

The hospitality sector enters 2026 with a resilient performance story shaped by sustained travel demand, shifting guest preferences, and persistent operating pressures. After a strong 2024 and 2025, hotel fundamentals remained steady throughout the year, supported by strong leisure travel, continued international arrivals, and higher business activity. Urban destinations also continued their multi-year recovery, while resort markets began to normalize after several years of outsized post-pandemic demand.

However, beneath this stability, the operating environment continues to evolve. Labor availability and wage inflation remain defining challenges, pushing many operators to adopt automation tools, outsourcing models, or efficiency-driven redesigns. At the same time, aging hotel stock, escalating repair and replacement costs, and mounting CAT and fire-loss events have highlighted ongoing vulnerabilities across property portfolios.

Capital markets offered mixed conditions through 2025. While financing availability improved modestly in the second half of the year, borrowing costs remain historically elevated, slowing new development and placing pressure on independent operators and highly leveraged owners. Deferred property improvement plan (PIP) cycles are converging with higher replacement-cost assumptions, creating additional capital demands for many brands and ownership groups heading into 2026.

Despite these pressures, hospitality's demand outlook remains constructive. Convention and corporate group bookings are projected to strengthen and inbound international travel continues to rebound. Adaptive reuse, especially office-to-hotel and hotel-to-residential conversions, continues to reshape opportunities in major metro areas. As operators balance resilient demand with rising costs, evolving risk profiles, and tightening insurer expectations, strategic insurance planning becomes central to protecting margins and sustaining asset value.

The Baldwin Group partners with hotel owners, developers, franchisors, and management companies nationwide to navigate these shifting conditions, strengthening risk controls, optimizing coverage structures, and aligning insurance programs with the operational and financial realities of an evolving hospitality market.

Current trends

Property market

The hospitality property market strengthened meaningfully through 2025, with well-built, lower-hazard hotel assets seeing rate decreases ranging from flat to -20%. Coastal, older, or frame-construction properties experienced more modest conditions, with renewals generally landing between flat and +10%. A notably quiet 2025 hurricane season in the U.S. allowed insurers to post strong Q3 and Q4 results, supporting improved profitability across admitted and excess and surplus (E&S) markets alike.

As 2026 begins, early indicators point to another profitable 1/1 reinsurance renewal cycle, which is expected to sustain competitive conditions for non-CAT-exposed, high-quality hospitality risks. Insurers are increasingly focused on retaining and growing portfolios of well-maintained hotel assets, fueling rate pressure downward in many markets.

- **Rate moderation for strong risks** – Well-constructed, recently updated, or non-CAT-exposed hotels continue to secure the most favorable pricing, supported by strong insurer profitability and increased competition for desirable assets.
- **Older assets under scrutiny** – Age of plant, deferred maintenance, and outdated electrical, plumbing, or roofing systems remain key underwriting differentiators. Hotels with incomplete PIPs, open code compliance issues, or aging infrastructure continue to face tighter terms.
- **Heightened CAT-model sensitivity** – Insurers are applying more refined modeling assumptions for hurricane, convective storm, and wildfire exposures. Texas, Oklahoma, and Missouri saw elevated SCS-related hospitality losses in 2025, while western and southwestern lodge and resort properties continue to face growing wildfire scrutiny.
- **Water-damage focus** – Water losses remain a top severity driver in hotels. Insurers are increasing water-damage deductibles, tightening impairment reporting standards, and evaluating plumbing and HVAC upgrade histories more closely.
- **Strong stance on insurance-to-value (ITV)** – Replacement-cost assumptions continue to rise, and insurers are enforcing ITV more rigorously. Hotels behind on recent appraisals or PIP updates may see upward valuation corrections during renewal.

Hotels that maintain strong maintenance programs, document recent capital improvements, and proactively address CAT and water-related exposures are best positioned to secure competitive property terms in a more favorable 2026 market.

General liability

General liability remains one of the most challenging lines for hospitality operators heading into 2026. Several insurers have reduced appetite or exited hospitality general liability, particularly for properties with nightlife exposure, adverse loss history, or elevated crime scores. Many operators should expect 5% to 10% rate increases at renewal.

- **High-hazard exposures** – Assault and battery (A&B), abuse and molestation (A&M), firearms, human trafficking, liquor liability, and animal exposures remain major severity drivers, prompting insurers to tighten sublimits, restrict coverage, and price aggressively, particularly for hotels with nightlife or contracted security.
- **Premises and guest-safety liability** – Slip-and-fall severity, rising medical costs, ADA claims, and expanded trafficking litigation continue to elevate defense and indemnity costs.
- **Crime and security scrutiny** – Crime scores and physical security standards (lighting, cameras, patrol oversight) now play a decisive role in underwriting. Insufficient or outdated measures frequently trigger surcharges or declinations.
- **Regulatory developments** – New trafficking-prevention mandates and stricter fire and life-safety standards are prompting closer evaluation of staff training, signage, sprinkler systems, alarm impairments, and egress compliance.
- **Social inflation and nuclear verdicts** – Nuclear verdict trends and plaintiff-bar strategies are driving higher severity across general liability and umbrella lines, shaping insurer appetite and pricing.
- **Reliance on self-insured retentions (SIRs)** – Insurers are increasingly requiring higher SIRs to share risk with owners and operators. While still available, guaranteed-cost options are becoming harder to secure for properties with nightlife, high guest-interaction exposure, or severity trends.

Hospitality operators that reinforce security protocols, strengthen compliance documentation, and proactively address high-hazard exposures are best positioned to secure favorable outcomes in a marketplace that remains cautious and increasingly selective.

Umbrella/excess liability

The hospitality industry continues to face a hardened umbrella liability market in 2026. Good performers are seeing increases of at least 15%, while distressed risks may face increases upward of 100% to 200%. Social inflation and nuclear verdicts continue to drive unpredictability, unfavorable rates, and diminished capacity. With such a small pool of available capacity—particularly for resort operations—basic supply-and-demand dynamics are pushing pricing to unmanageable levels.

- **Reduced capacity** – Insurers remain hesitant to deploy limit in the first \$5 million layer, citing persistent severity trends. Increasing primary general liability limits from \$1M to \$2M or \$2M to \$4M has provided some relief, with approximately a 30% success rate.
- **Risk purchasing group (RPG) retrenchment** – Insureds that relied on RPGs have been affected by greater underwriting scrutiny, reduced capacity, and increased pricing. In November 2024, RPGs, such as Distinguished and Aura, retrenched from the market, representing some of the most impactful marketplace shifts for lodging risks throughout 2025.
- **High-risk exposures** – Resorts with ancillary exposures, such as paddle boarding, horseback riding, and jet skiing, as well as properties with nightlife or security operations, continue to face heightened scrutiny and reduced insurer appetite, with excess markets avoiding these classes altogether. Sexual misconduct, human trafficking, negligent security, and A&B remain central contributors to losses.
- **Persistent nationwide pressure** – Umbrella and excess liability conditions remain strained across all regions, with limited easing even for well-performing risks.
- **High-limit towers** – Insurers are deploying less limit per layer, resulting in higher costs and more complex tower construction. Lowering limits is becoming one of the few viable strategies to maintain a financially manageable renewal.

Stronger operational controls, clearer documentation, and proactive management of high-risk exposures will be essential to navigating continued excess liability pressure.



Employment practices liability (EPL)

Entering 2026, wage inflation, persistent staffing shortages, and elevated turnover continue to drive both frequency and severity of EPL claims for hospitality operators. At the same time, regulatory shifts and heightened enforcement activity are adding new compliance pressures, particularly for operators reliant on contracted or seasonal labor.

- **Wage inflation and pay equity** – Hospitality continues to face some of the highest wage inflation rates of any major sector. Several states enacted 2025 minimum wage increases and expanded pay transparency requirements, contributing to higher claim frequency tied to wage and hour disputes and pay equity allegations.
- **Staffing shortages** – Persistent gaps in staffing are driving increased use of staffing agencies, gig based labor, and outsourced roles across housekeeping, food and beverage (F&B), and event operations. These models elevate EPL exposure through joint employer arguments, onboarding inconsistencies, and misclassification risks.
- **High turnover** – High turnover rates, seasonal swings, and inconsistent supervisory practices continue to contribute to allegations of wrongful termination, retaliation, discrimination, and failure to accommodate.
- **Wage and hour volatility** – Wage and hour exposure remains excluded from most EPL policies and continues to be a significant uninsured risk for hotels. Claims tied to overtime pay, rest breaks, tip pooling, and time clock rounding practices increased throughout 2025, particularly in states with complex labor codes.
- **Biometric and privacy-related claims** – Hotels using biometric time clocks, facial recognition, or access technologies face rising exposure under evolving privacy and data collection laws. Litigation activity increased in 2025 as plaintiffs challenged consent processes, retention policies, and disclosure practices.
- **Regulatory changes and enforcement** – Enforcement actions involving retaliation, harassment, AI-based hiring practices, and accommodations are increasing the risk of investigation and litigation. Several states strengthened protections around harassment reporting, leave policies, and worker scheduling.
- **Union activity and organizing trends** – Labor-organization momentum increased across several metropolitan markets in 2025, resulting in heightened dispute activity, retaliation claims, and bargaining-related conflicts that may intersect with EPL exposure.

