UNITED STATES | JULY 2026

LOCKTON MARKET UPDATE

A time to strike

LOCKTON®

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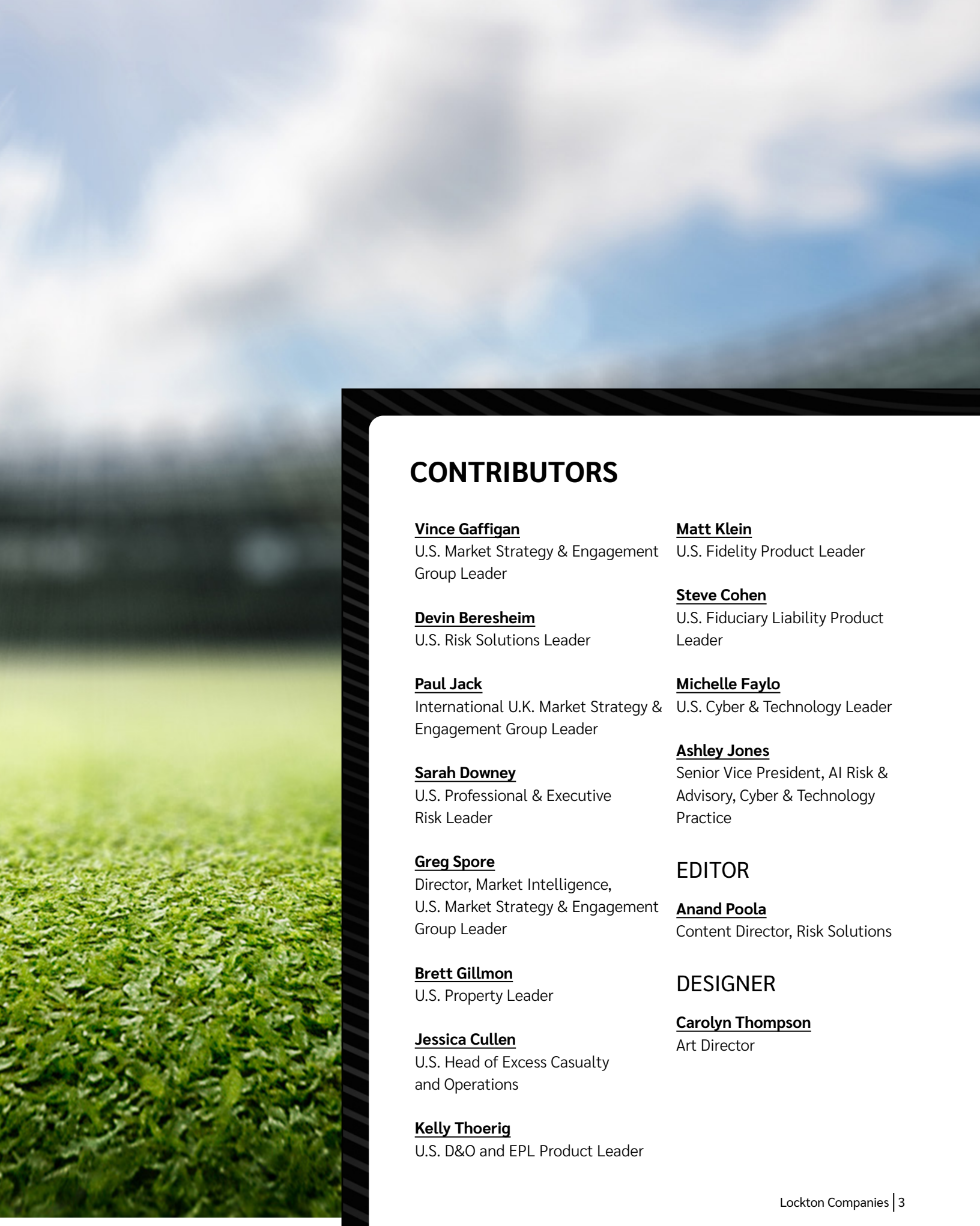

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A LETTER TO OUR READERS

Capitalizing on opportunity

When the World Cup kicked off in June, every team had its own version of Ted Lasso's "Believe" sign. Belief matters, but so do planning, preparation, and execution. The teams that advance stay organized, read the field, and take advantage of openings.

Today's insurance market requires a similar mindset for risk professionals.

Insurers closed the first quarter in excellent shape. Capacity remains available, and reinsurance capital is strong. Outside of liability, conditions have softened across several lines, creating one of the most buyer-friendly environments in years.

Still, buyers cannot sit back and wait.

Even where pricing has improved, underwriting remains disciplined. Risk quality, data, program structure, loss experience, and insurer relationships still matter. The broader macroeconomic environment remains uneven, with real risks around inflation, geopolitics, labor, energy, and catastrophe losses.

Despite recent talks between the U.S. and Iran, the Middle East conflict could still affect supply chains, energy markets, and the cost of goods and services. The Federal Reserve expects less progress on inflation in 2026 than it did six months ago.

For insurers, higher inflation can boost exposures and investment income. However, rising costs for building materials, medical care, auto parts, labor, and litigation continue to pressure loss severity. Risks priced 12 to 24 months ago may now produce far costlier claims than anticipated.

These dynamics matter as insurers manage their cost of capital. Higher yields can improve new money investment results but also pressure balance sheets, increase portfolio volatility, and reinforce underwriting discipline. The Fed is still balancing inflation against an uncertain labor market, and additional rate increases cannot be ignored. At the same time, elevated sovereign debt, rising energy prices, and geopolitical stress have made fixed-income markets more vulnerable to sudden shifts in sentiment. Carriers have capacity but will deploy it carefully.

The catastrophe outlook reflects similar contrasts. While recent hurricane activity has been limited, severe convective storms and wildfires continue to generate sizable losses, reminding policyholders and insurers that the property market remains exposed to volatility.

Despite these threats, savvy organizations and executives recognize that risk is part of doing business. The best outcomes go to those who understand the field, prepare early, and are ready to capitalize.

The most successful insurance buyers advance the ball with purpose. They rethink program structure, test alternatives, and strengthen carrier relationships before conditions change again. Their goal is not simply to secure better pricing, but to build programs that perform over time.

Early engagement, strong data, thoughtful program design, and long-term relationships have always mattered. Today, they matter even more.

VINCE GAFFIGAN

U.S. Market Strategy & Engagement Group Leader, Lockton

EXECUTIVE SUMMARY

Playing the field in a buyer's market

The commercial insurance market remains highly favorable for buyers. Yet the positives mask some underlying vulnerabilities.

IN BUYERS' FAVOR

Strong insurer profitability, abundant capital, growing competition, improved underwriting flexibility, and strong reinsurance capacity have created the most buyer-friendly conditions in several years.

WARNING SIGNS

Favorable conditions today are supported by strong industry profitability. But that foundation can quickly erode given macroeconomic and geopolitical challenges.

What we're watching

- Economic and social inflation
- Plateauing exposures
- Slower growth and geopolitical instability
- Bond yields and investment returns
- Tariffs and supply chains
- Capital fragmentation
- Reserve adequacy
- Catastrophe frequency and severity
- Regulatory and legislative shifts
- Reliance on MGAs, facilities, and alternative capital

The economic backdrop

The U.S. economy continues to grow, supported by steady employment and corporate earnings. But growth is uneven, inflation remains a persistent cost pressure for businesses and insurers alike, and geopolitical risks could disrupt economic stability.

For insurance buyers, the market outlook remains broadly favorable, but conditions can vary widely:

PROPERTY

is competitive, with pricing declining but nearing a floor.

WORKERS' COMPENSATION

is strong and competitive, though rising claims severity is beginning to pressure margins.

LIABILITY

is the most challenging market segment, with social inflation driving severity and tighter underwriting.

PUBLIC COMPANY DIRECTORS & OFFICERS LIABILITY (D&O)

is stable, with pricing generally flat and insurers scrutinizing artificial intelligence (AI), geopolitical exposure, and financial risk.

PRIVATE COMPANY & NONPROFIT D&O

is stable, with insurers focusing on financial health and claims experience.

EMPLOYMENT PRACTICES LIABILITY (EPL)

is stable overall, but insurers face rising claims activity and regulatory scrutiny.

FIDELITY/CRIME

is stable, but the market is increasingly exposed to AI-driven fraud risks.

FIDUCIARY LIABILITY

is stable, backed by ample capacity despite litigation pressures.

CYBER

is buyer-friendly, but conditions are tightening as insurers show greater discipline.

RATE CHANGES BY LINE (Q1 2026)

Property	**-9.4%**	D&O (public companies)*	**0%**
Workers' compensation (guaranteed cost)	**-2.6%**	D&O (private companies and nonprofits)*	**0%**
Workers' compensation (loss-sensitive)	**-0.3%**	EPL*	**0%**
General liability	**+2.6%**	Fidelity/crime*	**0%**
Auto liability	**+5.8%**	Fiduciary liability*	**0%**
Lead umbrella	**+8.0%**	Cyber*	**-0.5%**
Excess liability	**+7.6%**		

Source: Lockton P&C Edge Benchmarking Report, Council of Insurance Agents & Brokers (for general liability and auto liability only)
Median rate changes year over year shown, except for general liability and auto liability (average rate changes year over year shown).
*Total programs.

AI emerging as a pervasive & multidimensional exposure

AI is reshaping the risk landscape, driving new exposures related to liability, fraud, bias, and governance and prompting underwriting scrutiny and a rapid reevaluation of coverage terms.

Organizations have a window of opportunity to strengthen risk and insurance strategies before conditions evolve:

- **Reassess program structures holistically.** Move beyond siloed placements to scenario-based analyses that identify gaps, and engage underwriters early with data-driven submissions to maximize competition.
- **Lock in favorable terms as feasible.** Multiyear arrangements can provide stability, but placement strategies should be carefully managed to preserve flexibility.
- **Invest in risk management and governance.** Strong internal controls and disciplined risk practices can improve outcomes.

ECONOMIC CONDITIONS

Growth continues, but risks persist

The global economy continues to hold up better than many expected, but the story is increasingly uneven.

Traditional measures remain positive: resilient equity markets, low unemployment, and steady consumer spending.

A deeper look, however, reveals a narrower foundation.

AI-related investments account for a disproportionate share of capital spending. The labor market remains healthy overall, but certain sectors have experienced significant disruption. Higher-income consumers remain active while higher prices weigh on middle- and lower-income households. Corporate earnings are solid and capital is available, but the economy is more sensitive to shocks and more dependent on key variables than it appears. This adds up to an economy that is neither weak nor as strong as headlines suggest.

Inflation remains a key variable. Price increases have retreated from their peaks, but years of elevated costs have left consumer budgets stretched and replacement costs high. New leadership at the Federal Reserve, meanwhile, makes monetary policy harder to predict. Markets have reacted calmly so far, but any shift in tone or approach could adversely affect borrowing costs and the availability of capital.

Other factors remain in play. The Middle East conflict has led to drastic and unplanned price increases in energy, chemical precursors, and other critical inputs. Tariffs and trade disruptions are weighing on supply chains, with downstream effects on property valuations and business interruption exposures. AI may well produce real productivity gains and support continued earnings growth. But questions remain about whether revenue gains will ultimately justify the scale of AI infrastructure investment and human cost.

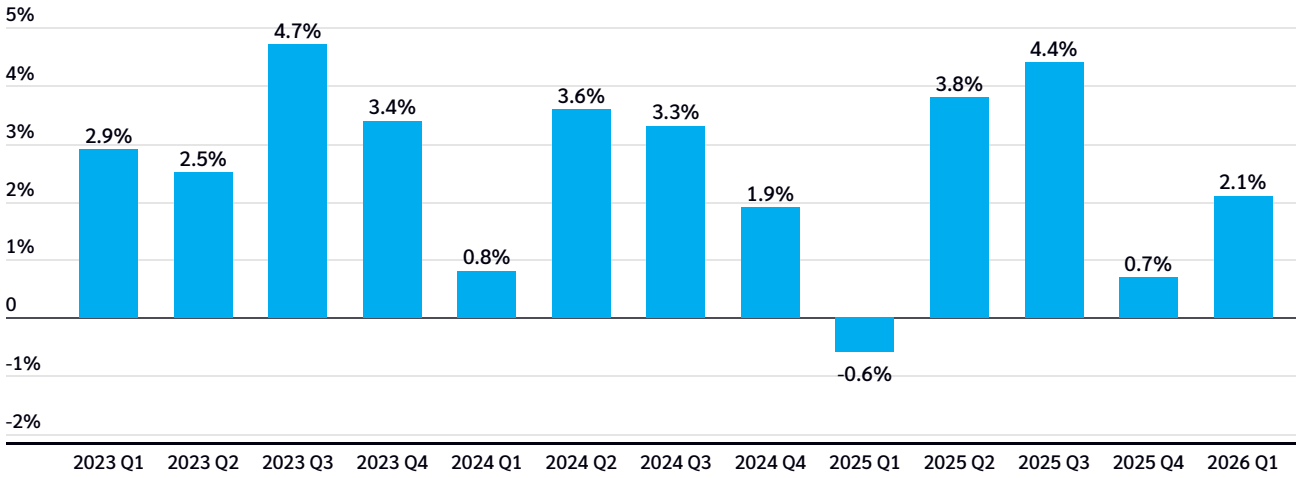
What the data means

Real gross domestic product (GDP) grew at an annual rate of 2.1% in the first quarter of 2026, according to the U.S. Bureau of Economic Analysis (BEA), a faster pace than expected by many observers.

