Life Sciences

2023

State of the Market Mid-Year Report

K&S INSURANCE
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Overview

Due to innovation, demand, and growth in 2023, prospects for life sciences companies remain overwhelmingly positive, with insurance markets generally eager to provide capacity for the industry. However, in order to maintain growth levels, organizations need to keep a pulse on the evolving opportunities and risks that are shaping both the life sciences industry and carrier capacity.

We are seeing a return to normalcy in elective procedures after the COVID-19 induced slump, and as such, an increase in the sale of products needed for these surgeries. We expect this trend to continue and for it to bolster growth in the industry.

Though decentralized clinical trials (DCTs) predate COVID-19, their prevalence grew significantly as a result of the pandemic. And it seems as though this trend will continue for the long term. DCTs are studies where patients participate at sites that are more convenient to them, reducing or eliminating the need for a centralized testing facility. The trials are generally conducted remotely using telemedicine, wearables, and mobile or local healthcare providers versus having patients visit a designated clinical site to obtain care. Remote testing capabilities provide several benefits, including increasing patient access, efficacy, and speed to trial. However, sponsors need to curtail the risks of DCTs by doing their due diligence in setting standards for data collection and protection, investigator oversight, and participant safety.

The convergence of traditional medicine with implantable devices, wearable devices, and AI is also changing the life sciences landscape. This new generation of products requires additional regulatory considerations, with the FDA going so far as to create a tool that can guide companies through the process of evaluating if a product or service is subject to FDA regulations. Life sciences companies involved in these ventures need to understand the unique risks of new technologies, particularly regarding cyber exposures and properly safeguarding individuals' protected health information (PHI).

Psychedelic drug therapy is another emerging development within the life sciences industry, with psychedelic therapy legislation coming into effect in several states. These recent developments could expand the use of psychedelic drugs that are designated as breakthrough therapies. This may require changes to product liability and clinical trial policies that today may contain exclusions for these classes of unapproved drugs.

Gene therapy and editing also continue to make a splash in the life sciences industry as a segment that demonstrates consistent growth. This space, in general, is considered a high-hazard risk because of the vast, unknown implications associated with these procedures.

Another emerging segment in the life sciences industry is agricultural biology. From an insurance perspective, there is not a cohesive solution for emerging segments like agricultural biology specifically related to food. A risk that starts as a lab risk can quickly emerge as an agricultural risk, and life sciences insurers are not sure how to underwrite these risks as compared to more traditional life science companies.

Amid these areas of opportunity are familiar challenges, namely public demands around environmental, social, and governance (ESG), supply chain delays and spoilage issues, inflation and overarching economic uncertainty, and opioid coverage exclusions.

Given that life sciences companies' operations and projects are complex, spanning multi-year timelines, encountering delays and unexpected risks is to be expected. Risk management and insurance need to be a part of every stage of a project's lifecycle to identify and remediate issues before they become costly mistakes.

M&A and IPO Activity

Though there has not been a lot of IPO activity in the life sciences industry, M&A activity remains strong. With healthy cash reserves, life sciences companies want to put their capital to work by finding new and strategic sources of value. M&A activity in the industry seems to be geared toward opportunities for additional streams of revenue through vaccines, mRNA, and cell and gene therapy.

Key Coverage Lines

In the pursuit of innovation and opportunities, the life sciences industry continues to perform strongly. And the insurance market has taken note, with carriers hoping to capture the momentum driving the sector toward growth. As such, carriers have demonstrated that they are willing and able to evolve with their insureds to be able to attract new business while expanding their existing books of business. New market entrants are increasing capacity and keeping rates stable in spite of inflationary pressures and nuclear verdicts.

Management Liability

Though social inflation and nuclear verdicts continue to be primary concerns for underwriters, rates are showing signs of stabilization in management liability lines (D&O, EPLI, and fiduciary liability) for well-performing accounts. In the D&O market in particular, decreased IPO activity, new capacity, and carrier competition have allowed the market to soften a bit.

Liability

For general liability, most life sciences accounts are seeing flat renewals, or slight decreases. The excess liability space remains more volatile, with rate increases averaging 5% to 10%. For product liability, rate increases are trending in the mid-single digits. New market entrants have helped curtail the ever-present influence of social inflation and nuclear verdicts that we have seen in other lines and industries. However, insureds need to be aware of new exclusionary language that we have seen emerge for certain drug product classes. Professional liability rates are trending similarly to product liability rates.

Workers' Compensation

In 2023, workers' compensation rates remain extremely attractive, with most renewals being flat or seeing slight decreases.

Cyber

After a tumultuous period, the cyber liability market is showing signs of stabilizing. Carriers worked aggressively to correct premium pricing, and insureds implemented cybersecurity measures that are paying dividends in the form of fewer and less severe loss events. However, to get the best rates and terms for coverage, insureds that continue to invest in digital platforms for DCTs need to be able to demonstrate to underwriters the steps they are taking to mitigate a complex overlay of cyber risks.

Stock Throughput

Effective supply chain management and spoilage issues have always been preeminent risks for the life sciences industry. The COVID-19 pandemic offset serious supply chain bottlenecks that were further exacerbated by the Ukraine conflict, factors that upended the stock throughput marketplace. Fortunately, this line is showing signs of stabilization. Accounts with favorable loss history may see increases between 2% and 8%, while those with poor history are seeing rates closer to 15% and 25%. Due to the Ukraine conflict, be on the lookout for exclusionary language.

Intellectual Property

Intellectual property (IP) is the lifeblood of life sciences companies, and as such, more organizations are turning to insurance to preserve and protect their IP from financial loss. The IP insurance market is maturing to be able to meet the need and demand for the financial protection it can provide.

Property

The impacts of extreme weather events, inflation, supply chain issues, and a challenging reinsurance market continue to challenge the commercial property insurance market. Expect heightened underwriting scrutiny over the proper valuation of facilities and equipment. Rates will vary greatly by asset class, geographic location, and loss history.

Your Beacon of Opportunity

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Though there is plenty of insurance capacity for the life sciences industry and the sector is less challenged than others, organizations should strive to implement a comprehensive risk management strategy, regardless of insurance market conditions. Doing so better protects your organization from costly losses that could have a devastating impact on your balance sheet.

We recommend being as prepared as possible for your renewal by getting started on the process with your insurance advisor at least four months in advance. You will need time to gather data, implement loss controls, and package relevant information in a clear manner that is easy for underwriters to understand, especially regarding supply chain, cyber security, and product liability risks.

The life sciences industry is complex, and as such, it is supported by a multifaceted overlay of insurance products. As you navigate the nuances of the insurance marketplace for your company's specific needs, you will want to work with an insurance broker with proven expertise in both the life sciences and insurance industries – a generalist likely will not be well equipped to render optimal results.

Our team of experts has decades of experience crafting risk management strategies and placing insurance coverage for life sciences companies, at all stages of growth – from seed phase to FDA approval, and beyond. Should your operations span borders, our specialists have access to carriers with global reach. Our depth of expertise allows us to effectively communicate with wide-ranging stakeholders, such as clinicians, CFOs, and IT leaders, to help break down operational silos. We want to help you build a culture of safety that protects your bottom line, allowing you to focus on innovation and breakthroughs with global impact.

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