Hospitality operators that maintain consistent HR practices, reinforce supervisory training, and strengthen documentation around hiring, scheduling, discipline, and accommodations are better positioned to mitigate EPL exposure and secure favorable terms in a market that remains highly sensitive to workforce dynamics.

Cyber liability

Cyber risk remains a top-tier exposure for hospitality operators entering 2026. Hotels continue to rank among the top three most frequently targeted industries due to high volumes of payment data, and complex vendor ecosystems. Operationally interdependent systems like property management, point of sale, and access control systems create additional complexity. While cyber pricing is stable for well-controlled risks, the sector faces elevated severity tied to ransomware, vendor outages, and social engineering attacks.

- **Digital system breaches** – Hospitality remains disproportionately affected by point of sale compromises, loyalty program fraud, and credential theft. Outdated point-of-sale (POS) terminals, inconsistent patching, and fragmented hardware across F&B outlets and retail kiosks continue to drive exposure.
- **Vendor dependencies** – Dependency on property management systems, key-card and access-control vendors, reservation engines, and outsourced IT providers creates concentrated systemic risk. Recent large-scale outages in 2025 reinforced underwriting scrutiny around vendor selection, network segmentation, and business continuity plans.
- **MFA fatigue and social engineering** – AI-enabled voice spoofing and payment diversion schemes targeting front-desk and accounting teams have increased. Multi-factor authentication (MFA) fatigue and unverified banking instruction changes remain leading loss drivers, especially where hotels rely on manual workflows or dispersed teams.

- **Operational technology (OT) vulnerabilities** – Internet connected door locks, elevators, HVAC controls, and surveillance systems expand the attack surface. Underwriters are paying closer attention to OT segmentation, vendor access, and patch management as hotels modernize infrastructure and adopt smart building technology.
- **Guest data privacy exposure** – Hotels handle large volumes of sensitive personally identifiable information (PII), including passports, payment cards, loyalty data, and event attendee records. Enforcement activity around state privacy laws increased in 2025, prompting closer scrutiny of data retention schedules, consent practices, and third-party data-sharing agreements.
- **Ransomware and business interruption** – Ransomware continues to disrupt reservations, check-in/check-out systems, event services, and key card operations, driving high business interruption costs. Insurers are increasingly evaluating backup maturity, restoration testing, and offline-recovery capabilities when pricing hospitality risk.

Clear governance, disciplined vendor management, and tested response protocols can help hospitality operators reduce exposure and maintain favorable positioning in a cyber market that continues to reward control maturity.

Environmental liability

Driven by aging building systems, water-intrusion trends, and heightened scrutiny of indoor air quality, environmental liability remains a persistent exposure for hospitality operators. Older hotels, coastal properties, and assets undergoing renovation or deferred maintenance are experiencing increased underwriting attention as mold, Legionella, and HVAC-related issues continue to generate costly claims. Regulatory enforcement and guest-safety expectations are also elevating the operational stakes for environmental compliance.

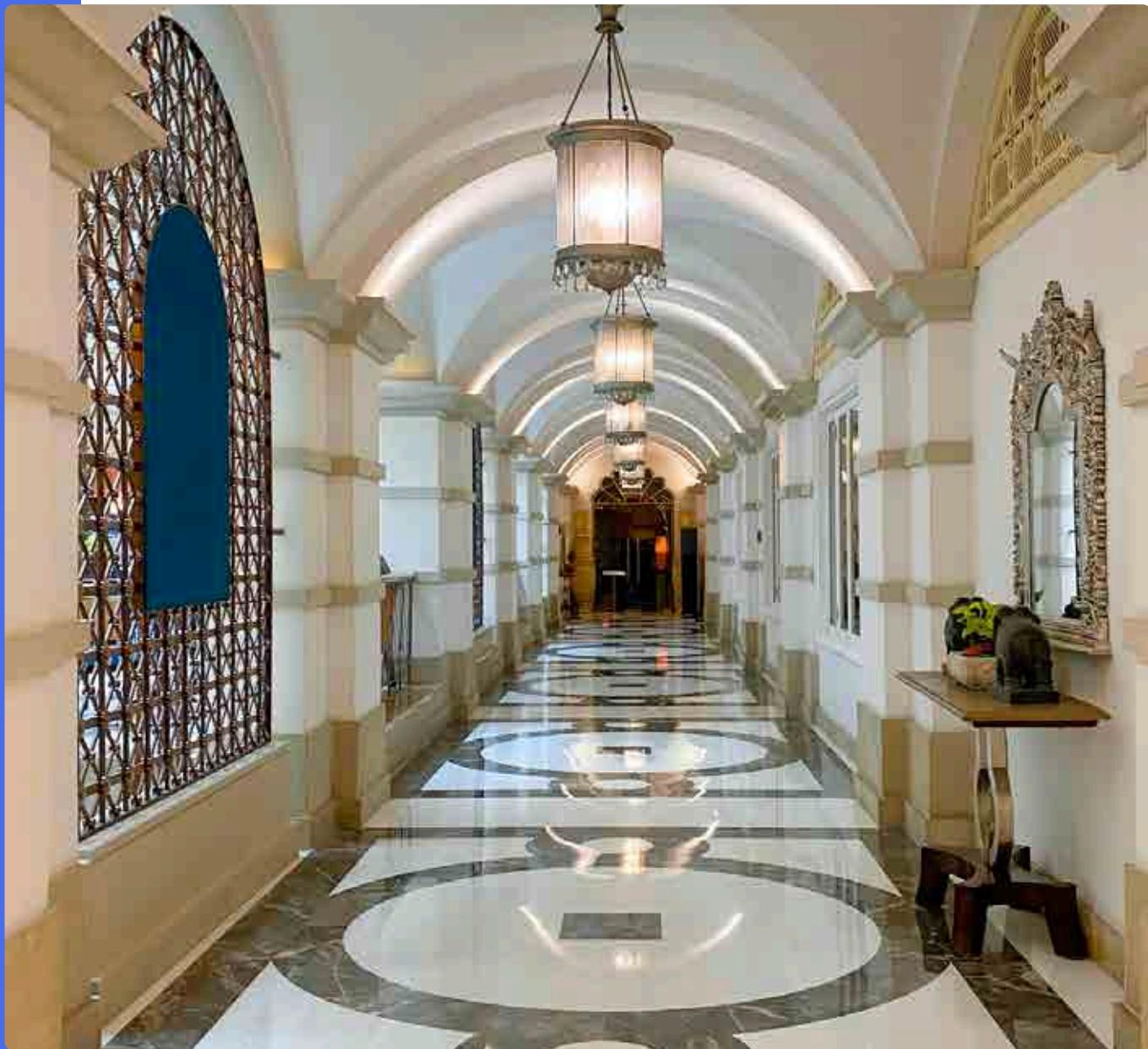
- **Mold and moisture intrusion** – Aging plumbing, HVAC systems, and building envelopes remain leading sources of mold incidents in hotels. Underwriters are focusing on historical water-damage patterns, humidity controls, preventive maintenance, and documented drying protocols following leaks or floods.
- **Legionella and water-system management** – Hotels with pools, spas, cooling towers, or high-use water systems face elevated Legionella exposure. Insurers increasingly expect documented water-management plans, routine testing, and timely remediation, particularly for older or high-occupancy properties.
- **Indoor air quality (IAQ)** – Inconsistent ventilation, outdated filtration systems, and deferred HVAC upgrades heighten the risk of IAQ complaints and guest-health allegations. Underwriters are reviewing IAQ monitoring, filter-replacement schedules, and system-inspection records more closely.
- **Renovation exposures** – Capital improvements, PIPs, and adaptive reuse projects introduce risks tied to asbestos, lead, silica dust, and construction-related moisture intrusion. Hotels undergoing renovation without clear environmental protocols face tighter terms and higher deductibles.
- **Waste handling and F&B operations** – On-site laundry, commercial kitchens, and cleaning chemical storage create exposure to spills, improper disposal, and air quality issues. Underwriters increasingly consider chemical handling procedures, food and beverage safety, staff training, and ventilation adequacy.
- **Catastrophe-amplified losses** – Properties in hurricane, flood, or wildfire exposed regions face heightened risk of mold, soot, and smoke contamination. Insurers are evaluating post-CAT remediation vendors, mitigation strategies, and documentation standards.