Investments, exports, government spending, and consumer spending drove first-quarter gains, the BEA said.

Internationally, the picture was mixed. The U.K. posted 0.6% growth in Q1, an improvement over the prior quarter, while the EU contracted by 0.1%, according to the U.K. Office for National Statistics (ONS) and Eurostat.

THE U.S. ECONOMY GREW AT A SOLID PACE IN THE FIRST QUARTER OF 2026.



Source: U.S. Bureau of Economic Analysis
Third estimate, published June 25, 2026.

Stock market indicators

U.S. equities had a difficult first quarter of 2026, but the second quarter told a different story.

Strong corporate earnings helped investors look past concerns about the Middle East conflict, higher energy prices, and renewed inflation. The S&P 500 rose 14.9% in the second quarter of 2026, its best performance since the second quarter of 2020. Credit markets reflected renewed confidence, with Treasury yields easing and spreads narrowing. Earnings momentum and a broader appetite for risk outweighed lingering concerns about private credit.

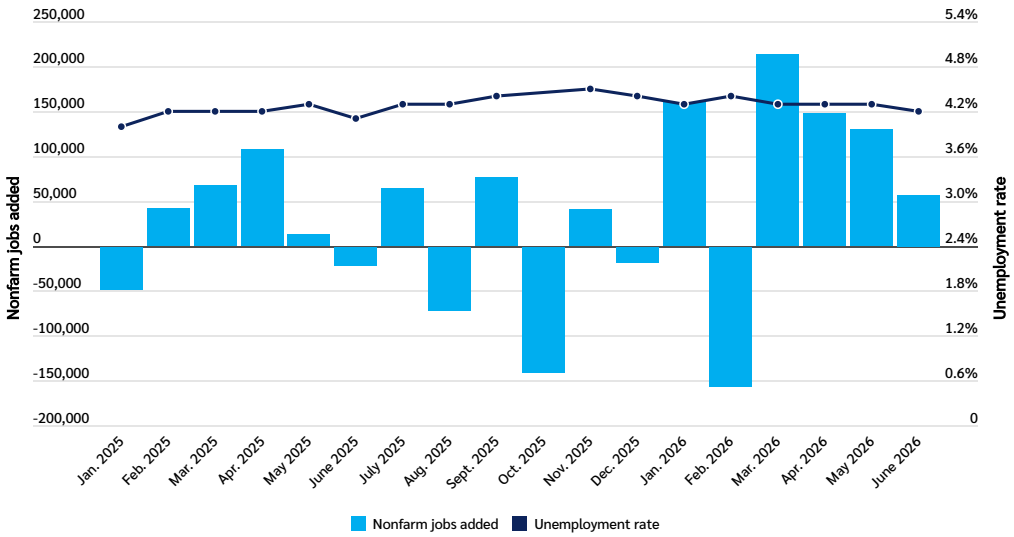
European and Asia-Pacific markets followed suit. The S&P Europe 350 rose 10.3% in the second quarter, and gains across Asia-Pacific were broad, with South Korea and Taiwan posting particularly strong results, driven in large part by continued demand for semiconductors and AI-related hardware.

For the property and casualty (P&C) market, slower but positive growth can continue to support exposures, premiums, and investment income. For insurance buyers, however, favorable conditions are not universal. Stable, well-performing segments continue to benefit, while sectors exposed to inflation, litigation, catastrophic losses, credit stress, or supply chain disruptions face more scrutiny and fewer options.

The employment picture

U.S. employers added 57,000 jobs in June, according to the Bureau of Labor Statistics (BLS). The unemployment rate ticked down to 4.2%.

EMPLOYERS ADDED FEWER JOBS THAN EXPECTED IN JUNE.



Source: U.S. Bureau of Labor Statistics
October 2025 unemployment rate figures unavailable due to the lapse in government appropriations.

The June jobs gains were below expectations and represented the fewest gains since February, when employers lost 156,000 jobs. The BLS also downwardly revised job gains for April and May by more than 70,000.

For insurers, healthcare gains in recent months are worth watching closely. Healthcare growth means more workers in facilities and patient-facing roles, with corresponding exposure in auto liability, general liability (GL), and professional liability.

Large-scale layoffs have been limited, and the widely anticipated wave of AI-driven layoffs has yet to materialize. Wage growth of 3.4% for the year ending March 31, 2026, remains positive but does not fully offset many households' cumulative rise in everyday costs. Workers are employed, but many are not gaining much ground.

For insurers, rising wages flow directly into claims costs, affecting bodily injury settlements, lost wage calculations, and medical expense trends. Workers' compensation deserves particular attention. As experienced workers retire and new hiring is concentrated in physically demanding sectors, claims severity could increase and frequency assumptions can be harder to model.

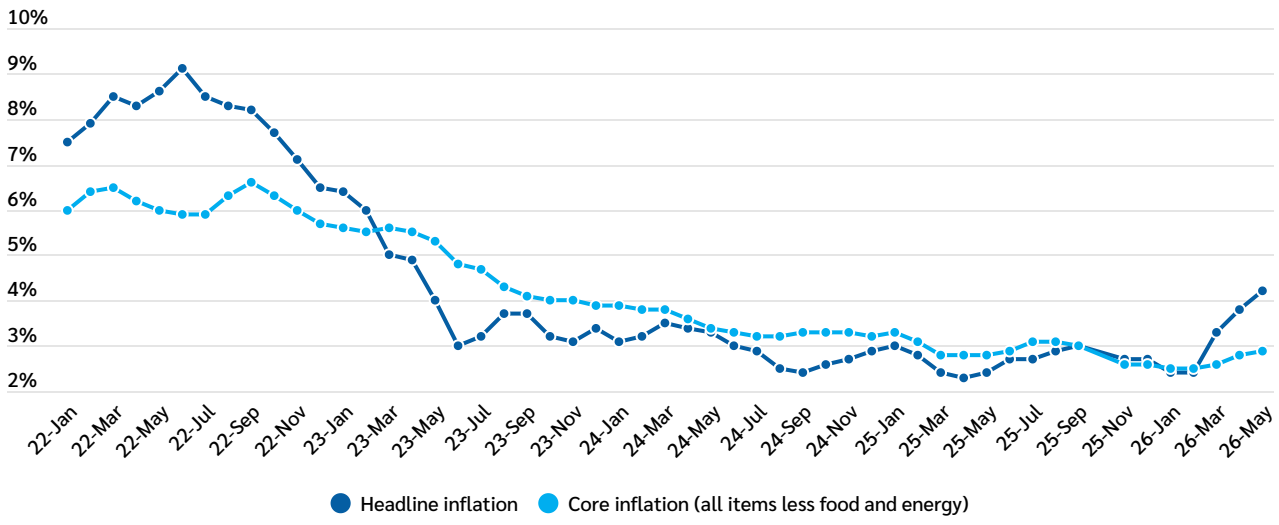
Beneath the headlines, some signals are less encouraging. The unemployment rate for recent college graduates stood at 5.6% in March, according to the Federal Reserve Bank of New York, pointing to a tighter market for entry-level positions.

Internationally, the U.K. unemployment rate was 5.0% for the three months ending March 31, according to the ONS, while the euro area rate stood at 6.3% in April, according to Eurostat. Those figures point to labor markets that are still broadly stable, but with meaningful variation across major economies.

Inflation heating up again

Higher energy prices have put inflation back on an upward trajectory. In May, the BLS' Consumer Price Index saw its largest increase in three years.

INFLATION HAS ACCELERATED IN 2026.



Source: U.S. Bureau of Labor Statistics
Year-over-year changes shown. October 2025 figures unavailable due to the lapse in government appropriations.

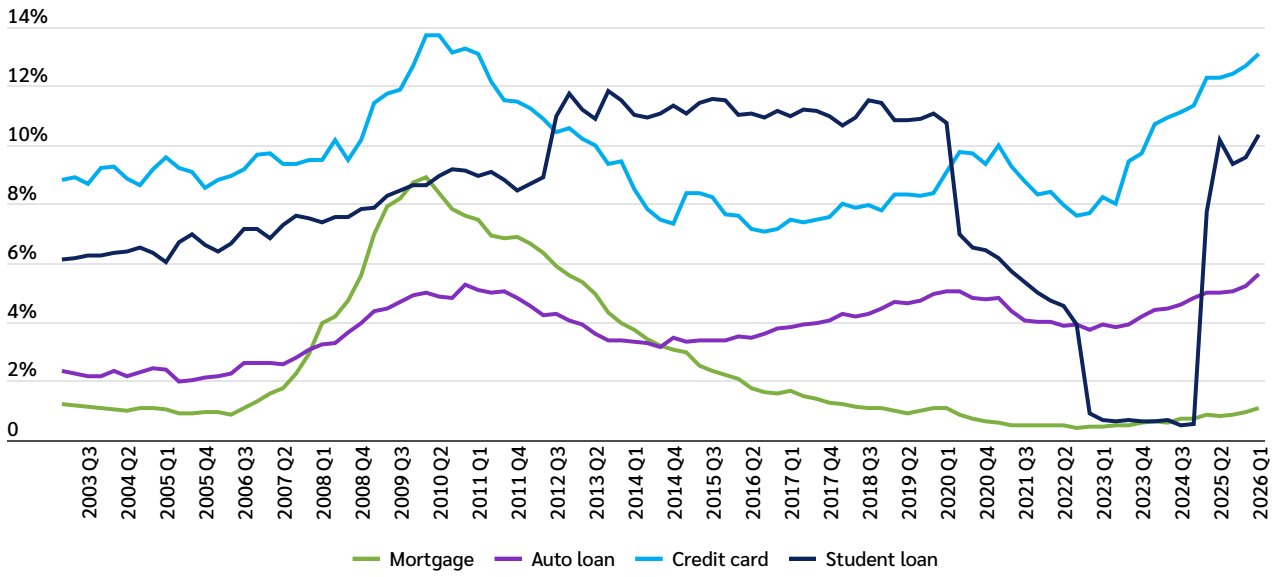
The energy crisis had consumers paying an average of $3.78 per gallon of gas on July 6, according to the American Automobile Association, down from $4.19 a month earlier but up from $3.15 on July 6, 2025. While consumers are certainly paying more for gas now than they did a year ago, the increase has been tempered by extensive use in U.S. and global oil reserves. The International Energy Agency, International Monetary Fund, and others issued a statement in May warning about the potential economic consequences of the record pace of oil inventory drawdowns just ahead of peak summer oil demand.

About 20% of the world's oil and natural gas passed through the Strait of Hormuz, along with one-third of seaborne fertilizer, before Iran sharply restricted traffic through the waterway in response to U.S. and Israeli strikes in February. While the terms of the recent U.S.-Iran agreement required the reopening of the Strait of Hormuz, the future of the waterway remains in question, and it could take several months before shipping returns to prewar volumes. An April survey by the American Farm Bureau Federation showed 70% of farmers cannot afford all the fertilizer they need, and nearly 60% reported worsening finances.

Consumer core prices, which exclude food and energy, rose a more modest 2.9% in May. Even so, the cumulative weight of higher costs is showing up in the data. Personal income and personal consumption expenditures both increased 0.7% in May, according to the BEA.

Many consumers are spending on credit. Outstanding credit card balances stood at $1.25 trillion in the first quarter, according to the Federal Reserve Bank of New York and Equifax. Delinquent balances of 90 days or more climbed to 13.12%, the highest level since the Great Recession (2007 through 2009).

CONSUMER LOAN DELINQUENCIES ARE RISING.



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax
Data shows percentage of balances delinquent for 90 days or more.

Medical inflation adds another burden. PwC projects that medical costs will grow by 8.5% in 2026, a trend that may persist given the likelihood of reduced federal healthcare spending over the next 10 years. Rising medical costs feed directly into pricing across workers' compensation, liability, and other insurance lines.

For buyers and insurers, the implications are real: An inflationary environment is compressing margins, and companies that cannot pass through higher energy, labor, and input costs must absorb them. Those that can do so at the risk of dampening demand. Either outcome creates uncertainty that weighs on investment, hiring, pricing, and reserving decisions.

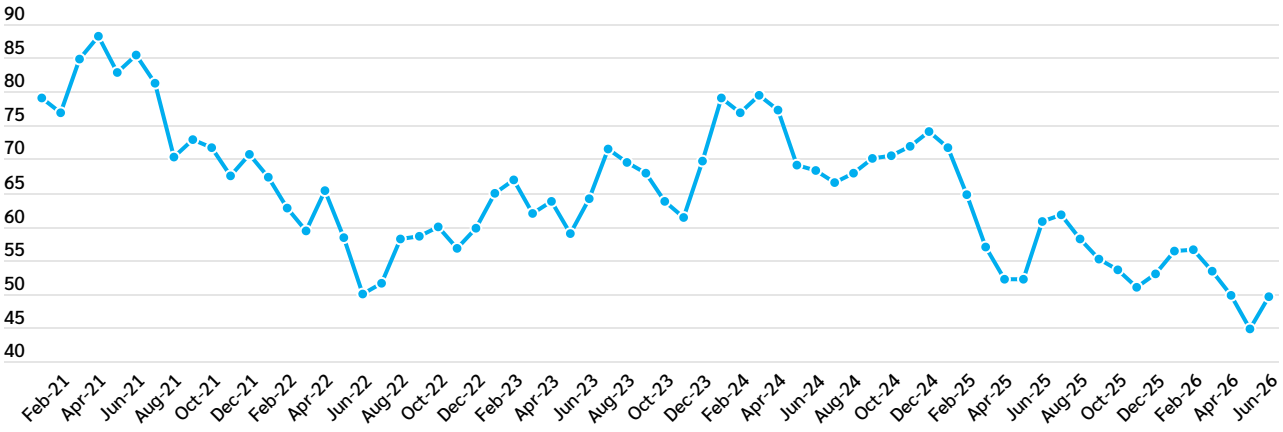
Replacement costs for vehicles and property remain elevated, extending the inflation-driven claims pressure that began several years ago. Higher energy prices feed into auto physical damage through parts and labor costs and into property claims through construction materials and contractor rates. Supply chain disruptions, which are still a factor in certain categories, slow claims resolution and increase severity.