Strengthening environmental governance, validating system performance, and enforcing preventive protocols can help hospitality operators improve underwriting outcomes and reduce the operational impact of environmental incidents.



Turn insight into action

Success in the hospitality sector hinges on balancing guest expectations, operational pressures, financial performance, and shifting insurance conditions. In 2026, rising loss costs, tightening underwriting, and evolving liability trends make insurance strategy a critical lever for stability. The Baldwin Group helps hospitality organizations strengthen defensibility, align coverage with exposures, and secure capacity in a dynamic market. With industry-specific expertise and a proactive advisory model, we support owners, developers, and management companies in protecting their properties, their people, and their long-term performance.



Real Estate - Multifamily

Overview

The multifamily real estate market enters 2026 defined by two opposing forces. On the property side, strong capital inflows, stable reinsurance, and new entrants are creating a favorable market environment. Capacity has expanded, pricing is easing, and deductibles are trending downward for well-managed portfolios.

Casualty conditions tell a different story. Social inflation, nuclear verdicts, and litigation volatility continue to constrain general liability and umbrella capacity—particularly in high-crime and high-litigation ZIP codes—driving stricter underwriting and higher retentions.

Across both lines, insurers are heightening expectations around infrastructure condition, documented maintenance, crime controls, amenity management, and overall risk governance. Loss activity reflects both longstanding exposures and emerging risks tied to lithium-ion batteries, evolving amenities, and aging building systems.

In this environment, proactive documentation, rigorous risk controls, and thoughtful program structure are essential. The Baldwin Group helps owners navigate these diverging market forces, capturing property-side advantages while managing casualty constraints to strengthen portfolio resilience.

Current trends

Softening property market

The multifamily property market has fully transitioned into a soft cycle entering 2026. For well-managed multifamily portfolios, insurers are competing aggressively on rate, terms, deductible structures, and capacity deployment, producing some of the most favorable conditions owners have seen since before the hard market that began in 2020.

- **Portfolio size** – Large, diversified portfolios are seeing the most significant improvement, with rate decreases most pronounced for accounts exceeding the \$1 billion total insurable value (TIV) threshold. Insurers are actively pushing for participation and offering broader limit flexibility.
- **Deductible structure** – Named storm deductibles that reached 5% are now trending toward 3% or even 2%, and all other perils (AOP) deductibles are stabilizing, with smaller assets in favorable geographies sometimes returning to flat-dollar structures.
- **Valuation increases** – Insurers are showing greater flexibility on valuation requirements, moving away from the automatic 8% to 15% uplifts imposed during the height of reconstruction cost inflation.
- **Underwriting trends** – Despite softening conditions, underwriting discipline remains. Insurers continue to scrutinize roof age and condition, construction type, geographic aggregation, and the quality of maintenance and inspection documentation. Aging infrastructure, deferred capital expenditures, and inconsistent recordkeeping trigger tighter terms, and selectivity remains high, especially in regions with significant severe convective storm (SCS) or hail activity.

Owners that demonstrate disciplined maintenance practices, transparent documentation, and consistent risk controls are best positioned to capitalize on the soft property market while strengthening long-term asset resilience.

Climate-driven loss behavior

Climate-related loss activity continues to shape underwriting strategies entering 2026. Insurers are closely scrutinizing the impact of secondary perils—such as convective storms, hail, floods, and fires—which produced elevated losses in 2024 and 2025.

- **Rising convective storm activity** – Frequency and severity remain elevated, particularly across Texas and the central U.S., driving loss volatility for multifamily portfolios.
- **Hail-driven roof claims** – Multifamily roofs continue to see outsized hail exposure, leading to stricter documentation of roof age, condition, materials, and replacement history.
- **Broader climate exposures** – Wildfire risk in the West, flooding in the Gulf Coast and Midwest, and hurricane activity along coastal regions continue to influence underwriting.
- **Granular catastrophe (CAT) modeling** – Insurers are applying more detailed CAT modeling and micro-geographic analytics to assess risk accumulation and determine deductible structures.
- **Underwriting implications** – Pricing and deductibles are now directly linked to regional climate exposure, localized loss history, verified roof condition, and documented maintenance, sharpening underwriting requirements even in a soft property market.

Owners who maintain up-to-date roof documentation, invest in resilient materials, and proactively manage geographic concentrations are best positioned to meet evolving climate-related underwriting expectations.

Aging infrastructure and property risks

Aging buildings and deferred maintenance remain major contributors to property losses across portfolios, particularly among garden-style communities and mid-rise assets constructed between the 1970s and 1990s. As these properties approach major system replacement cycles, insurers are paying closer attention to the condition and reliability of core building components that drive a disproportionate share of claims, and underwriting expectations have evolved accordingly.

- **Key loss drivers** – Water intrusion and burst pipes, aging electrical systems and associated fire risk, balcony and railing failures, and roofs nearing end-of-life remain top contributors to loss activity.
- **Underwriting impact** – Properties with inconsistent documentation, deferred upgrades, or unclear replacement timelines are seeing tighter terms, reduced capacity, and higher deductibles, even in an otherwise soft property market.
- **Documentation requirements** – Insurers increasingly expect detailed maintenance and inspection logs and evidence of scheduled building improvements, as well as proactive replacement plans for roofs, plumbing, electrical systems, and building envelope components.

Owners with clear capital improvement plans, documented inspection routines, and timely system upgrades are best positioned to secure favorable pricing and maintain broad property coverage availability.

Constrained casualty capacity

Casualty conditions remain severely constrained entering 2026 as insurers retreat from multifamily risks amid rising severity driven by legal system abuse. Appetite for general liability and umbrella placements is especially limited in high-litigation regions, with insurers restricting limits, tightening terms, or exiting certain ZIP codes. This creates a difficult environment for owners, particularly those with lender-driven requirements that standard markets are increasingly unwilling to meet.

- **Geographic pressure** – Capacity remains tightest in high-litigation jurisdictions, including Florida, Georgia, Illinois, and other judicial hot spots. In these regions, insurers have reduced limit deployment, imposed stricter underwriting criteria, or withdrawn from multifamily liability entirely.
- **Lender dynamics** – Lenders continue to require coverage terms that many insurers are unwilling to provide, including assault & battery (A&B), abuse & molestation (A&M), and firearms coverage. Meeting these conditions often pushes programs into the E&S market, increases pricing, or forces owners to restructure limits.
- **Rising deductibles and self insured retentions (SIRs)** – Guaranteed-cost options have become scarce, and insurers are increasingly requiring \$25K to \$100K deductibles or SIRs on general liability placements to offset severity trends and discourage frequency.
- **Severity drivers** – Slip-and-fall claims and on-site violent incidents remain core exposures, but severity continues to escalate due to social inflation, plaintiff advertising, foreseeability arguments, and jury unpredictability. These dynamics are driving insurers to take a far more conservative stance on pricing and limit deployment.
- **Underwriting focus** – Underwriters are placing heightened emphasis on crime scores, amenity risks, mixed tenancy, incident documentation, and maintenance evidence. Deferred maintenance, incomplete documentation, and reactive mitigation are major red flags that directly affect pricing and appetite.
- **Required loss controls** – Insurers now expect functioning gates, detailed patrol logs, adequate lighting, extended camera footage retention, smart access systems, and maintenance compliance for fire suppression, HVAC, and dry-vent systems. Security posture and consistent execution now drive coverage outcomes.

Owners that maintain strong documentation, proactive incident response protocols, and enhanced site-level controls are best positioned to secure capacity and mitigate increases in an otherwise challenging casualty market.

Crime and negligent security exposure

Crime-related liability remains one of the most significant severity drivers for multifamily owners, with negligent security claims rising sharply across urban and high-crime ZIP codes. As large verdicts proliferate and plaintiff firms increasingly target multifamily properties, insurers are narrowing appetite and tightening underwriting requirements.

- **Severity drivers** – Verdicts tied to inadequate lighting, nonfunctioning gates, insufficient camera coverage, and delayed incident response continue to elevate claims costs.
- **Crime score scrutiny** – Insurers increasingly require detailed crime score documentation in submissions and are imposing strict ZIP code thresholds, with reduced limits or outright declinations for higher-risk areas.
- **Legal environment** – Courts in several states have broadened expectations around premises liability, harm foreseeability, and incident response documentation, directly escalating severity and influencing underwriting decisions.
- **Underwriting impact** – Markets are retreating from areas with elevated crime or inconsistent security practices, pushing more placements into the excess and surplus (E&S) market and increasing pricing for portfolios unable to demonstrate strong, verifiable controls.

Owners with well-lit properties, functioning access controls, comprehensive camera systems, clear incident reporting protocols, and validated documentation are better positioned to secure coverage and avoid the steepest pricing increases.

Amenity and operational safety risks

Amenity expansion across multifamily communities introduces liability exposures that insurers are examining more closely. Resident facing features can significantly elevate operational risk without strong safety protocols and documentation, and these exposures are becoming central to underwriting as courts broaden expectations around premises liability and duty of care.

- **Emerging amenity risks** – Rooftop pools, alcohol service, 24/7 gyms, dog parks, golf simulators, coworking areas, and other shared amenities continue to drive liability concerns due to increased foot traffic, limited supervision, and variable resident behavior.
- **Lithium-ion battery fire exposure** – Resident use of e-bikes, scooters, aftermarket batteries, and in-unit charging has become a major operational risk. Insurers now expect designated charging areas, fire-resistant containment, clear tenant policies, and restrictions on in-unit charging.
- **Underwriting expectations** – Insurers expect defined safety measures for all amenities, including appropriate signage, adequate lighting, access controls, documented maintenance routines, and evidence of staff training or third-party oversight.
- **Documentation requirements** – Incomplete maintenance logs, absent safety signage, and inconsistent supervision practices are major red flags that can limit available capacity or increase pricing.

Owners that establish rigorous controls, enforce safety standards, and maintain thorough documentation are best positioned to mitigate liability concerns and maintain insurer appetite.

E&S market reliance

The E&S market continues to play a foundational role in multifamily placements, particularly for casualty lines where standard market capacity remains severely restricted. As insurer appetite narrows in high-litigation or high-crime regions, owners are increasingly relying on E&S markets to secure required limits, meet lender-driven terms, and access broader underwriting flexibility.

- **Property** – E&S markets are delivering some of the largest property rate reductions for well-managed portfolios, supported by competitive capacity and broader underwriting latitude.
- **Casualty** – For general liability and umbrella placements, E&S is often the only viable path to obtain required limits or satisfy lender requirements, such as A&B, A&M, and firearms coverage.
- **Programs and managing general agents (MGAs)** – New E&S programs and MGAs continue to emerge, but underwriting remains cautious and geographically selective, with many solutions concentrated in specific states or risk profiles.

Owners with lender requirements in challenging jurisdictions should expect limited options and potentially higher costs to meet mandatory coverage terms, making early marketing and clean submissions essential to securing favorable E&S outcomes.

Turn insight into action

As the multifamily market heads into 2026 with contrasting conditions across property and casualty, a strategic insurance partner is essential to protect asset performance and navigate capacity dynamics. The Baldwin Group supports multifamily owners, condo operators, and portfolio managers with programs tailored to lender expectations, operational realities, and evolving risk profiles. Acting as an extension of your team, we help strengthen safety and maintenance protocols, elevate documentation and incident reporting, and design insurance structures that safeguard your assets while preparing you for a shifting risk environment.



Retail & Wholesale

Overview

The retail and wholesale industry continues to adapt to evolving social and economic pressures that are reshaping consumer purchasing behaviors and driving shifts in supplier operating strategies. These dynamic changes are influencing risk exposures across the sector, with insurers responding through active competition and varying impacts on specific lines of coverage. Given the pace and complexity of these developments, it is now more critical than ever for businesses in this space to establish an insurance program tailored to their unique risk profile. A customized approach ensures comprehensive protection and strategic alignment with the challenges and opportunities facing retail and wholesale operations in a rapidly changing environment.

Trends

Tariffs and supply chain disruption

The 2025 tariff adjustments for imports and exports significantly affected supply chain operations, creating disruptions and increasing costs for businesses trading with the United States. Beyond the economic impact of tariffs, the shipping industry experienced a notable rise in cargo losses caused by theft and other means of loss. Prolonged delays at ports have exacerbated the issue, with shipping containers frequently stuck in transit, leading to delivery setbacks that ripple through warehouses and ultimately affect customers. Additionally, targeted theft of high-value, easily transportable goods, such as electronic components, has grown in frequency, posing a heightened risk for importers and exporters. With the increase in import value and rising theft rates, the cost of replacing stolen goods has surged, directly driving up both claim payouts and insurance premiums.

E-commerce

The retail industry continues to experience rapid growth in e-commerce, driven by the sustained surge in online shopping. While cyber insurance remains readily available to address these exposures, increased competition among insurers has helped keep rates stable. However, the rise in Buy Now, Pay Later (BNPL) services adds new layers of risk to the sector, particularly in the form of credit-related fraud. As of 2025, BNPL fraud is expected to exceed \$2 billion dollars globally, highlighting significant vulnerabilities for retailers and wholesalers alike.¹ Businesses in the retail and wholesale sectors must recognize that these emerging fraud tactics are not always covered under standard insurance policies. Tailored coverage is essential to address exposures, such as funds transfer fraud, invoice manipulation, and similar types of losses, as many policy forms impose limitations on these risks.

Automation and technology

An emerging trend in the warehousing industry is the increased adoption of robotics and automated technologies to enhance operational efficiency. However, these advancements bring unique risk exposures that businesses must address. Liability concerns, equipment breakdowns, and the potential for business interruption losses due to technology downtime require careful evaluation, as traditional insurance programs may not offer sufficient protection. Cyber insurance, for example, often necessitates specialized endorsements to adequately cover vulnerabilities specific to automated systems. Additionally, compliance with OSHA standards becomes even more critical as these technologies integrate into day-to-day operations. Companies must ensure worker safety by implementing measures that align automation with regulatory requirements.

Key coverages and rate drivers

Property and cargo

Property insurance rates within the standard market are beginning to soften for buildings with preferred characteristics. For organizations seeking innovative risk management strategies, alternative solutions, such as parametric insurance, can provide a more strategic and consistent approach to structuring coverage and stabilizing rates over time. However, as business income losses continue to rise, inadequate coverage remains a recurring challenge. This area is often overlooked in insurance programs, with many insurers excluding automatic increases in coverage year over year.

General liability and excess liability

Businesses with brick-and-mortar locations that experience high foot traffic face ongoing challenges in the general liability and excess liability markets. Rising rates, driven by an increase in nuclear verdicts and litigation funding, have tightened capacity and forced many operations into the excess and surplus (E&S) market for coverage solutions. These trends underscore the importance of strategic risk management and proactive liability coverage planning in navigating this increasingly complex insurance landscape.

Workers' compensation

Workers' compensation rates are expected to continue rising into 2026, with notable developments in California shaping the market. The California Workers' Compensation Insurance Rating Bureau (WCIRB) has recommended an 11.2% increase to California's advisory pure premium rate for policies effective September 1, 2025, though the California Insurance Commissioner approved an 8.7% average increase.² Although actual rates will vary, these adjustments provide insight into anticipated market trends. The retail and wholesale industries face heightened exposure to slip, trip, and fall incidents, along with ergonomic-related losses. Conducting a thorough review of individual loss drivers and implementing proactive mitigation strategies will be essential to managing rates effectively. Formal return-to-work programs, which allow employees to remain productive within the scope of medically approved work restrictions, are crucial tools for reducing claims costs and minimizing overall risk.

Turn insight into action

Looking ahead into 2026, we strongly recommend conducting a comprehensive review of your property underwriting profile to ensure underwriters are fully informed of any updates or changes to the property. This proactive approach fosters transparency and supports more accurate pricing. Additionally, with the rise in crime-related losses, it is essential to thoroughly review contractual agreements with shipping and delivery companies. Special attention should be paid to risk allocation limitations often embedded within Bill of Lading terms, which could restrict recovery potential in the event of a loss.