Persistent inflation is likely to keep interest rates higher for longer than many expected, which can support insurers' investment income but also raises the cost of capital and reinforces underwriting discipline. For insurance buyers, the result is a more uncertain renewal environment as they manage pricing, retentions, and program structure.

What sentiment data is saying

After falling to an all-time low in May, the University of Michigan Index of Consumer Sentiment rose slightly in June. Although lower gas prices have helped ease consumers' concerns, "sentiment remains in unfavorable territory at 13% below the February 2026 reading prior to the start of the Iran conflict, and nearly 20% less than a year ago," the university said.

COST OF LIVING CONCERNS ARE WEIGHING ON CONSUMERS' MINDS.



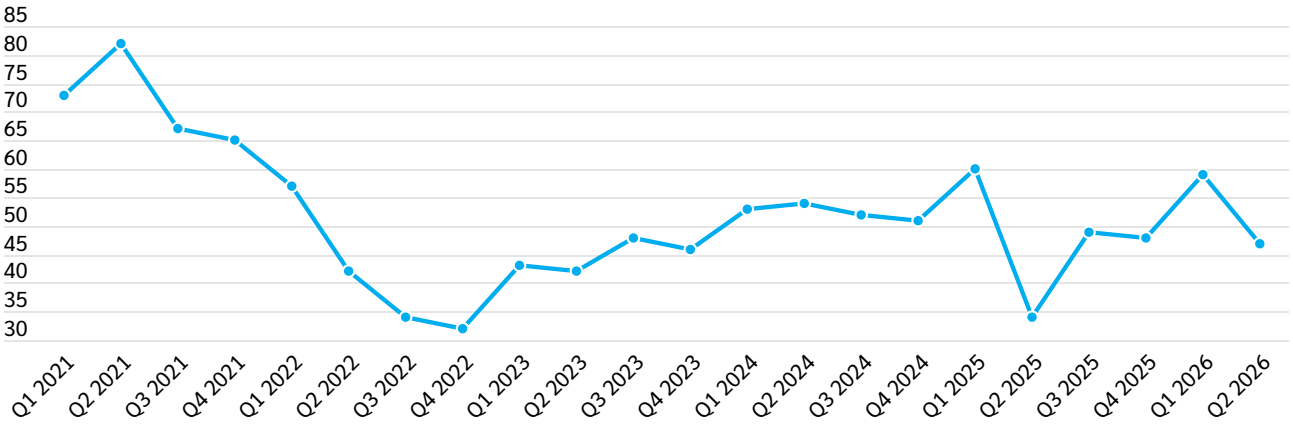
Source: University of Michigan Index of Consumer Sentiment

The disconnect between gloomy sentiment and continued spending is partially explained by the K-shaped economy. Bank of America Institute data showed spending in higher-income households rose 4.9% year over year in April, while lower-income household spending grew 3.1%, with that group pulling back on discretionary purchases.

After-tax wage growth tells a similar story. Higher-income households saw wages grow 6% year over year in April, the fastest pace in five years, while middle-income households saw 2.3% growth and lower-income households just 1.5%, according to Bank of America.

Business confidence is also softening. The Conference Board Measure of CEO Confidence fell from 59 in the first quarter to 47 in the second quarter, dipping into net negative sentiment. Cyber risks, geopolitics, and AI topped the list of executives' concerns.

CEO CONFIDENCE FELL SHARPLY IN THE SECOND QUARTER.



Source: The Conference Board Measure of CEO Confidence

The Fed's balancing act

Kevin Warsh's appointment as the new Fed chair introduces a degree of policy uncertainty that markets are still working through. Warsh has long argued that the Fed has become too large, too involved in areas beyond its core mission, and too dependent on quantitative easing and large-scale asset purchases.

Warsh is an advocate of supply-side economic policies, productivity enhancement, and a smaller, more disciplined Fed focused on price stability. His ability to drive change, however, may be constrained by increasingly divergent views among Federal Open Market Committee (FOMC) members amid broader political and economic debates.

That became apparent in June. The FOMC held rates steady at 3.5% to 3.75% at its June meeting, citing elevated inflation driven in part by higher energy prices. However, the FOMC's June "dot plot," which indicates where members believe rates should be at the end of the year, suggests the possibility of a rate hike in 2026. Of the 18 participating members, nine projected at least one rate increase, with six signaling perhaps more. The apparent appetite for higher rates represents a marked reversal from the beginning of the year, when most prognosticators anticipated one or more rate cuts in 2026.

The FOMC also announced it would no longer provide forward guidance on policy moves, a shift from recent Fed policy.

Globally, major central banks are holding a similar line. The Bank of England and the European Central Bank left key rates unchanged. The Bank of Japan maintained rates despite three dissenting votes seeking an increase.

For insurers, the rate environment matters on multiple fronts. Higher rates for longer raise questions about reserve adequacy as claims costs continue to climb. Slower growth, tighter credit, and compressed margins flow directly into exposure levels and claims activity, with implications for P&C market conditions through the rest of the year.

A sturdy but uncertain economy

The U.S. economy remains a study of resilience under pressure.

But the foundation is showing cracks. Growth is increasingly concentrated, consumer stress is building, and the policy environment heading into November's midterm elections adds a layer of uncertainty that is difficult to model. Regulatory priorities, tax treatment, and trade and energy policy could all shift in ways that affect how risk is priced and managed.

The June agreement between the U.S. and Iran offered a degree of resolution to what has been the global economy's biggest wild card. However, it will take time for oil shipments to return to prewar levels, and countries will try in earnest to restock depleted reserves, which means energy prices will likely remain elevated into the third quarter.

AI remains a source of optimism and an open question. The productivity gains that would justify the scale of investment have not yet fully materialized. Whether they do, and how quickly, will have real consequences for earnings growth and market stability in the quarters ahead.

For insurance buyers and carriers, this is the environment heading into the third quarter. The P&C market remains broadly favorable, but the range of potential economic outcomes is wide, and conditions can shift quickly. Discipline on both sides will matter more than it has in some time.

Pockets of space for buyers

Despite economic and geopolitical uncertainty, the insurance industry remains financially strong.

P&C insurers' underwriting gains in the first quarter of 2026 totaled $22.1 billion, according to S&P Global Market Intelligence, and its combined ratio before policyholder dividends was 89.1%. S&P described Q1 as the industry's "strongest first quarter in 25 years." Leading carriers reported strong performance, backed by disciplined underwriting and favorable investment conditions.

2025 WAS A BANNER YEAR FOR P&C INSURERS.

Carrier	Net written premiums			Calendar year combined ratio			Return on equity			Net investment income		
	2026	2025	Change	2026	2025	Change	2026	2025	Change	2026	2025	Change
Carrier A	$11,716	$10,926	**7.2%**	84.0%	95.7%	**11.7**	12.6%	8.2%	**4.4**	$1,709	$1,561	**9.5%**
Carrier B	$10,338	$10,515	**-1.7%**	88.6%	102.5%	**13.9**	21.1%	5.6%	**15.5**	$1,008	$930	**8.4%**
Carrier C	$5,599	$4,526	**23.7%**	87.3%	95.8%	**8.5**	10.9%	6.4%	**4.5**	$864	$736	**17.4%**
Carrier D*	$11,126	$10,759	**3.4%**	88.2%	96.6%	**8.4**	20.2%	13.1%	**7.2**	$1,640	$1,315	**24.7%**
Carrier E**	$4,766	$4,599	**3.6%**	92.6%	96.9%	**4.3**	23.0%	18.8%	**N/A**	$739	$656	**12.7%**
Carrier F	$2,622	$2,606	**0.6%**	102.2%	98.4%	**-3.8**	7.5%	10.5%	**-3.0**	$610	$604	**1.0%**

Source: Select insurers' investor calls and presentations
Dollar figures shown in billions for the first three months of each calendar year.
*Figures include limited partnerships.
**Return on equity reported on a 12-month rolling basis.

Data from AM Best also highlights the industry's strong financial positioning. In 2025:

13%

INSURERS' INVESTMENT INCOME increased by 13%, the second consecutive year of double-digit growth.

12.41%

MEDIAN RETURN ON CAPITAL EMPLOYED (ROCE) was 12.41%, the third consecutive year that ROCE exceeded cost of capital.

14.97%

RETURN ON EQUITY increased to 14.97%, the highest in more than a decade.

After years of inadequate pricing and rising loss costs, the industry has restored discipline. Capital is available, competition is growing, and buyers are seeing more stable pricing and broader market access. The tailwinds driving recent performance, however, may not persist.

Midway through 2026, insurers face three key questions:

01 | How long will investment returns continue to climb?

Investment portfolios performed well in 2025, and equity markets have continued rising in 2026 despite geopolitical and inflation concerns. Higher rates support fixed income, but continued double-digit growth is unlikely, and rate cuts would pressure returns.

02 | Were lower catastrophe losses in 2025 an outlier?

A quiet Atlantic hurricane season contributed to fewer catastrophe losses in 2025, but risk remains cyclical and event-driven. An active 2026 hurricane season could reshape the market. Even in a relatively benign 2025, insurers absorbed more than $100 billion in natural catastrophe losses, according to the Swiss Re Institute, leaving little margin for error.

03 | How will insurers react to stagnant or declining exposure bases?

Exposure growth is slowing across many sectors, removing a key source of top-line growth. Carriers must explore new growth strategies, from specialty expansion and new products to geographic diversification and M&A. But that growth will remain disciplined, particularly in lines where loss costs and severity trends remain elevated. For buyers, this should create more competition in stable, well-performing segments, but not across the board. Risks exposed to inflation, litigation, catastrophic losses, credit stress, or operational volatility will continue to face more scrutiny and fewer options.

Structural market shifts & capital dynamics

Several trends point to a market that is growing in both efficiency and complexity.

Capital fragmentation & alternative structures

Capital is increasingly fragmented and targeted, with insurers and investors seeking alignment with specific risk appetites. This has led to more alternative structures, including facilities, fronting arrangements, and delegated authority models.

The shift is away from traditional balance sheet underwriting toward a more distributed, data-driven capital model. That offers buyers more options but requires scrutiny: Who is assuming risk? Who controls underwriting decisions? How durable is that capacity?

Facilities & portfolio solutions

Brokers are increasingly aggregating portfolios and placing them with one or more carriers through structured facilities. This can enable faster placements and more consistent coverage across portfolios. Advances in data and analytics, digital platforms, and AI-driven insights have accelerated this transition.

Facilities, however, can present downsides, including reduced competition. When auto-follow behavior dominates and carriers accept lead terms without underwriting scrutiny, complacency can set in on both sides. This can limit optimization of pricing, structure, and coverage and leave buyers with less competitive outcomes than they might otherwise achieve.

MGA/MGU growth

Managing general agents (MGAs) and managing general underwriters (MGUs) account for an estimated $110 billion in premiums, representing a significant share of the U.S. commercial insurance market. Growth has been driven by private equity investment and the rise of broker-owned underwriting platforms.

MGAs offer buyers specialization, speed, and niche expertise, but the model carries some risks. Much of the capacity offered by MGAs is untested. MGAs can enter markets aggressively, exit quickly when losses emerge, and leave buyers exposed with little warning. Claims handling authority, advocacy, and continuity under MGAs can also be unclear.

M&A activity

Strong insurer profitability has brought capital allocation under scrutiny. With high returns on equity, many are looking to expand through increased specialization or new geographies.

M&A activity is likely to continue, although dealmaking remains sensitive to interest rates and inflation. Carriers enter the current environment well capitalized, with ROE at its highest level in over a decade. But how that capital gets deployed will vary significantly by organization, with management teams weighing organic growth, M&A, buybacks, and simply holding on to cash.

Reinsurance & capital discipline

Reinsurance remains an important driver of market behavior. Capacity is generally available, but reinsurers and capital providers remain focused on attachment points, terms, volatility, and returns. That discipline is influencing how primary insurers deploy capital, where they are willing to grow, and which structures they support.

Capital is not scarce, but carriers are deploying it more precisely, toward risk profiles, structures, and portfolios where returns are clear and volatility is understood.

Issues to watch

Several challenges could accelerate into more significant threats for both insurers and insureds.

SOCIAL INFLATION

Rising claim severity, nuclear verdicts, and escalating defense costs continue to pressure casualty lines.

More than creating new losses, social inflation is exposing weaknesses in prior underwriting, including inadequate pricing, broad terms, and risk selection that underestimated long-tail volatility. These issues surface over time as claims develop, increasing pressure on reserves.

Early signs of reserve strengthening suggest loss trends may be worse than previously recognized. As carriers reassess prior years, the impact could extend to capacity, pricing, and underwriting appetite across casualty markets.

GEOPOLITICS

Geopolitical tensions remain a material source of risk for insurance buyers, even with a preliminary agreement between the United States and Iran reducing near-term volatility.

Ongoing conflicts — including Russia-Ukraine and strained U.S.-China relations — continue to disrupt energy markets, trade flows, and supply chains, with direct implications for property, business interruption, marine, cyber, and political risk exposures.

Buyers with international operations should reassess whether coverage and limits adequately reflect evolving geopolitical and supply chain risks.

BOND MARKET

JPMorgan Chase CEO Jamie Dimon has warned that rising government debt, elevated energy prices, and persistent geopolitical stress could trigger a sudden and disorderly jump in bond yields. In 2023, unrealized losses on bond portfolios contributed to the failures of Silicon Valley Bank and Signature Bank.

Like banks, insurers depend heavily on fixed income returns. A sudden bond market shift would compress investment income and force carriers to reassess underwriting appetite and capacity.

For buyers, carriers could pull back from certain lines, reduce limits, or reprice risks with little warning — especially for complex casualty programs reliant on few carriers.

Turning chances into goals

With competition increasing and capacity widely available, buyers have more room to maneuver than they have had in years.

Today's market gives many buyers better field position, but potential shifts in economic, geopolitical, and loss trends make it critical to strengthen programs now, while conditions remain favorable.

The best-positioned companies will be those that look beyond routine renewals and take deliberate action. These companies will:

+

Optimize structures, retentions, and limits.

+

Stress-test programs through scenario analyses to understand potential weaknesses and gaps.

+

Secure multiyear arrangements where viable.

+

Actively manage selection of insurers and other sources of risk capital.

OUTSIDE PERSPECTIVES

5 questions about the insurance market

with **SONG KIM**
President, Global Commercial, Industry Segments, CNA

01 How would you describe the commercial insurance market midway through 2026? What factors are shaping the condition of the commercial marketplace?

It's an orderly softening cycle, with more discipline in the marketplace.

There's an abundance of capital in the marketplace, and top-tier insurers are in favorable reserve positions. Reinsurance pricing is helping, particularly in property. The casualty market is paying close attention to long-term loss cost trends. At the same time, policyholders are operating in a more complex environment, with geopolitical volatility, labor shortages, supply chain disruption, rising material costs, and AI highlighting how interconnected risk has become.

This isn't a one-market story. We're seeing greater segmentation and selectivity. Underwriting is shifting away from broad approaches and toward more granular divisions of the market, rooted in the interdependent nature of risk.

Emerging risks are also challenging traditional models. In many areas, the industry does not yet have decades of loss experience to rely on, but there are still opportunities in the market for companies that demonstrate strong risk management.

02 What does underwriting discipline look like from your perspective?

When policyholders hear "discipline," they may assume it means retrenchment or saying no. However, it's less about saying no and more about refusing to accept the unknown.

Historically, carriers may have given policyholders the benefit of the doubt based on class of business. Today, particularly with emerging risks, there is less historical data to draw from and more uncertainty to evaluate. Discipline means deconstructing that uncertainty and understanding its implications for operational risk.

There is often a hidden layer of risk that doesn't appear in historical loss data; AI is a good example. In this environment, we're focused on generating sustainable returns and continuing to rely on underwriting profit to support long-term durability.

Discipline is not only about pricing. Terms, conditions, and program structure are critical, especially when pricing signals are less clear. Contract certainty is highly relevant for both underwriters and policyholders.

03 How is uncertainty about the macroeconomic environment factoring into your decision-making processes?

It's a factor, but it's not driving the market.

Risk selection requires realistic assumptions about loss trends not only at a macro level but also at a granular level. We need to understand how trends are playing out across industries and microsectors.

Take supply chain disruption as an example. It's often thought of as a manufacturing or construction issue, but in reality it cuts across multiple sectors, each with different levels of economic sensitivity. When viewed in isolation, those exposures may seem manageable; however, when they are interconnected across the broader value chain, they can compound and create disruption at a much larger scale.

That's why uncertainty is rarely uniform. It doesn't affect every industry or line the same way. Rather than focusing broadly on trends such as inflation, we focus on why certain sectors are more exposed. At the same time, some parts of the economy, like digital infrastructure and life sciences, continue to show durability.

That diversity is a strength of our industry. Our role is to bring insight that helps policyholders understand their environment and build resilience.

04 What are your thoughts on AI, both as a source of risk for policyholders and as a driver of efficiency for insurers?

There's a tendency to focus on AI's efficiencies without fully appreciating its risks.

AI introduces a class of liability for which the industry doesn't yet have credible loss history. Some companies are deploying AI without mature governance, creating operational, professional, and reputational exposures.

In that sense, AI governance is becoming the new risk control standard. One of the central questions: Who owns the liability when AI gets it wrong — the developer, the user, or another party? Addressing that requires a clear strategy, including defined use cases, oversight of data and users, accountability for outputs, and clarity around decision ownership.

From an insurance standpoint, coverage intent and policy language may start to diverge. Legacy contracts weren't designed for nondeterministic AI outputs, which reinforces the need for disciplined underwriting and clear terms.

As for the second part of the question, AI is transforming insurance, but it only makes sense if you apply it with discipline and clarity. At CNA, we don't use AI to replace expertise, we use it to amplify our expertise. It should enhance accuracy and elevate judgment, but it's certainly not to undermine or substitute it.

For underwriters, the opportunity is to spend more time on high-value underwriting analysis and decision-making. AI can help gather information in a more efficient way with less manual work, enabling high-value underwriting decisions rather than replacing judgment.

The winners in this industry are going to be the ones who blend specialized talent with specialized technology. Moving forward, specialization will be paramount, especially at the industry level.

05 What are you looking for from policyholders given current market conditions?

Underwriting is about confidence. This may be a bit old-school, but insurance remains a people business.

Whether it's today or 10 years ago, the best approach is to get to know your underwriters and their leadership as your carrier partner. In times of uncertainty, relationships and transparency are the best forms of currency. Ultimately the policyholders who are best positioned in this environment are the ones that operate as long-term partners rather than transactional buyers, instilling confidence in where and how capital will be deployed by their carrier partners.

Leadership engagement matters because leaders set the tone for how risk management is embedded in operations. If you ask me what the best underwriting tool is, it's the ability to show us how you operate and make money.

It's also about demonstrating accountability across the organization, from risk to human capital and more. Companies that send the message that "We'll figure it out as we go" aren't painting a great picture. When there's clear accountability for the core pillars of an organization with governance and a business plan, underwriters have a much clearer basis for confidence.

SPOTLIGHT: AI

Managing risk in a new technology

AI, and specifically generative AI, is seeping into all corners of everyday life.

From algorithmic recommendations for what to watch on television to integration into professional workflows, AI shows up everywhere, both on the job and in leisure time.

AI also cuts across insurance paths, amplifying the risk landscape and affecting nearly every line and coverage in different ways.

Here are a few examples among different lines:

CYBER

AI risks abound in the cybersecurity landscape. Processing and integrating sensitive data is one of AI's key value propositions. But failing to properly safeguard data processed by AI can lead to costly data privacy claims, particularly when personal health information is involved. Cyber threat actors are also increasingly using AI to refine their attack methods, while information security teams may use AI to thwart these attempts to breach their networks.

CRIME

Threat actors can use AI to generate more convincing social engineering fraud (SEF) ploys to trick recipients into believing, say, a bogus email came from a trusted source. AI can create deepfake impersonations of corporate leaders by effectively mimicking their images, voices, or writing styles to craft instructions for another employee to improperly transfer funds to an unauthorized recipient.

PROFESSIONAL LIABILITY

Professionals who place too much trust in AI take the risk of generating work product that conveys inaccurate or wholly made-up information. Examples include financial advisors who use AI to generate investment recommendations that lead to client losses, or algorithmic bias affecting decisions about the creditworthiness of loan applicants.

EMPLOYMENT PRACTICES LIABILITY

AI bias can result in employment practices-related claims if the technology uses illegal criteria to screen job applicants or otherwise evaluate current or prospective employees.

DIRECTORS & OFFICERS LIABILITY

Corporate leaders can face claims of "AI washing," alleging exaggerated statements about a company's AI capabilities or misrepresentations of AI's impact on the enterprise. Such claims can attract securities class action or shareholder derivative lawsuits, or result in regulatory action.

CASUALTY/LIABILITY

A company's use of an AI tool that the company fed specific rules or data could cause third-party bodily injury or property damage. An example could be an AI-driven chemical control system where an error leads to an explosion that engulfs a neighboring property. AI can also give rise to personal or advertising injury claims if the technology generates advertising copy or images that defame or violate one's privacy.

PROPERTY

AI can cause first-party damage if an AI tool causes the building management system to malfunction. For example, AI may reduce a building's heating to optimize energy use, but it may set the temperature so low that pipes freeze, burst, and cause ensuing water damage.

TECHNOLOGY ERRORS & OMISSIONS

An insured's technology services may incorporate an AI tool, or involve one that an insured is engineering expressly for a client, that can fail and trigger a technology errors and omissions loss.

Known unknowns about AI

These examples represent some of the known risks that AI can affect and potentially expand. But carriers worry about other unknown risks that AI can influence. They are watching loss trends closely as insureds implement AI across their enterprises. Carriers are also listening as insureds express uncertainty about how AI plays into their current coverages.

And all parties — carriers, brokers, and insureds alike — are weighing whether policy definitions and other policy language adequately address AI-driven risk and whether those exposures fall within the carriers' risk appetites. For example, is the wording in a particular cyber policy broad enough to respond to current and future AI regulations? Do AI-related activities fall within the scope of defined professional services in a professional liability policy? How might a cyber exclusion in a D&O policy affect coverage for an AI-related loss?

Although it is the exception, some carriers have already drafted AI-specific exclusions for certain lines of coverage. Berkley Insurance Company, for example, issued an absolute AI exclusion that could apply to its D&O, EPL, and fiduciary liability coverages. Hamilton Insurance Group has a generative AI exclusion that could limit professional liability coverage. Earlier this year, three ISO exclusions took effect, seeking to exclude coverage for generative AI in commercial general liability policies, if a carrier wished to utilize this wording.

While any business that uses AI takes on some additional exposure, certain industries have characteristics that expose them to more AI-related risk than others. Among the industries that carriers are concerned about:

HEALTHCARE

As providers and others use AI to assist with diagnostics and treatment recommendations, or to manage patient data, carriers are weighing the benefits of these use cases against the potential for medical malpractice and data privacy claims.

FINANCIAL SERVICES & REAL ESTATE

These industries face exposure to potentially discriminatory or biased AI output, which may appear in the form of inconsistent treatment of similarly situated applicants for loans or other financial services, or housing determinations.

LAW

Lawyers have gravitated to AI to help draft briefs, conduct legal research, and review contracts. But AI can make mistakes, and overreliance on AI tools can lead to embarrassing and actionable outcomes when those mistakes make their way into attorney work product. Clients also risk generating discoverable information if they enter sensitive facts or legal theories into an open AI tool, as courts have found that attorney-client privilege does not attach to such communications.

TECHNOLOGY PROVIDERS

AI developers train large language models (LLMs) on existing creative material, which can lead and has led to intellectual property infringement claims against the developers themselves and their users.

USERS OF AUTONOMOUS AI

Transportation companies that use AI drivers, or industrial enterprises that use drones or robotics, run the risk of bodily injury and property damage claims.

As carriers learn to underwrite to AI-enhanced risks, some are creating new products to expressly address the extent of AI-related coverage. Some of these products may support insureds' adoption and development of the new technology. However, depending on a client's industry, details around their AI use cases, and their current policy language, AI-specific language within policies is often not required and sometimes not recommended. Insureds should consult with a Lockton broker to learn about the coverage these products offer and the other AI-specific terms that may be negotiable with their incumbent carriers.

Here are select examples of AI-specific forms available in the marketplace:

Munich Re's aiSure line has policy forms that address a wide range of risks for AI providers and companies that use AI. The value proposition is protection for financial losses and liabilities arising from issues like model errors, underperformance, hallucinations, lost revenue, business interruption, and legal damages, including generative AI-specific risks. The coverage is designed to complement traditional cyber/E&O by guaranteeing AI model performance and enabling indemnification of clients when predefined performance thresholds are not met.

Relm's AI Response Insurance Policy covers first-party coverage for business interruption, reputational harm, product recall, and incident response costs stemming from AI incidents. By comparison, its AI cyber and tech E&O policy covers both third-party liability and first-party losses for tech E&O, AI, media liability, fee and expense protection, cybersecurity and privacy claims, business interruption, and financial offenses like extortion and digital crime. And its AI liability wrap policy is an excess wrap policy that addresses IP infringement, personal injury, discrimination, privacy, bodily injury, property damage, AI regulation, and E&O liability when underlying policy limits are reached or otherwise not responding.

Testudo offers liability coverage for damages arising from the use of generative AI, including hallucinations, intellectual property infringement, unauthorized data disclosures, and physical property damage.