To mitigate losses, we encourage businesses to evaluate and update their contingency plans, particularly those dependent on third-party suppliers or imports. Rather than relying solely on the shipper's cargo insurance, which typically imposes stringent limitations on recoverable values, we recommend securing independent coverage for these exposures to better protect against supply chain disruptions. For businesses with a digital or app-based presence, maintaining strong cyber security protocols and performing regular system checks are critical. Periodic reviews of these measures, supported by collaboration with experienced advisors who understand the complexities of cyber coverage, can help ensure your cyber risks are comprehensively addressed.

The Baldwin Group offers specialized in-house claims and risk mitigation teams dedicated to helping you manage both current and future exposures effectively. Underwriters will continue to evaluate best practices in risk management when pricing policies, awarding preferred rates to organizations that exemplify "best in class" standards in their operations and safety measures. By prioritizing transparency, rigorous planning, and strong partnerships, you can position your business to optimize coverage while mitigating evolving risks.

Surety Bonding/SDI

Overview

As we look ahead into 2026, the construction industry continues to navigate an environment defined by both optimism and persistent headwinds. Elevated financing costs, unpredictable tariff activity, and continued uncertainty around input prices remain key features of the landscape. Contractors have demonstrated remarkable resilience in managing these pressures, but the challenges are real and continue to shape strategies in meaningful ways.

Construction activity has remained positive overall, with total starts through October running 5.9% ahead of the same period in 2024. However, that figure masks a bifurcated reality. Much of the growth is concentrated in large-scale megaprojects across advanced technology and power, including data centers, chip manufacturing plants, and liquified natural gas (LNG) facilities. While encouraging, the size and complexity of these multibillion-dollar projects are absorbing substantial labor, material, and subcontractor capacity, creating ripple effects across the broader market.

Public infrastructure work continues to serve as a stabilizing force, supported by Infrastructure Investment and Jobs Act (IIJA) disbursements that, while slower than anticipated, are still generating reliable, sustained opportunities for contractors. Private development, by contrast, remains cautious amid tighter lending standards, higher capital costs, and uncertainty tied to tariffs and material pricing. The strongest segments continue to be advanced tech, data centers, and semiconductor manufacturing. Yet these projects also place outsized demands on supply chains and subcontractor availability due to their scale and technical complexity.

The Architecture Billings Index reading of 47.6 in October underscores the mixed outlook for 2026. Four consecutive months of declining billings point to a potentially softer pipeline and a more competitive bidding environment. While these dynamics echo mid-year observations, their persistence is elevating risk considerations for contractors and sharpening the focus of sureties and subcontractor default insurance (SDI) companies on disciplined planning, financial controls, and execution readiness.

These conditions underscore the importance of strong financial controls, accurate forecasting, and a surety strategy that evolves with market demand. The Baldwin Group works closely with businesses to strengthen their underwriting profile, optimize program structure, and position their organizations to secure capacity, pursue new opportunities, and navigate 2026 with resilience.

Surety Bonding

This section focuses on contract surety, the dominant segment for construction firms. Commercial surety trends—which include license, permit, and court bonds—remain stable and are not materially influencing construction outcomes entering 2026.

Market conditions

The surety market in 2025 has been defined by a noticeable performance paradox. Industrywide results show strength on the surface, yet the underlying environment tells a more complex story. According to Surety and Fidelity Association of America (SFAA) data, direct premium written climbed 9.8% year over year through Q3 2025, reaching \$8.86 billion. Over the same period, the direct loss ratio improved to 20.5% through Q3, down from 24.9% in 2024. These numbers reflect a market that remains competitive and well-capitalized.

However, these strong results through September represent only part of the picture. The second half of 2025 has brought a meaningful uptick in surety loss activity. Because surety claims are confidential and often highly complex, it is difficult to determine where ultimate losses will settle, but reinsurer commentary indicates that several ongoing matters could reach nine-figure levels once resolved. It is a reminder that surety remains a catastrophic line of business, where large and complicated losses can reshape the landscape quickly.

Even with these developing exposures, bonding capacity remains robust, and intense competition for well-run construction firms continues to keep pricing steady. Sureties remain eager to support high-quality contractors and do not anticipate a near-term pullback for firms with strong financials and disciplined execution. The caveat, of course, is that market sentiment can shift quickly if loss trends worsen materially or if reinsurance partners recalibrate their appetites. Underwriters are monitoring the macro environment closely, particularly as many of the pressures contractors face today tend to appear in surety results on a lagging basis.

Key developments

Margin compression

Input costs are re-accelerating, driven by persistent inflation and shifting trade policy. As material, labor, and equipment expenses rise faster than bid prices, contractors face growing pressure on margins and overall profitability.

Ownership continuity

The past 18 months have brought a notable uptick in ownership transitions as founders and principals seek to monetize long-held equity. Whether the buyer is private equity or an ESOP, these transactions introduce meaningful considerations for sureties, including capital structure changes, strategic direction, and leadership continuity.

Project financing challenges

Elevated interest rates and tighter lending standards continue to strain project financing, especially for speculative private development. Contractors are seeing more unfunded or unapproved change orders, increased disputes among contracting parties, and a rise in lien activity. In some cases, projects are being cancelled outright. Each of these outcomes presents operational and financial risk for both contractors and sureties, underscoring the importance of proactive contract review and in-project monitoring.

Megaproject distortion

The ongoing surge in megaprojects is reshaping subcontractor availability across the U.S. Multi-billion-dollar advanced manufacturing, semiconductor, and tech projects are absorbing significant labor and mechanical, electrical, and plumbing (MEP) capacity, tightening availability elsewhere in the market. This distortion heightens the risk of subcontractor overextension, particularly among firms pursuing work that approaches the limits of their operational or financial bandwidth.



Looking Ahead

The surety market remains fundamentally healthy heading into 2026, marking the industry's 20th consecutive year of profitability. However, ongoing economic uncertainty is prompting underwriters to sharpen their focus in several key areas:

- Capacity and terms – Ample capacity, favorable terms, and competitive pricing remain available for financially strong, well-run construction firms.
- Credit quality – Contractors with weaker credit profiles are experiencing less flexibility than in prior years as underwriters apply heightened scrutiny. Any increase in industry loss severity could accelerate a shift in market sentiment.
- Private equity (PE) deals – Appetite for PE-backed ownership transitions is limited. PE's typical focus on EBITDA maximization, rapid growth, and planned exit strategies can create tension with the conservative, credit-driven foundation of surety bonding. Because every PE structure differs, early communication is essential when bonding capacity is critical to deal success.
- Industry drivers – Federal funding from the Infrastructure Investment and Jobs Act (IIJA) and Creating Helpful Incentives to Protect Semiconductors (CHIPS) Act continues to provide a stabilizing force, generating a reliable pipeline of infrastructure and advanced manufacturing projects. These opportunities should help anchor the market through 2026, even as bidding conditions become increasingly competitive.

As these dynamics take shape, contractors with strong financial visibility, disciplined project controls, and early engagement with their surety partners will be best positioned to maintain flexibility in 2026. The Baldwin Group helps firms reinforce these fundamentals, supporting readiness not only in surety but also in the subcontractor default insurance market, where underwriting expectations continue to evolve.

Subcontractor Default Insurance (SDI)

Market conditions

Even though SDI insurers share far less performance data than surety providers, The Baldwin Group's market leadership enables early visibility into subcontractor default trends and emerging pressures, particularly as data center construction continues to reshape risk profiles. A broad base of committed insurers supports the SDI market's overall stability, reflecting confidence in the product's long-term viability and rigorous underwriting discipline. However, the unprecedented scale, speed, and technical complexity of data center projects are amplifying default indicators across the industry and sharpening insurer scrutiny.

Key developments

Premium and claims growth

Risk-transfer premium for the SDI market exceeded \$550 million in 2025, reflecting steady program expansion alongside a clear rise in claim severity and frequency. Several insurers reported claim counts increasing by more than 50% year over year, driven largely by the rapid acceleration of large, fast-track data center programs. These projects require compressed schedules, oversized MEP scopes, and highly specialized systems, all of which heighten subcontractor exposure.

While most SDI losses fall within the \$1M to \$5M range, defaults tied to data center work increasingly sit at the upper end due to replacement labor, long-lead equipment, and extensive rework. Construction managers are now experiencing default costs averaging 1.7x the original subcontract value, a multiplier that becomes particularly challenging in mission-critical settings where delays create immediate operational and commercial consequences.