Armilla has developed policies for generative AI developers and users across high-exposure industries, including financial services, healthcare, media, telecommunications, and professional services. Its "all risks" AI liability insurance responds to third-party claims related to model errors, hallucinations, non-breach data leaks, personal and advertising injury, economic losses, property damage, and AI regulatory violations.

Mayflower Specialty has a primary policy form that addresses D&O, EPL, and E&O to cover AI-related management, employment, and professional liability risks, whereas its excess difference-in-conditions policy sits on top of existing D&O, EPL, and E&O programs to drop down when an underlying carrier offering those coverages denies an AI-related claim.

As with anyone else, underwriters will gain more knowledge about AI in the coming years. That includes how and to what extent it amplifies risks for different insureds, what can be done to mitigate those risks, and whether the carrier wishes to cover the residual risk and at what price.

Many carriers presently seem satisfied with how companies address AI in underwriting submissions. But there is a growing awareness that AI exposure is already on the books in many instances. To shorten the learning curve, some carriers are beginning to ask increasingly granular questions about how AI is used, whether it's agentic AI, generative AI, or both. As a starting place, insureds may be asked to explain to their underwriters what AI tools the company has approved as well as who is allowed to use them and for what purposes.

Some carriers also want to learn more about AI governance within companies and will ask specific questions to explore this. What policies exist that govern AI's use? How are employees trained on AI? How are data and privacy protected? How is AI addressed in contracts with vendors? Are there human resources use cases for AI? Is there a way to escalate complaints about AI use within the company?

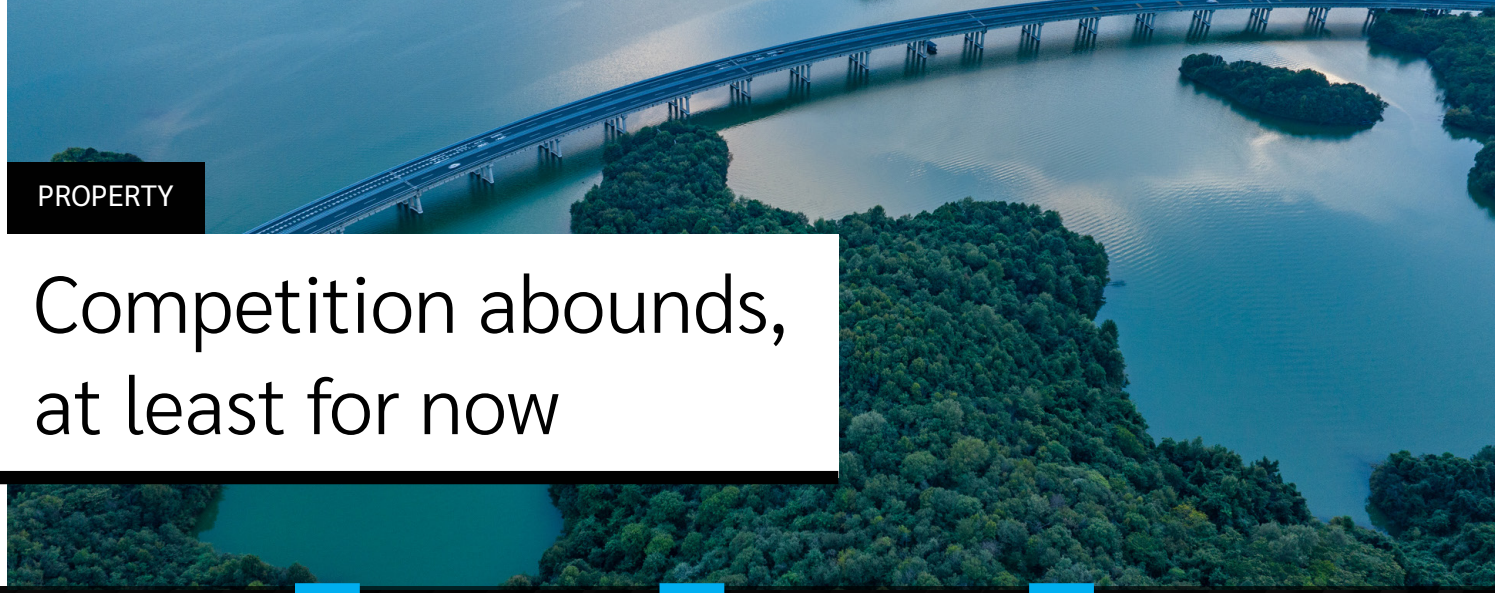
Taking it a step further, insureds that operate in the European Union should expect carriers to ask questions that mirror the structure of the EU AI Act, which classifies risks as low, medium, and high.

Insureds will benefit from preparing for these questions in their upcoming renewals by setting a narrative and driving the conversation about the company's AI use and the guardrails around it. Such preparation calls for insureds to identify and consult with all internal stakeholders and to educate themselves about the technology and potential next-level underwriting questions.

It also calls for them to work with their broker to understand whether their current policies adequately cover their AI exposures. Insureds can help move that conversation along by understanding how AI is used across the enterprise and reviewing vendor contracts to speak knowledgeably about potential downstream consequences of those relationships.

Lockton can help clients prepare for this evolving underwriting process, better understand both general and industry-specific AI risks, and further their AI-related enterprise risk activities. In addition to leading the renewal preparation process, Lockton is closely following the evolving state of the insurance market, conducting coverage mapping exercises, watching the development of AI-related claims, and facilitating connections with external AI support resources.

Ultimately, it is our goal to negotiate coverage that adequately addresses our insureds' potential AI exposures, including AI-specific terms when needed, and overall increase certainty amid what may feel like a very uncertain technology horizon.



PROPERTY

Competition abounds, at least for now

KEY TAKEAWAYS

- Pricing continues to decline, but signs of rate adequacy pressure are emerging.
- Strong capacity and reinsurance support competition, though underwriting discipline is tightening in targeted areas.
- Data quality, valuations, and program structure are increasingly driving outcomes.

Expected rate changes next quarter*

15% to 10% decrease

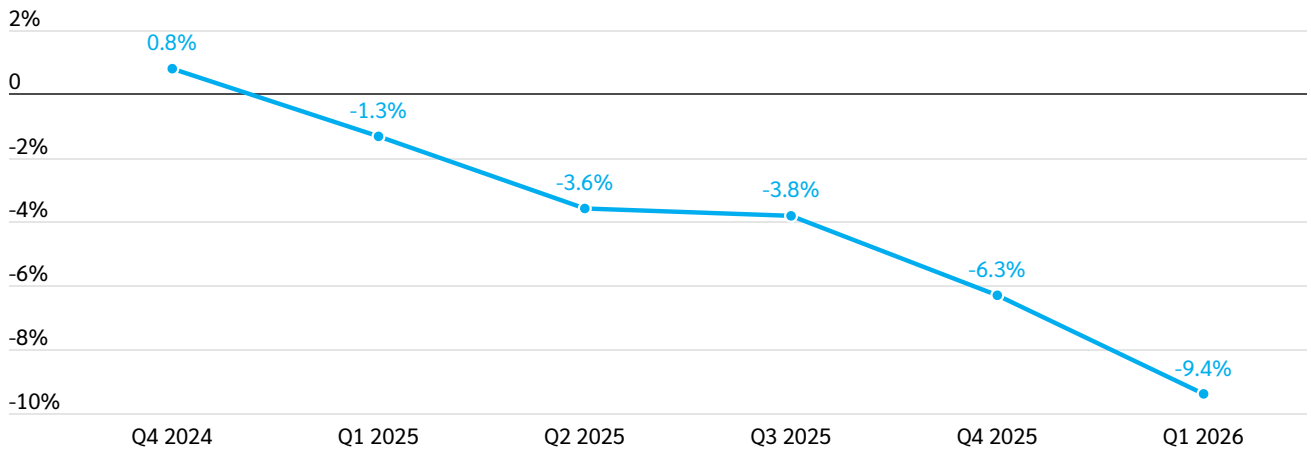
Shared and layered programs

10% to 5% decrease

Single-carrier programs

Property capacity remains ample, supported in part by some new excess and surplus entrants, and insurers continue to compete across most segments. In the first quarter of 2026, median property insurance rates fell 9.4%, according to Lockton data.

PROPERTY INSURANCE BUYERS CONTINUE TO SEE FAVORABLE PRICING.



Source: Lockton P&C Edge Benchmarking Report
Median rate changes year over year shown.

Shared and layered programs are especially competitive, with many buyers seeing rate reductions of 15% or more at renewal. Competition also exists in the single-carrier space; many carriers continue to view this segment as fundamental to growth opportunities.

Reinsurance buyers are seeing broad pricing reductions of 15% to 20% year over year. Still, reinsurers are maintaining underwriting discipline, particularly around aggregate covers and quota share structures, which remain under scrutiny due to past performance and softening primary rates.

Reinsurers are generally accepting current attachment points while expressing concern about weakening terms and conditions. Capital inflows — especially from insurance-linked securities and catastrophe bond markets — continue to reinforce supply levels.

While overall conditions are favorable, some carriers have been holding rates steady for certain buyers, refusing to lower rates as much as their competitors. This suggests that, at least for some insurers, we may be approaching a rate adequacy threshold.

For insurers, risk and data quality remain important. Buyers are able to differentiate themselves by delivering high-quality exposure data for catastrophe modeling. Loss-free accounts are also seeing more favorable conditions.

Although no segments of the market are seeing significantly different conditions from the norm, insurers are applying more intense underwriting scrutiny in pockets, including wood frame construction, warehousing, and food and beverage operations. Carriers are keeping an eye on supply chain risks, including potential accumulation risks.

Despite a calm Atlantic hurricane season, global insured catastrophe losses again topped $100 billion in 2025, according to the Swiss Re Institute, driven by severe convective storms and record losses from the California wildfires. Catastrophe activity in the first quarter was relatively normal, and forecasters expect below-average Atlantic hurricane activity this season. But it remains to be seen whether that prediction is accurate. Reinsurers appear willing to accept further property pricing softening through midyear renewals but may reassess if margins compress further or if a significant catastrophe event alters the supply-demand balance.

Valuation inadequacy remains an underappreciated risk. Construction costs have risen substantially over the past several years, and tariffs on imported building materials such as steel, aluminum, lumber, and finished components are adding further upward pressure on replacement values. Worse, inflation costs seem to be climbing further due to tariff-related disruptions.

In the event of a total or near-total loss, the gap between insured value and actual replacement cost can be material, and coinsurance provisions in some policies mean that underinsurance can affect partial loss recoveries as well.

WORKERS' COMPENSATION

Market quietly evolving as profitability comes under pressure

KEY TAKEAWAYS

- Buyer-friendly market conditions persist, but signs point to moderating profitability for insurers.
- Slowing frequency gains and rising severity are challenging long-term pricing assumptions.
- Underwriting is becoming more selective, with greater focus on workforce characteristics and evolving claims profiles.

Expected rate changes next quarter*

2% decrease to flat

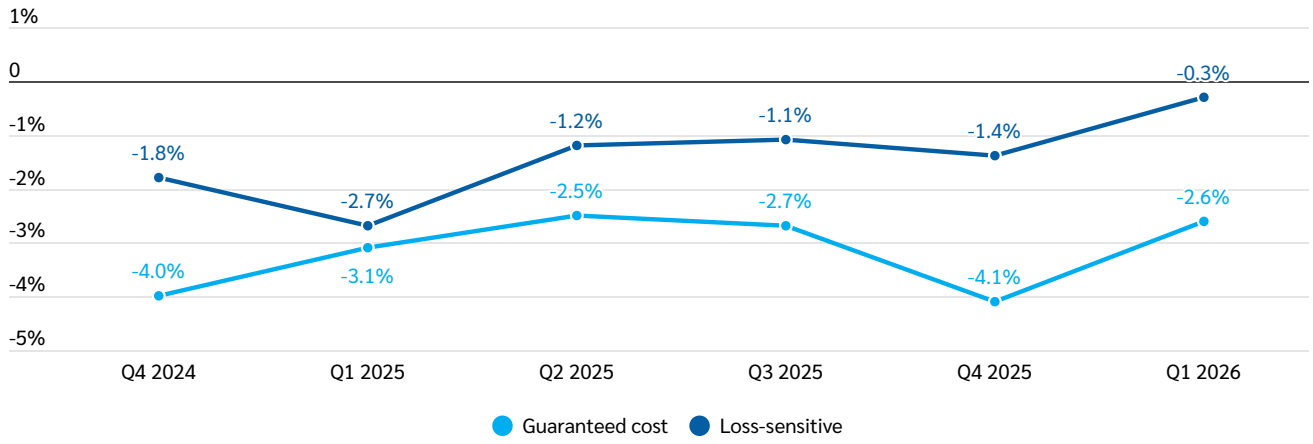
Guaranteed cost workers' compensation

3% decrease to flat

Loss-sensitive workers' compensation

The workers' compensation insurance market remains profitable and highly competitive. Carriers continue to view workers' compensation as a desirable line, and appetite to write business remains strong. In the first quarter of 2026, median rates for guaranteed cost workers' compensation fell 2.6%, according to Lockton data. Median rates for loss-sensitive programs fell 0.3%.