Leading default causes

Financial distress remains the primary driver of subcontractor defaults in 2025, closely followed by schedule slippage and manpower shortfalls. These pressures intensify on data center builds, which require large labor pools, substantial upfront capital, and the procurement of specialty materials and equipment. Inflation and supply-chain variability further tighten cash flow and increase lien activity. The combination of accelerated timelines, commissioning requirements, and procurement uncertainty is placing unprecedented stress on subcontractor resilience compared to conventional projects.

Industry trends

Electrical subcontractor defaults continue to represent a disproportionate share of SDI claims. Combined with the technical intensity of data center electrical packages, persistent cost escalation, material delays, and skilled labor shortages are pushing many firms to the edge of their operational capacity. High-capacity power distribution, redundancy systems, generator and uninterruptible power supply (UPS) infrastructure, controls integration, and specialized testing requirements are stretching trade resources thin. With data center demand outpacing available labor in many regions, electrical contractors face heightened overextension risk and greater likelihood of performance failure.

Policy limits

The scale of SDI-enrolled projects and the corresponding size of subcontractor trade packages continues to drive demand for higher policy limits. This trend spans both rolling programs and project-specific placements, where large and complex builds require expanded capacity to adequately address exposure. Mega-projects, including data centers, are more frequently seeking excess SDI layers as additional market capacity has become available. These excess options are increasingly important for contractors and owners looking to ensure sufficient protection on high-value, mission-critical work.

SDI usage

SDI adoption continues to expand, with a growing number of contractors purchasing coverage for the first time. Much of this growth is tied directly to data center development, where owners and developers increasingly require enhanced risk-transfer mechanisms for high-exposure work packages. Contractors are turning to SDI to remain competitive, meet client or contractual obligations, and protect margins amid subcontractor instability, particularly on mission-critical projects. As data centers become an anchor of construction activity nationwide, SDI utilization is rising in parallel.

Looking Ahead

The SDI market enters 2026 with stable capacity and sustained insurer commitment, but the pressures shaping subcontractor performance are becoming more pronounced, particularly as data center and other mission-critical projects continue to dominate construction pipelines. Underwriters are sharpening their focus across several areas:

- **Subcontractor resilience** – Financial strength, labor availability, backlog quality, and cash-flow discipline will carry even greater weight as defaults tied to manpower shortages, procurement delays, and overextension continue to rise.

- **Trade-specific stress** – Electrical, mechanical, and other MEP-intensive trades remain under acute pressure. Underwriters will increasingly evaluate whether subcontractors have the manpower, supervision, and liquidity required to deliver complex work at scale, especially on fast-track or multi-phase builds.
- **Documentation quality** – With claim activity increasing across several insurers, firms with disciplined recordkeeping and transparent project controls are best positioned to achieve favorable underwriting outcomes.
- **Higher limit expectations** – As project sizes grow, demand for expanded SDI limits and higher excess layers will remain elevated. Underwriters are placing greater emphasis on project governance, commissioning plans, and owner-driven schedule expectations before deploying additional capacity.
- **Broader market adoption** – As more owners require SDI participation on high-risk, high-velocity projects, insurers expect earlier involvement in subcontractor prequalification, project selection, and scope reviews to ensure alignment with SDI program structure.

As 2026 brings increasing technical complexity and heightened subcontractor strain, The Baldwin Group helps construction leaders strengthen the financial, operational, and documentation practices that underpin SDI readiness, aligning program structure with the evolving demands of mission-critical construction.

Turn insight into action

The close of 2025 brought a market shaped equally by opportunity and risk. Contractors continue to demonstrate resilience, creativity, and strong execution despite a landscape filled with economic, operational, and contractual pressures. Surety and SDI markets remain stable and well-capitalized, but navigating them effectively requires thoughtful planning, deliberate communication, and the right partners at your side.

The Baldwin Group's Surety and SDI practice helps contractors navigate 2026 with clarity and confidence, strengthening financial visibility, aligning program structures, and optimizing bonding capacity. Through disciplined guidance and industry expertise, we help protect what's possible and position construction businesses for continued success.



General Aviation

2025 Recap

As we examine the fourth quarter of 2025, the general aviation insurance market continues to be defined by the substantial capacity that has characterized the sector throughout the year. Despite mounting concerns regarding pricing adequacy and an active summer of losses, rate trends remain soft across most segments of general aviation. This persistent softening has been driven by significant overcapacity, fueled both by the entry of new insurers into the market and by an increased appetite among underwriters.

Additionally, the recently enacted One Big Beautiful Bill Act (H.R.1) has reinstated 100% bonus depreciation for qualifying aircraft acquired and placed into service after January 19, 2025. Under this provision, businesses can immediately deduct the entire cost of new or pre-owned business aircraft from their taxable income in the year of purchase, provided the aircraft is used for at least 50% business purposes.

What to expect in 2026

The general aviation market is entering 2026 in a relatively stable position with strong, available capacity and competitive appetite from most major underwriters. Insurers are still actively seeking quality risks, though with increased discipline compared to prior years.

- **Competitive capacity remains strong:** Capacity in the general aviation insurance market remains abundant, bolstered by a high number of established insurers and the entry of new underwriting participants. This sustained competition continues to exert downward pressure on premiums, keeping rates relatively soft across the sector. Insurers are likely to maintain flexibility in coverage terms, reasonable deductibles, and competitive underwriting approaches to attract and retain business, particularly among lower-risk clients. However, capacity deployment is becoming increasingly selective, with insurers placing greater emphasis on operations that exhibit a strong commitment to training excellence and proactive risk management practices. These characteristics are being rewarded through more favorable terms and conditions.
- **Rate expectations:** Premiums in the general aviation insurance market are anticipated to remain stable or experience modest increases in 2026. Operators can generally expect flat to mid-single digit rate adjustments, influenced by factors such as loss history, pilot experience, and operational profile. Additionally, some insurers have introduced multi-year policies or rate agreements, offering greater stability and predictability for policyholders.
- **Overall market growth:** The aviation insurance market, including the general aviation segment, is projected to grow steadily over the next several years. This growth is driven by increasing global demand for aircraft, continued expansion in air travel, and the expansion of aviation operations globally. Factors such as rising aircraft values, heightened financing activity, and the continued growth of corporate and private flight operations are contributing to larger fleets and higher overall premium volumes. This sustained expansion provides a robust foundation for the aviation insurance market heading into 2026.
- **Renewed appetite drives competition in hull war coverage:** The hull war insurance market is experiencing heightened competition, driven by the entry of new participants and a reinvigorated appetite among established insurers. This dynamic shift is fostering market growth and prompting signs of more competitive pricing. While jurisdictional considerations remain a key factor, limit increases are becoming more attainable, with the potential for the removal of certain country-specific sub-limits now under evaluation.

Key takeaways for operators

Insurers will continue to prioritize operators with attractive profiles, characterized by clean loss histories, established pilot experience, robust safety cultures, and efficient operations. These attributes help ensure access to competitive markets, stable rates, and favorable coverage.

Recommendations for 2026:

- **Prepare strong submissions:** Present detailed and well-organized applications that clearly outline your operational structure and highlight risk mitigation strategies. Insurers value transparency and a clear demonstration of operational excellence.
- **Highlight safety initiatives:** Showcase your training programs, established standard operating procedures (SOPs), and proactive safety protocols to emphasize your commitment to risk management.
- **Demonstrate pilot stability and experience:** Place emphasis on the qualifications and experience of your pilot team, alongside demonstrating a stable and consistent staffing model.
- **Partner with an experienced aviation insurance advisor:** Collaborate with a specialist in aviation insurance to ensure comprehensive coverage, mitigate potential exposure to coverage gaps, and secure terms tailored to your specific needs.
- **Take advantage of market conditions:** Leverage the softened market to improve coverage limits, negotiate multi-year policy agreements, and enhance long-term stability.
- Maintaining a strong operational profile in the current competitive market environment positions you to maximize favorable terms, helping ensure both cost efficiency and long-term security.

Turn insight into action

The general aviation insurance market is expected to maintain stability in 2026, characterized by manageable rates, ample capacity, and continued competitive pressure. However, insurers are placing an increasing emphasis on quality, thorough documentation, and robust operational controls. Operators with well-managed and disciplined operations will remain well-positioned to secure favorable terms.

The Baldwin Group's private aviation team is committed to keeping you informed and supporting proactive risk management strategies. We help optimize your insurance coverage and guide you confidently through the complexities of this ever-evolving marketplace.