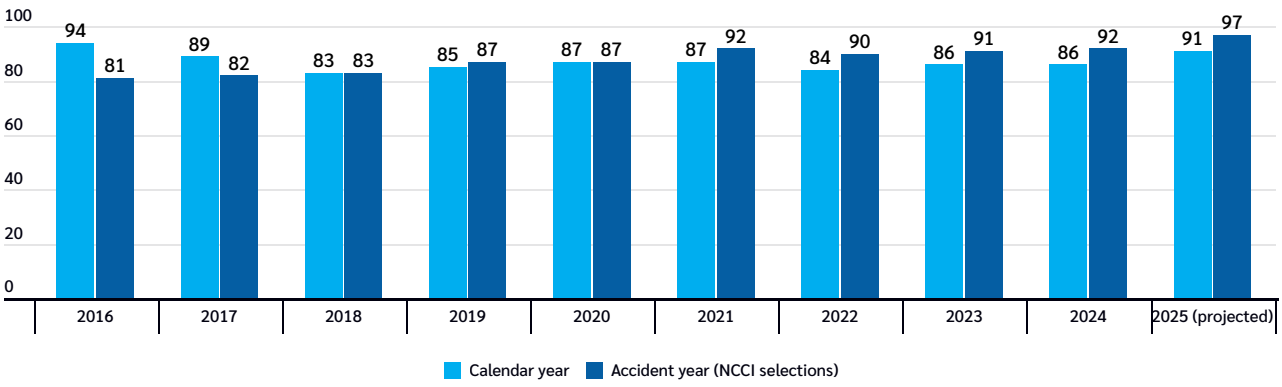
WORKERS' COMPENSATION RATE REDUCTIONS MODERATED SLIGHTLY IN THE FIRST QUARTER.



Source: Lockton P&C Edge Benchmarking Report
Median rate changes year over year shown.

2025 marked the 12th consecutive year of underwriting profitability for workers' compensation, according to the National Council on Compensation Insurance (NCCI), though margins are narrowing. The private carrier calendar year combined ratio increased five points to 91. The NCCI-selected accident year combined ratio also rose five points to 97, its highest level in recent years, leaving a thinner margin for underwriting gain.

FIGURE 10: PRIVATE WORKERS' COMPENSATION CARRIERS' COMBINED RATIOS ROSE IN 2025.



Source: National Council on Compensation Insurance

Net written premium declined 0.2% to $41.6 billion, as modest payroll growth was offset by continued declines in loss costs.

Lost-time claims frequency fell an estimated 2% in accident year 2025, a slower decline than in prior years. Indemnity severity increased 4%, in line with wage growth, while medical severity rose 4%, outpacing the 1.8% increase in NCCI's Workers Compensation Weighted Medical Price Index. NCCI attributed this primarily to higher utilization, suggesting a shift toward more complex claims.

Tariffs on imported medical goods present additional upside risk to medical severity, particularly for claims involving surgery, prosthetics, or extended rehabilitation.

Reserve redundancy continues to erode, falling to $14 billion at year-end 2025, down from $18 billion in 2023, reducing a key profitability cushion and reinforcing the need for pricing discipline.

Insurers remain interested in growth but are increasingly differentiating risks rather than competing purely on price. Workforce demographics and indemnity exposure are under scrutiny as claims involving older workers continue to drive disproportionate costs. Employers with aging workforces or elevated indemnity exposures may face more scrutiny or less favorable outcomes.

Underwriters are also paying closer attention to worker classification. The expansion of the gig economy has created ambiguity around worker status in several states, and misclassification of employees as independent contractors can create significant uninsured workers' compensation exposure. Similarly, remote work has introduced geographic complexity many employers have yet to fully address. When employees work from states where employers have no formal presence, losses can arise in jurisdictions where coverage was never anticipated.

No single state is driving widespread deterioration. Still, in California — which is not governed by NCCI — accident year combined ratios have been steadily climbing for the last decade. In 2025, the combined ratio rose to 129, its highest level in more than 20 years, according to the Workers' Compensation Insurance Rating Bureau of California. This warrants continued attention for employers with significant California head counts.

The current environment supports buyer-friendly pricing in the near term, with ample competition. However, the combination of a rising combined ratio, declining reserves, and moderating frequency improvements may curtail further downward rate movement across many jurisdictions for the remainder of 2026.

LIABILITY

Underwriting discipline holds amid growing exposures

KEY TAKEAWAYS

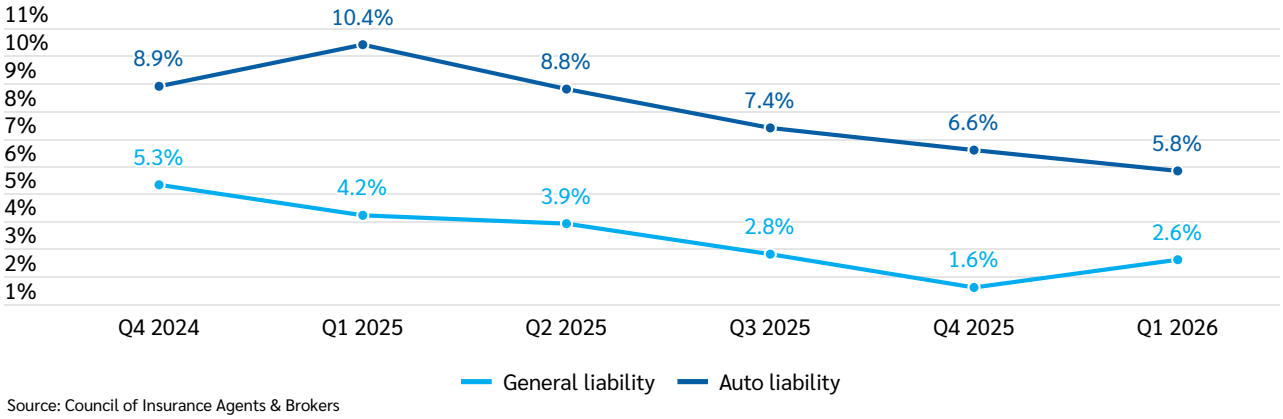
- Liability rates are still rising modestly, with competition improving mainly for high-quality risks and selective excess layers.
- Insurers are tightening capacity, terms, and exclusions and increasing scrutiny of high-risk sectors and emerging exposures.
- Outcomes are increasingly risk-specific, with significant differentiation between well-performing and higher-exposure accounts.

Expected rate changes next quarter*

5% to 10% increase	8% to 12% increase	5% to 15% increase	6% to 16% increase
General liability	**Auto liability**	**Lead umbrella**	**Excess casualty**

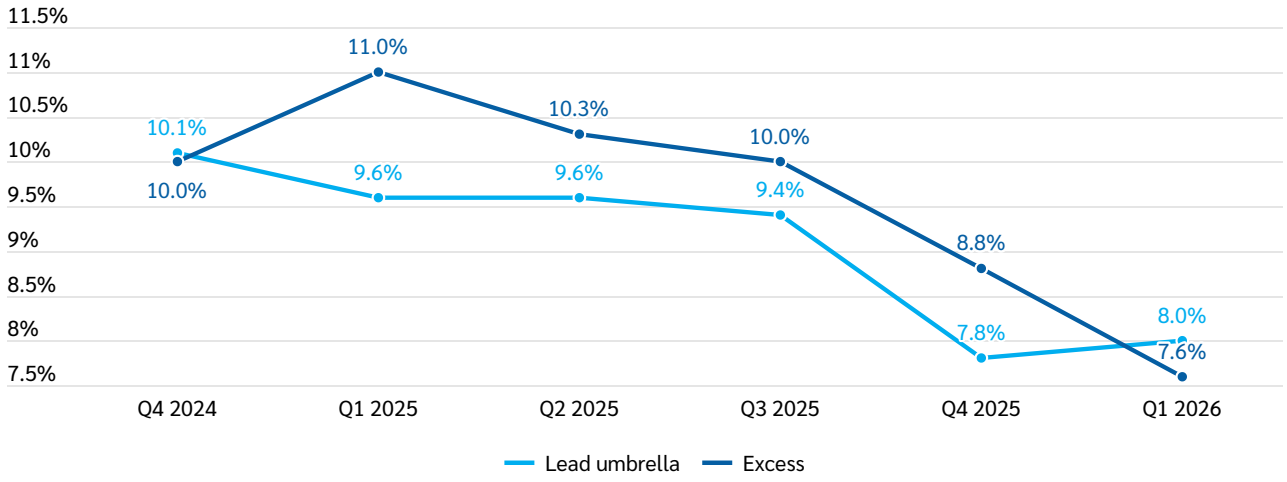
Liability remains the most challenging aspect of the P&C market, but conditions for many buyers are steadying. In the first quarter, rates rose 2.6% for GL and 5.8% for auto liability, on average, according to data from the Council of Insurance Agents & Brokers (CIAB).** Median lead umbrella price per million rose 8.0%, according to Lockton data, while median excess casualty price per million rose 7.6%.

GENERAL LIABILITY AND AUTO LIABILITY RATES CONTINUE TO STEADILY RISE.



Source: Council of Insurance Agents & Brokers
Average rate changes year over year shown.

UMBRELLA AND EXCESS CASUALTY RATES REMAIN ELEVATED.



Source: Lockton P&C Edge Benchmarking Report
Median rate changes year over year shown; figures shown on a PPM basis and do not reflect true, exposure-adjusted rate changes.

Rate increases are moderating in some areas, including for auto and higher-hazard liability classes. Even so, buyer relief remains limited. Any favorable pricing movement is generally incremental, not material, and outcomes continue to vary by industry, loss experience, and risk profile. Pricing is not softening meaningfully; carriers are addressing concerns about loss trends through higher attachment points, tighter limit deployment, reduced line sizes, greater use of quota share and layered structures, and more restrictive terms.

The casualty reinsurance market is broadly stable but bifurcated. Growth appetite varies by reinsurer, reflecting past soft market positions. Capacity is rising from third-party capital, while demand is flat to slightly down. Outcomes are increasingly cedant-specific: Strong performers can expect smooth renewals, while those with adverse development face pressure.

Reinsurers continue to favor top-performing cedants, even at more buyer-friendly terms, while monitoring any easing of underwriting standards. Cedants remain disciplined on limits. Barring major shocks, the reinsurance marketplace is expected to remain stable for the remainder of the year.

Market conditions vary widely by industry. Well-performing, lower-risk sectors benefit from stronger competition and better outcomes. Higher-risk industries or those prone to litigation face greater scrutiny, reduced capacity, and less favorable terms.

Liability risk capital is increasingly fragmented and selectively deployed across MGAs, delegated platforms, and facilities, often backed by alternative capital. MGAs are emerging as credible sources of coverage due to their specialization and flexibility, helping to drive rates down through added capacity and competition. The London and Bermuda marketplaces remain stable, with signs of increased capacity from MGAs.

For insurance buyers, securing the best results requires coordination across all platforms. Risk professionals should work with their insurance brokers to evaluate options and ensure alignment with risk needs.

Carrier discipline in recent years has been driven by uncertainty related to nuclear verdicts, litigation funding, and claims severity. The long-tail nature of occurrence-based liability and several emerging risks are reinforcing underwriting discipline even as buyers resist continued rate increases. The market isn't just correcting for this — it's uncertain whether it has corrected enough.

AI is perhaps the most closely watched emerging risk: Insurers are actively monitoring litigation trends and coverage implications across multiple lines. (See *Managing risk in a new technology*.)

Underwriters are also closely monitoring:

PREMISES LIABILITY

Certain subsegments face tighter capacity and more restrictive terms.

ASSAULT & BATTERY

Coverage is increasingly difficult to secure, especially for hospitality, retail, and some real estate buyers. Insurers are adding more exclusions and sublimiting coverage, forcing buyers to pursue more costly stand-alone placements.

SEXUAL MISCONDUCT LIABILITY

Expanded statutes of limitations and high-profile claims are driving reduced limits, tighter terms, and capacity withdrawals.

HABITATIONAL RISKS

Elevated frequency, aging infrastructure, and litigation trends are pushing more risks into higher-cost excess and surplus lines markets.

CONSTRUCTION DEFECTS

Long-tail losses are driving tighter completed operations coverage and stricter subcontractor requirements.

ENVIRONMENTAL LIABILITY

Expanding exclusions and regulations are increasing cleanup and litigation exposure across a broader set of companies.

SOCIAL MEDIA LITIGATION

Claims targeting addictive design and algorithmic harm may extend product liability frameworks.

FOOD & BEVERAGE LITIGATION

Suits targeting ultraprocessed ingredients and links to chronic disease are gaining traction.

Underwriting quality has become a key differentiator. Carriers are using data and analytics to assess risk more precisely, and the quality of a submission directly influences pricing, terms, and capacity. Insurers expect buyers to clearly articulate how their risk profiles are evolving, including exposures related to AI, social media-related liabilities, per- and polyfluoroalkyl substances, and premises controls.

Organizations that invest in detailed, data-driven submissions supported by loss analysis and risk management documentation consistently achieve better outcomes. Thoughtful carrier selection — with a focus on long-term appetite, financial strength, and claims expertise — remains critical. Visible executive engagement can also signal commitment, strengthen credibility, and reinforce the quality of opportunities.

Stable conditions, rising risk

KEY TAKEAWAYS

Management liability markets remain broadly stable, with flat to slightly declining pricing at renewal and steady capacity.

Underwriters are intensifying scrutiny on emerging risks, including AI, geopolitical exposures, and fraud activity.