Fine Art and Collections

Overview

The fine art and collections insurance market is evolving as successful families expand collections beyond traditional art to include designer fashion, unique dishware, rare wine and spirits, exotic cars, and even luxury accessories, like sunglasses and watches. In 2026, insurers are expected to adapt to changing valuations, climate-related exposures, and technology-driven acquisition trends with more tailored solutions. While accessibility to coverage options remains strong, at this time insurers are paying closer attention to factors like preparedness plans, security measures, and claims history when determining coverage terms and rates.

Key trends

Shifting valuations

Valuations for different items are moving in opposite directions, creating challenges for individuals. For example, natural diamond prices fell about 15% in 2023 and 18% in 2024 largely due to competition from lab-created or engineered alternatives.¹ In contrast, gold surged 26% during the first half of 2025 as luxury fashion items, like Hermès Birkin bags, also continue to appreciate.² These shifting valuations are prompting advisors to recommend appraisals every two years rather than five to help individuals keep necessary insurance coverage aligned with current market values and prevent overpaying premiums.

Climate-driven underwriting

Natural disasters continue to pose substantial risks to this market segment, underscored by the 2025 California wildfires, which resulted in over \$1 billion in art-related losses.³ In response, insurance experts now advise private collectors, particularly those in catastrophe-prone regions like Florida, California, and Colorado, to consider scheduled valuable articles policies to help safeguard collections with broader protection and minimal deductibles.

Tech-fueled fraud

Collectors are increasingly buying art, jewelry, luxury goods, and memorabilia online through galleries, auction platforms, and social media. While this offers convenience and broader access, it also introduces new risks, such as wire fraud, disputes over authenticity, and shipment interception. Adding to the complexity, AI-driven scams, organized cybercrime networks, and international syndicates are making fraudulent schemes more sophisticated. As a result, cyber coverage extensions are no longer optional. They're expected to continue being a standard feature in fine art policies and expand in scope.

Broader collectible classes

Beyond fine art, more individuals are choosing to insure private collections that include luxury handbags, limited-edition sneakers, expensive watches, exotic vehicles, and fine wines. These categories demand specialized underwriting because factors like usage and storage conditions directly influence coverage eligibility. Insurers are increasingly stressing best practices for storage, such as climate-controlled vaults, temperature-regulated cabinets, and avoiding flood-prone areas for vehicles. Some providers even require storage in approved facilities or incentivize proactive measures like backup generators and humidity control systems, underscoring a growing focus on risk mitigation and long-term asset preservation.

Loss prevention incentives

Premium discounts are increasingly offered for risk mitigation measures, such as water shutoff devices, electrical fire prevention monitors, impact-resistant windows, generator backups, and attic temperature sensors. As these innovations gain traction, they are likely to become standard requirements under evolving insurance requirements and other regulatory frameworks throughout 2026.

Coverage review

Insuring fine art and high-value collections today depends on factors like disaster exposure, security quality, transport frequency, and detailed underwriting. As trends evolve, comprehensive protection can often include:

Scheduled valuable articles policies

Allowing individual pieces of valuable art, jewelry, antiques, memorabilia and even bottles of wine to be listed separately for coverage, these policies can typically provide worldwide protection at agreed value, as well as ensure that claims are handled more smoothly than under standard homeowner contents coverage. Scheduling items also helps avoid gaps and offers broader protection for unique items.

Transit and exhibition coverage

Collectors who move pieces for seasonal reasons or loan them to galleries need specialized transit coverage. Pricing for this protection often depends on the insurer's experience with similar risks, the security measures in place during transport, and the risk profile of the destination.

Title and authenticity protection

As online art purchases grow, disputes over ownership and provenance have become more frequent. Endorsements addressing title and authenticity help safeguard collectors against financial loss if an item's legitimacy or ownership is later challenged.

Cyber risk extensions

Digital transactions have introduced new vulnerabilities, including wire fraud and document tampering. Cyber coverage, once considered an optional add-on, is now a common feature in many fine art insurance programs. These extensions help protect collectors against evolving threats tied to electronic communications and payment processes.

Turn insight into action

As we enter 2026, market dynamics surrounding fine art and high-value private collections will continue to shift, driven by advancements in technology, evolving acquisition practices, and insurers increasingly valuing proactive risk management.

The Baldwin Group who will help you navigate these changes with thoughtful strategies to safeguard valuable assets while ensuring efficient management and tailored protection. We simplify inventory management with digital tools, recommend vetted loss mitigation solutions, and provide expert claims advocacy through a dedicated team that includes former insurance adjusters who can negotiate on your behalf during unforeseen events.

To strengthen this approach, regular appraisals are recommended every two years to keep coverage accurate and premiums fair. Customizing policies to focus on high-value items helps provide broader protection and minimize deductibles, which can be especially crucial in regions prone to natural disasters. Additionally, fraud mitigation strategies and cyber coverage for digital transactions help protect against emerging threats in the acquisition process.

This tailored, proactive approach doesn't just help protect your assets but preserves the value and legacy they represent. With expert guidance and personalized solutions from The Baldwin Group, protecting the possible becomes an attainable reality—securing your collections today while safeguarding their future.





In conclusion

2026 State of the market outlook

The Baldwin Group is committed to empowering you with tailored solutions for your unique needs. Consider us your partner in fortifying your approach to risk management and insurance. Looking ahead in 2026, let us guide you in shaping a comprehensive, resilient strategy that aligns with an evolving commercial, private, and employee benefits insurance landscape.

Together, we'll help you make informed insurance purchasing decisions to help protect your business, employees, and family.

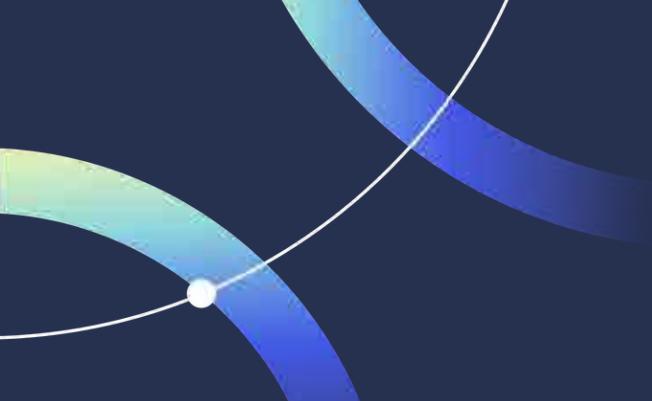


[Let's review](#) your goals and needs.



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Key Terms

Commercial and Private Risk Terms

Actual Cash Value (ACV) – refers to the value of a property at a point in time, is based solely on current market value, and takes depreciation into account.

AI washing – a form of false advertising where companies overstate or falsely claim the use of artificial intelligence in their products, services, or operations to appear more innovative or advanced.

Attachment points – a pre-defined dollar amount or threshold that triggers when the coverage of an excess or stop-loss policy begins.

Buffer layers – a layer of coverage that sits between the primary insurance policy and excess layers, filling the gap where the primary policy's limits are not sufficient to meet the attachment point of the excess coverage.

Capital headroom – the surplus capital an insurance company holds above and beyond the minimum regulatory requirements.

Combined ratio – a profitability metric that indicates whether an insurer is making a profit from its underwriting operations.

Dram shop claims – refer to lawsuits against businesses that sell or serve alcohol when they negligently contribute to someone's intoxication, leading to harm or injury to another person.

Enhanced Fujita (EF) – a scale to rate the intensity of a tornado based on the damage it causes.

Excess layers – additional layers of coverage that kick in after the primary insurance policy's limits have been reached.

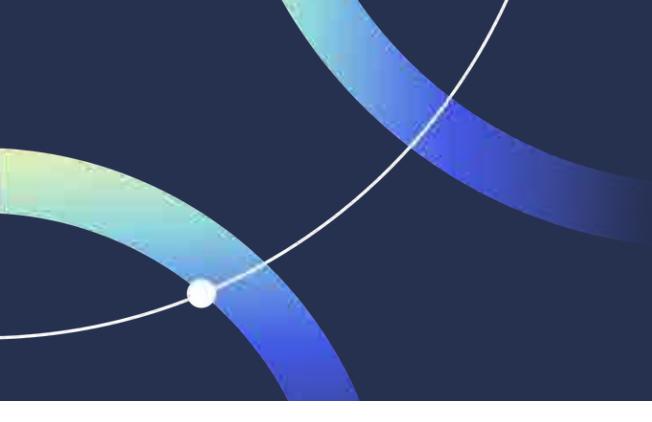
FORTIFIED – refers to a construction standard developed by the Insurance Institute for Business & Home Safety (IBHS) to make homes more resilient to severe weather events like hurricanes, high winds, hail, and tornadoes.