Rising claims activity and evolving exposures are beginning to test long-term pricing adequacy.

Expected rate changes next quarter*

5% decrease to flat

Public directors and officers liability

Flat to 5% increase

Private/nonprofit directors and officers liability

Flat to 5% increase

Employment practices liability

Flat to 5% increase

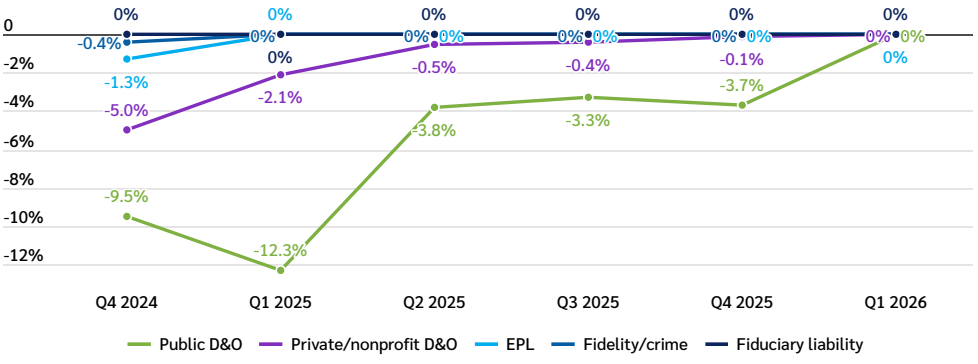
Fidelity/crime

5% decrease to 5% increase

Fiduciary liability

Management liability insurance markets remain stable and competitive, with ample capacity and mostly flat pricing despite rising claims severity and underwriting scrutiny. In the first quarter, median total program rates were unchanged for all major lines, including D&O, EPL, fidelity/crime, and fiduciary liability.

ACROSS EXECUTIVE RISK LINES, RATES WERE FLAT AT RENEWAL IN THE FIRST QUARTER.



Source: Lockton P&C Edge Benchmarking Report
Median total program rate changes year over year shown.

Public D&O buyers continue to benefit

Public D&O buyers have found a stable market with carriers showing discipline. Buyers have typically renewed flat or slightly downward, similar to the previous quarter.

After years of rate decreases, carriers have tried to stem further reductions by attaching at lower points in programs. Carriers don't believe excess pricing is adequate in higher layers of insurance programs, so fewer carriers are willing to participate, particularly at the middle excess layer. As a result, carriers are increasingly competitive at the primary and low-excess layers where they see opportunities and better pricing.

"Despite generating solid direct underwriting results during the past few years, the competitive D&O marketplace is expected to become a little tighter in 2026 with underwriting margins likely to shrink," AM Best said in a recent report. "Insurers are assessing the health of their portfolios from both the underwriting and pricing perspectives following several years of steady rate and pricing cuts."

Capacity in public D&O remained stable over the last quarter. That said, underwriters over the last quarter have closely scrutinized insureds' potential exposures to swings in oil and other energy commodity prices brought on by the Middle East conflict.

Underwriters are also paying close attention to how companies describe their use of artificial intelligence in securities filings and communications with shareholders. Overblown claims by directors and officers of efficiency gains and cost savings could increase their D&O liability. Failing to properly assess AI-related risks to the business could equally implicate coverage.

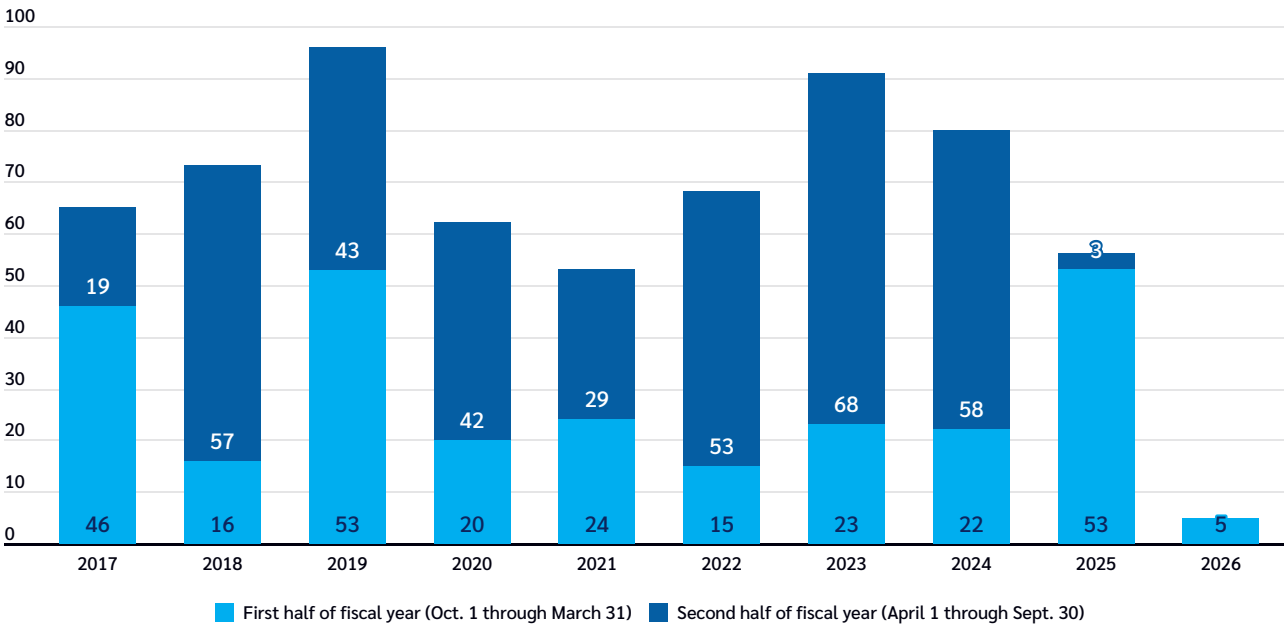
Underwriters have also focused on the risk of financial distress for insureds facing upcoming debt maturities. Global corporate debt maturities will peak at $3.02 trillion in 2028, according to S&P Global, with speculative-grade debt maturities sharply increasing between 2026 and 2028. Underwriters want to understand how companies have managed these schedules, what steps were taken to refinance or restructure debt ahead of maturity, and whether the board exercised appropriate oversight of capital structure risk.

Meanwhile, underwriters face challenges when renewing AI-related enterprises. These companies have grown swiftly, making it difficult to craft renewals on terms that both sides find reasonable.

The Securities and Exchange Commission (SEC) has substantially reduced its enforcement actions against public companies and their subsidiaries so far in the first half of fiscal year 2026.

The SEC initiated just five actions in the first half of the fiscal year, its lowest level in 16 years, according to Cornerstone Research. The SEC has reduced its head count by 15% since the beginning of 2025, and a 43-day government shutdown in late 2025 further disrupted operations.

SEC ENFORCEMENT ACTIVITY HAS BEEN HISTORICALLY SLOW IN THE LAST YEAR.



Source: Cornerstone Research

That pace puts enforcement activity well behind fiscal year 2025, when a total of 56 actions were initiated, with only three of those actions initiated during the second half of the fiscal year. The SEC's priorities have also evolved, particularly in its focus on punishing individual executives for wrongdoing.

This posture makes Side A D&O coverage more critical, while the relevance of Side C coverage for corporate penalties may diminish.

The SEC has also proposed allowing public companies to report earnings twice a year rather than quarterly. Proponents have described the proposal as a way to reduce regulatory burdens and to encourage more private companies to go public.

The rule, if enacted, could increase certain risks for public companies that switch to semiannual reporting. Less frequent disclosures will face heightened scrutiny from shareholders and plaintiffs' attorneys. Longer blackout periods on stock trades by company insiders could also invite skepticism from shareholders and regulators on buying and selling activity by company directors.

Through May 2026, plaintiffs had filed 92 securities class-action lawsuits in federal courts, according to Stanford Securities Litigation Analytics. This is slightly ahead of the pace of 2025, when plaintiffs filed 91 suits through May.

Claims related to private credit have accelerated as the $2 trillion industry faces tough questions about risk-taking and redemption limits. Private credit litigation stems from two sources:

- The bankruptcies of businesses that accepted loans from private credit funds.
- Claims from investors that private credit funds extended loans to risky companies without proper due diligence. As private credit continues its rapid growth and spreads across institutional portfolios, the litigation risk embedded in the asset class is becoming a more prominent D&O concern.

Healthy competition, stable capacity in private D&O

Private D&O buyers are finding mostly flat premiums, except in certain instances of upward pressure when claims activity, increases in exposure, or deteriorating financials necessitate slightly higher pricing.

Capacity remains steady, with no new or departing carriers. This means existing carriers compete for business, leaving pricing largely uniform across the private market. As a result, coverage is broad and widely available, with exceptions for exposures to antitrust or regulatory claims.

Underwriters are increasingly taking insureds' financial health into account.

Business bankruptcies increased in 2025 to 24,737 filings, up 7% from the previous year, according to the Administrative Office of the U.S. Courts. Financial distress has pushed businesses looking to avoid bankruptcy toward out-of-court arrangements, such as debt-to-equity swaps and lender takeovers. These transactions may trigger change-of-control provisions in private D&O policies, so companies considering such avenues should ideally consult their insurance brokers before entering into them.

Underwriters are also expressing broad concern about companies that derive 20% or more of their revenue from government contracts or grants, given the uncertainty around federal spending priorities and the potential for rapid contract terminations or program eliminations. Companies in this category should expect more detailed underwriting scrutiny and, in some cases, more restrictive terms at renewal.

EPL market remains stable despite increasing claim activity

Most EPL insurance buyers are renewing their programs flat or with slight increases. Employers with increased employee counts, poor claims activity, or operations in challenging geographies may see low double-digit rate increases.

One leading insurer is seeking to implement a strategy of pushing for rate increases more aggressively; it remains to be seen whether other carriers will follow its lead. Many insurers have expressed a belief that EPL coverage is underpriced given the current claims environment, but there has been no material change in market capacity.

The Equal Employment Opportunity Commission's recently published strategic enforcement plan through fiscal year 2028 highlights the agency's intention to focus on what it deems unlawful race and sex discrimination arising from or related to DEI programs, policies, and practices. This is consistent with the Trump administration's broader, aggressive stance on DEI. Federal contractors are under the most pressure following a March 2026 executive order subjecting contractors to new anti-DEI compliance requirements.

Despite retrenchment at the federal level, states continue to expand employee protections. This creates a patchwork of obligations that increases compliance complexity and EPL exposures, particularly for multistate employers.

Violations of state wage transparency continue to drive claims activity, especially as new state laws introduce varying obligations related to pay range disclosures, job postings, and record-keeping.

We are also seeing an uptick in employment demands and suits being filed by unrepresented individuals using AI to draft and file claims. These unconventional claims are, in some ways, harder to defend and raise novel questions about whether AI-generated documents, prompts, and outputs are discoverable materials in litigation.

Insurers are generally more eager to compete for new business if they are writing another piece of the management liability program. Stand-alone EPL competition is slightly more limited, suggesting that incumbent carrier relationships and early renewal engagement should be a priority for buyers purchasing EPL on a monoline basis.

Insurers are applying greater underwriting scrutiny for employers with exposures related to biometric information and other privacy concerns given litigation under Illinois' Biometric Information Privacy Act and similar state laws. In addition to exclusions for biometric data collection, carriers are attempting to add exclusions around wage transparency claims, which are on the rise as states enact new laws. Lockton is seeking carvebacks and/or sublimits when insurers are adamant about adding or keeping exclusions.

Wage and hour defense expense sublimits remain widely unavailable in California, although some carriers will consider it for smaller employers. In addition to California, underwriters are scrutinizing employers with large employee bases in plaintiff-friendly states, including Connecticut, Iowa, New Jersey, Oregon, and Washington. Other plaintiff-friendly jurisdictions across the country include:

- Kansas City, Kansas
- Kansas City, Missouri
- New York City
- Philadelphia
- Washington, D.C.
- Florida's Miami-Dade County
- Michigan's Macomb and Wayne counties
- New York's Nassau, Suffolk, and Westchester counties

Industries that are subject to more intense scrutiny include healthcare, hospitality, media, retail, and transportation.

Stable footing for crime market amid more complex fraud risks

The crime market remains stable and moderately competitive despite carriers continuing to see a high frequency of loss activity. Most buyers are renewing crime insurance programs flat to slightly down.

Backed by strong results and capital positions, insurers are showing greater appetite for crime. Capacity remains ample due to favorable historical loss ratios and relative profitability compared with other specialty lines. Insurers are eager to grow their portfolios through competition.

Insurers are concerned about the growing severity of social engineering fraud (SEF) and business email compromise losses, which remain the dominant loss driver in the market. External fraud has overtaken internal fraud as the leading driver of losses, measured by both frequency and severity, and is increasingly AI- and technology-enabled, scalable, and difficult for companies to detect.

Deepfakes, voice cloning, account takeover, and phishing attacks are growing rapidly. We are also seeing a resurgence of physical check fraud, a low-tech threat that has returned as organizations strengthen electronic payment controls.

Conditions are more difficult for financial institutions, which account for roughly 40% of crime claims globally. In 2025, 1 in 5 financial institutions reported $5 million or more in fraud losses; financial firms are also subject to intense regulatory scrutiny and are more exposed to systemic fraud trends given the volume of transactions they process. Meanwhile, midsize organizations face greater rate volatility due to weaker controls and their greater susceptibility to SEF losses.

Insurers are being more selective on program structures and deductibles/attachment points. They are closely scrutinizing insureds' SEF controls, including procedures related to callbacks, dual authorization, and funds transfer and payment verification. Insurers are also paying close attention to whether documented procedures are being followed in practice.

Full limit SEF coverage and favorable funds transfer provisions are becoming more difficult to secure given recent loss activity. Carriers are narrowing definitions of covered fraud triggers, tightening clauses related to failure to follow procedures, and clarifying language related to cryptocurrency and AI-enabled impersonation.

Carriers, however, are offering expanded stand-alone and excess SEF products, along with blended cyber and crime solutions with difference-in-conditions/difference-in-limits provisions. We are seeing higher limit structures for SEF where companies have strong controls.

We continue to see disputes over coverage intent. One pending lawsuit related to a funds transfer loss centers on whether a township selling municipal bonds to a financial institution meets the definition of "vendor" for purposes of funds transfer fraud. Under the primary policy in question, vendors must provide "goods and services" for a fee to insureds; the primary carrier agreed the bonds met the definition of goods and services, but the excess carrier disagreed. This illustrates the growing importance of precise policy language and the need to scrutinize coverage terms before any losses occur.

Fiduciary liability stays stable despite continued litigation pressures

Conditions in the fiduciary liability insurance market are stable. Most buyers are renewing programs flat. Insurers, however, remain wary of litigation risks, especially for public company buyers.

Private companies with employee stock ownership programs (ESOPs) and defined benefit plans are seeing some rate increases at renewal; depending on exposures, these risks are becoming more challenging to insure on favorable terms. For public company buyers, pricing is largely driven by individual plan asset growth and claims activity rather than broad market trends.

Capacity is abundant. Carriers are competing to write fiduciary liability on both a monoline and package basis, but are especially eager for new public company business, particularly as part of broader management liability programs. Broad terms and conditions remain available to most insurance buyers.

Litigation risk remains a key concern for insurers and policyholders. Excessive fee litigation has long been a driver of rising defense costs, and plaintiffs' attorneys are expanding their areas of focus. Forfeiture litigation and tobacco surcharge litigation are becoming more frequent, and welfare and voluntary benefits plans are increasingly being targeted in suits.

With litigation risk remaining elevated, underwriters are more closely reviewing plan financials, with particular scrutiny on ESOPs and defined benefit plans. Underwriters are scrutinizing insureds' governance frameworks, fee benchmarking processes, vendor RFP processes, and investment menu construction.

In March, the Department of Labor proposed a new rule that introduces a "safe harbor" test allowing plan sponsors to offer to participants investment choices that they historically have avoided due to fear of litigation. While the rule intended to reduce risk for fiduciaries, it does not eliminate exposure to lawsuits or other challenges. Its ultimate scope will also depend on the rulemaking process and any legal challenges that follow.

CYBER

Carriers showing more discipline even as competition continues

KEY TAKEAWAYS

- The cyber insurance market remains buyer-friendly, though pricing discipline is increasing as rates approach floor levels.
- Carriers are adopting more granular underwriting focused on controls, privacy exposure, and emerging risks like AI.
- Risk differentiation is becoming more crucial, with outcomes tied more closely to resilience, governance, and third-party dependencies.

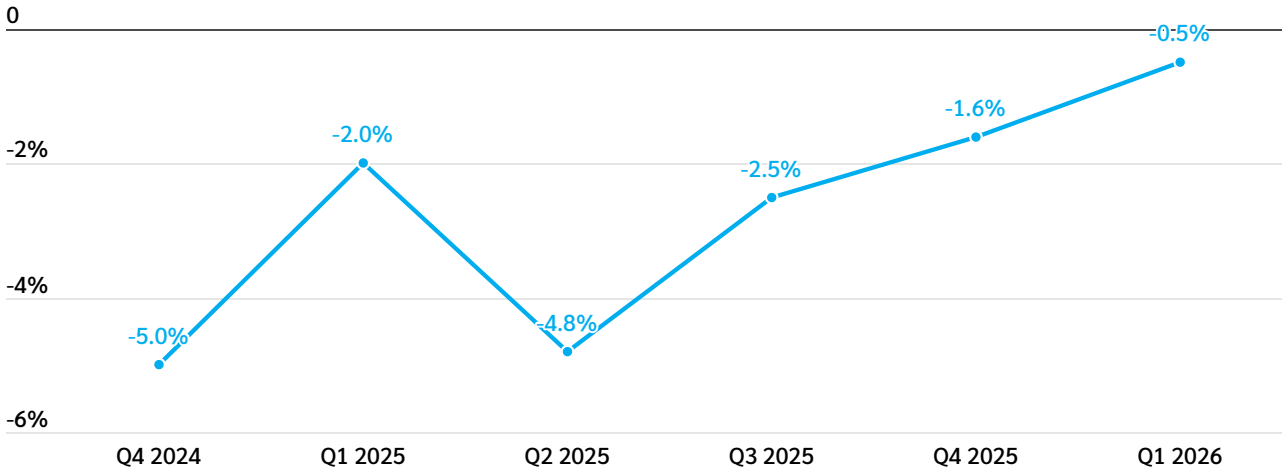
Expected rate changes next quarter*

Flat to 5% increase

Cyber

The cyber insurance market continues to recalibrate, yet conditions remain favorable for buyers. In the first quarter of 2026, median rates for cyber insurance fell 0.5%, according to Lockton data.

CYBER INSURANCE RATE DECREASES ARE SLOWING.



Source: Lockton P&C Edge Benchmarking Report
Median total program rate changes year over year shown.

The prolonged soft market of the last three years and rising loss ratios are weighing on carriers. Underwriters are more actively differentiating risks based on privacy exposures and the robustness of cyber controls rather than prioritizing client retention.

As a result, certain buyers — particularly those with rapid growth, unfavorable loss experience, or weaker controls — may see upward pricing pressure. Cyber insurance buyers in high-risk sectors such as healthcare, financial services, critical infrastructure, and education are facing the sharpest scrutiny.

At the same time, carriers are repositioning to compete in a more complex cyber threat landscape, with an eye toward new product development, tighter sublimit structures for specific perils, and more restrictive coverage terms.

Despite this activity, overall capacity remains strong, supported by new entrants eager to deploy capital. Competition is expected to persist, though insurers are showing greater discipline as pricing nears its floor.

Underwriting is also evolving. Carriers are shifting away from a checklist approach to controls and instead taking a more exposure-driven, qualitative view of risk, reflecting growing concern about claims trends. Evidence of specific controls and incident response plans are increasingly being treated as baseline requirements for coverage.

The cyber reinsurance market remains robust, with ample capacity available across both proportional and nonproportional structures. Although the pace of new entrants has slowed, competition remains strong, as newer reinsurers continue to gain placements on established programs. Pricing is stable for established buyers, with some risk-adjusted decreases on aggregate excess-of-loss programs, while newer or growing writers benefit from continued investment in cyber as reinsurers diversify away from casualty risks.

Despite strong capacity, reinsurers are monitoring rising attritional cyber losses and softening primary rates, applying greater scrutiny to underperforming portfolios and sector concentrations such as healthcare. Concerns around aggregation and emerging AI-driven threats also persist. Still, cyber is viewed as a profitable, high-growth line, supported by favorable long-term trends. Reinsurers continue to deploy capital selectively, expand nonproportional offerings, and show confidence through increased retrocession activity and ongoing capital inflows.

As privacy concerns persist, insurers are placing greater scrutiny on consent mechanisms, such as website cookie banners and opt-in/opt-out frameworks, along with session replay technology and biometric data collection practices that are fueling litigation. Carriers are also examining third-party vendor contracts to confirm that appropriate safeguards, audit rights, and breach notification processes are in place to protect collected and stored data.

Broadly, the Trump administration has pulled back on privacy enforcement but is still taking action under the Children's Online Privacy Protection Act. The House Committee on Energy and Commerce is currently considering the SECURE Data Act, which proposes to create a single consumer data privacy standard nationwide.

Meanwhile, regulatory actions at the state level related to non-data breach privacy are ticking up, particularly in California. Notably, the California Privacy Protection Agency is expanding activity beyond traditional data breach scenarios to address non-breach privacy violations, algorithmic decision-making, and sensitive data practices. Similar momentum is building in Colorado, Texas, and Virginia.

The federal government has focused less on AI regulation of late, although this may change given high-profile concerns related to generative AI. Enforcement of a significant portion of the EU AI Act requirements was set to begin in August 2026 but has been delayed until December 2027.

For their part, insurers are increasingly paying attention to AI risks, although we are not aware of AI being excluded on any cyber or technology insurance products. Interest in coverage for AI-related regulatory risk is expanding. A variety of new products to directly address AI risks are being introduced by existing insurers and a wave of AI-specific insurance MGAs, although a widespread need for these products is not yet clear.

Amid the U.S. and Israeli conflict with Iran and continued Russian cyber operations linked to the war with Ukraine, insurers are refocusing their attention on state-linked cyber threats and potential aggregation risks. Carriers are concerned that systemic events could threaten the viability of cyber insurance coverage.

This is renewing focus on war exclusions present in virtually all cyber policies. It remains unclear whether these exclusions can be invoked amid uncertainty about whether a specific attack can be attributed to a government or government-backed group and whether a direct connection can be established between a cyber event and an ongoing kinetic conflict.

RECOMMENDATIONS

Winning strategies

01 **Align early with your broker on renewal strategy.**	Go into renewal discussions with a plan and clear goals. Are you looking to reduce premiums, expand coverage, adjust retentions, improve terms, or create more optionality? A focused strategy can help capitalize on favorable conditions while preparing for where the market remains more selective.
02 **Don’t treat renewals as routine.**	Use the current environment to evaluate policy language and revisit limits, sublimits, retentions, and key exclusions, such as war, cyber, contingent business interruption, communicable disease, and other evolving exposures.
03 **Challenge the assumptions behind your program.**	Renewal strategy should be grounded in analytics, not simply last year’s structure. Revisit limits, retentions, deductibles, loss picks, exposure trends, and probable maximum loss scenarios. Changes in operations, revenue, payroll, asset values, supply chains, geography, or customer concentration can materially change risk profiles.
04 **Move beyond siloed thinking.**	Instead of managing exposures line by line, analyze how multiple policies may respond to complex events. This can reveal gaps, overlaps, inefficiencies, and sources of unexpected volatility.

05 **Evaluate alternative risk structures.**	Facilities and portfolio placements can improve efficiency but should be actively managed to preserve competition and alignment with buyer objectives. Captives, structured solutions, higher retentions, quota share structures, multiyear programs, and other alternatives may improve control, reduce volatility, or allow capital to be used more efficiently.
06 **Consider multiyear options.**	Programs spanning two or more years can help lock in favorable terms, reduce pricing volatility, and provide coverage certainty amid potentially tightening conditions. These may not fit every risk or line but should be evaluated where pricing, capacity, and carrier appetite align.
07 **Invest in risk mitigation and operational discipline.**	Strong controls, policies, and procedures can help businesses prevent or minimize losses. Prioritize governance, employee training, claims management, contractual risk transfer, and regular audits to ensure controls are working as intended.
08 **Differentiate your risk.**	Address emerging risks and anticipate insurer questions before they are asked. Provide high-quality, data-driven submissions that clearly articulate risk controls, loss history, operational changes, financial strength, and evolving exposures. Share lessons learned from recent losses and show how those insights have strengthened risk positions.

Making moments count

Lockton is here to help you stay informed about key trends shaping the insurance marketplace, capitalize on opportunities, and build effective insurance programs.

Contact us or visit our website to learn more.

Market insights & more from Lockton

Explore more market updates and related thought leadership from our risk, people, and industry specialists:

GLOBAL CYBER THREAT REPORT: Cybersecurity in the wake of a new wave of risks

GLOBAL GEOPOLITICAL RISKS: Mapping organization exposure to geopolitical risks

LOOKING BEYOND COVERAGE LINES: Designing insurance for how losses actually happen

SOCIAL ENGINEERING FRAUD: Webcast | Understand how cyber and crime policies do (and do not) respond

HURRICANE SEASON PREVIEW: Staying storm-ready as hurricane season begins

PRODUCT RECALL MARKET UPDATE: Insurers continue to compete, expand coverage

WORKERS' COMPENSATION TRENDS: Presumptions, classification, drug policy & more in focus

PROFESSIONAL & EXECUTIVE RISK: Managing professional & executive risk in an era of deregulation

PEOPLE SOLUTIONS MARKET UPDATE: Managing health plan risk amid growing complexity

WE WANT YOUR FEEDBACK

We're always looking to make the *Lockton Market Update* more valuable and relevant for you. **Click here** to complete a short survey that will help us shape future editions of the report.

UNCOMMONLY INDEPENDENT

*Note: Rate ranges presented here reflect expected renewal outcomes — as of the Lockton Market Update publication date — over the next quarter for most insurance buyers. These should not be taken as a guarantee of any specific results during renewal negotiations. Depending on risk profiles, loss histories, account specifics, and other factors, individual buyers may renew their programs outside these ranges.

**Charts in this report using Lockton P&C Edge Benchmarking data show median rate changes year over year. Median figures, however, are not available for general liability and auto liability data sourced from CIAB.