Gig economy – a labor market characterized by short-term contracts or freelance work, often facilitated by digital platforms.

Insurance to Value (ITV) – refers to the relationship between the amount of insurance coverage on a property and the cost to fully rebuild or replace it in the event of a total loss. 100% insurance to value means that the property is insured for its full replacement cost.

Jury anchoring – refers to a psychological phenomenon where a jury's perception of a damages award is heavily influenced by the initial number presented to them, regardless of whether that number is reasonable or supported by evidence.

Lessor's Risk Only (LRO) – protects commercial property owners who lease their buildings from liability and property damage claims by tenants.



Key Terms

Loss ratio – a key financial metric that indicates the proportion of premiums an insurance company uses to pay out claims. A lower loss ratio generally signifies better profitability for the insurer, while a higher ratio may suggest financial strain. A loss ratio under 100 indicates profitability, while a ratio over 100 indicates financial strain.

Legal system abuse (social inflation) – litigation strategies and procedural tactics that prioritize outsized verdicts over equitable outcomes.

Managing General Agent (MGA) – a specialized intermediary that has underwriting authority granted by an insurer, acting as a bridge between insurers and distribution channels like agents and brokers. MGAs can bind coverage, set prices, and handle claims.

Non-admitted insurance – insurance policies issued by insurers that operate outside of the typical state regulatory framework - not licensed or approved by a specific state's insurance department. Non-admitted insurers are not part of the state's guaranty fund, which helps protect the policyholder in the event the insurer becomes insolvent.

Nuclear verdict – refers to a jury award that significantly exceeds what is considered a reasonable or expected amount, often exceeding \$10 million.

Percentage-based deductible – an amount you pay out-of-pocket for a claim, calculated as a percentage of your home's insured value, rather than a fixed dollar amount.

Primary layers – the first insurance policy that will respond to a claim when a covered loss or liability occurs.

Primary perils – natural events that are typically well-monitored and have a high potential for causing significant damage, often covered by catastrophe models.

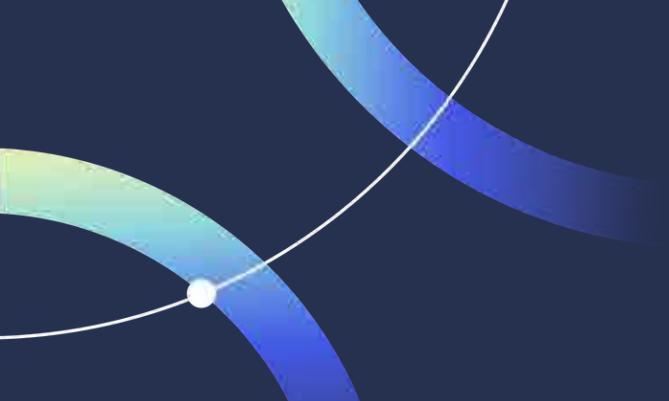
Reconstruction Cost Value (RCV) – the amount needed to repair or replace damaged property with new items of similar kind and quality at current market prices, without factoring in depreciation

Redundant reserve development – when an insurance company has set aside more money than is necessary to cover its estimated liabilities for future claims.

Reinsurance – insurance for insurance companies, allowing them to transfer some of their risk to another insurer (the reinsurer) and help manage their financial exposure, particularly in the event of large or catastrophic claims.

Reserve development – adjusting an insurer's estimates of its future claim liabilities based on new information, such as changes in the frequency or severity of claims, shifts in the legal or regulatory environment, or other external influences.

Secondary perils – refer to risks that are either the secondary effects of a primary peril (like flooding from a hurricane) or independent events with relatively high frequency but lower severity compared to primary perils. These are considered risks that, while not always the most impactful on their own, can significantly contribute to overall losses.



Key Terms

Severe Convective Storm – an intense atmospheric disturbance that can cause powerful winds, large hail, heavy rainfall or tornadoes. It arises from specific atmospheric conditions, including atmospheric instability, latent heat release, air pressure differences, low-air pressure and wind shear.

Thermonuclear verdicts – refer to jury awards in lawsuits that exceed \$100 million, a step up from "nuclear verdicts".

Third-Party Litigation Financing (TPLF) – investors provide capital to plaintiffs or law firms to cover litigation costs, like legal fees and expenses in exchange for a portion of any settlement or judgment.

Tort costs – in the legal system, these are monetary awards for resolving disputes arising from civil wrongs (torts), including compensation paid to injured parties and the costs of administering and defending claims.

Total Insured Value (TIV) – the total monetary value of all property, equipment, inventory, and other assets covered under an insurance policy.

Towers – a structure of multiple liability policies, often with excess insurance layers, designed to provide comprehensive coverage beyond the limits of a primary policy.

Employee Benefits Terms

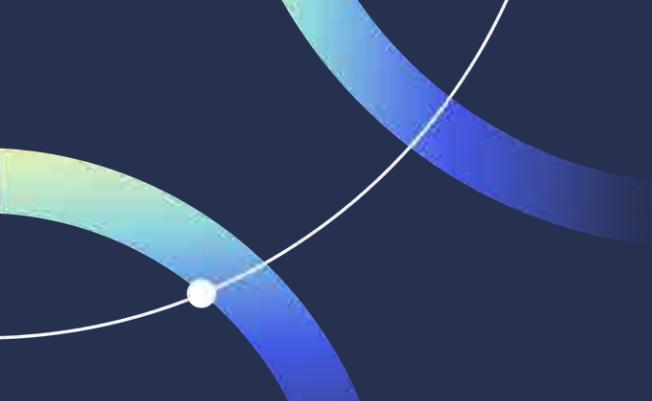
Affordable Care Act (ACA) – a comprehensive federal healthcare law, enacted in 2010, that makes affordable health insurance available to more people, expands Medicaid, and supports innovative medical care delivery methods designed to lower the costs of health care. (Also known as The Patient Protection and Affordable Care Act.)

Alternative funding arrangements – options for financing employee benefits, such as health insurance, which can include, for example, self-funding, level-funding, and captive insurance. They allow employers to manage costs, gain flexibility, and potentially save money by assuming more risk and customizing plans, rather than paying fixed premiums to health insurance companies.

Diversity, equity, inclusion, and belonging (DEIB) – means creating a workplace environment where all employees feel respected, valued, and supported. It involves embracing diverse backgrounds, ensuring fair treatment and access to opportunities, fostering inclusive practices, and cultivating a work culture where everyone feels valued.

Employee engagement – refers to how emotionally invested and committed employees are to their work and organization. It involves motivation, satisfaction, and connection to strategic company goals.

Employee Retirement Income Security Act of 1974 (ERISA) – a federal law that sets minimum standards for private-sector retirement and health plans. It protects plan participants by requiring transparency, fiduciary responsibility, fair access, and grievance procedures, and ensures certain benefits are guaranteed if a plan is terminated.



Key Terms

Glucagon-like peptide-1 receptor agonists (GLP-1s) – an expensive and popular class of medications developed to treat Type 2 diabetes and obesity which mimics natural hormones in the blood to slow down digestion, stimulate insulin, and suppress appetite to control body weight.

Health Insurance Portability and Accountability Act (HIPAA) – federal law that protects an individual's personal health information, and mandates how healthcare providers, insurers, and employers must store, use, and share private medical data securely and confidentially.

Health Savings Accounts (HSAs) – personal account that lets individuals who are covered by a high-deductible health plan set aside money tax-free to pay for qualified medical expenses, such as doctor visits, prescriptions, and other health-related costs. Funds in the account roll to the next year if they're not spent and remain portable if an individual changes jobs.

Lifestyle Spending Accounts (LSAs) – a taxable benefit that lets employers give employees an allowance to spend on certain personal wellness and lifestyle-related expenses like gym memberships, mental health services, financial coaching, etc.

Medical inflation – the rise in the cost of healthcare services, like doctor visits, hospital stays, surgeries, and medications, over time. When medical inflation rises, employers, employees, and insurance companies all have to pay more for healthcare services than they did previously.

Mental Health Parity and Addiction Equity Act (MHPAEA) – requires health insurance plans to treat benefits for mental health and substance use disorder the same as medical or surgical benefits, with no stricter coverage or dollar limits.

Return-to-office (RTO) – a business mandate requiring employees to return to in-person work at one central location instead of working from a remote location.

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