



January 28, 2026

To: General Liability Program Members

From: Gina Dean, CEO

Re: GL Programs Stakeholder Communication

We've all heard that doing the same thing over and over again and expecting a different result is the definition of insanity. As respects the general liability market, we continue to see the same factors that have created extreme hard market conditions - nuclear verdicts and settlements driven by (among other things):

- Legal system abuse
- Changes in the regulatory and legal environment
- Growing distrust of large corporations/government
- An increasing propensity to sue
- Courts/Juries favoring plaintiffs
- An extremely aggressive and organized plaintiffs' bar
- Third Party Litigation Financing (TPLF)

And while even the most optimistic among us don't expect much of a different result for this year's renewal (so not really meeting the definition of insanity) it is certainly enough to drive us all crazy!

The dramatic increase in severity losses that the industry has experienced over the last decade has caused the hard market conditions we continue to face has similarly impacted PRISM's GL programs as well. Our members have experienced the same sort of extreme large loss activity as others throughout the market, resulting in higher premiums in recent years. However, the ability to collectively retain more risk and the combined purchasing power of the group continues to produce a dramatically better result than what could be achieved through individual placements in the market. In what is a dramatically shrinking insurance market in terms of available capacity, just the fact that PRISM is able to purchase reinsurance, opens up additional markets that individual risks can't access. As the liability environment that we operate within continues to re-set, PRISM remains the best solution for California public entities.

As we work towards creating a different result, PRISM and our members continue to leverage our size and resources as a group to address these increasing costs by taking action to prevent, control, and mitigate losses. We are also actively engaging in efforts to affect positive legislative reform and helping oppose adverse changes. Lastly, we continue to communicate on the trends and issues that we are faced with so that we can effectively

explain them to our various constituents and provide a clear picture of what we are doing together to address them. The attached document is one step in that effort.

To further educate our membership regarding the challenges in the GL marketplace and the things PRISM is doing to take on those challenges, we plan to hold several Zoom meetings over the coming weeks during which we will discuss these issues in greater detail and answer any questions that members have after reviewing these materials. We are prepared to also have individual calls/meetings with members who may want assistance in preparing communications to their stakeholders. In the meantime, myself and the rest of the PRISM and Alliant staff stand ready to answer questions and assist any way that we are able.

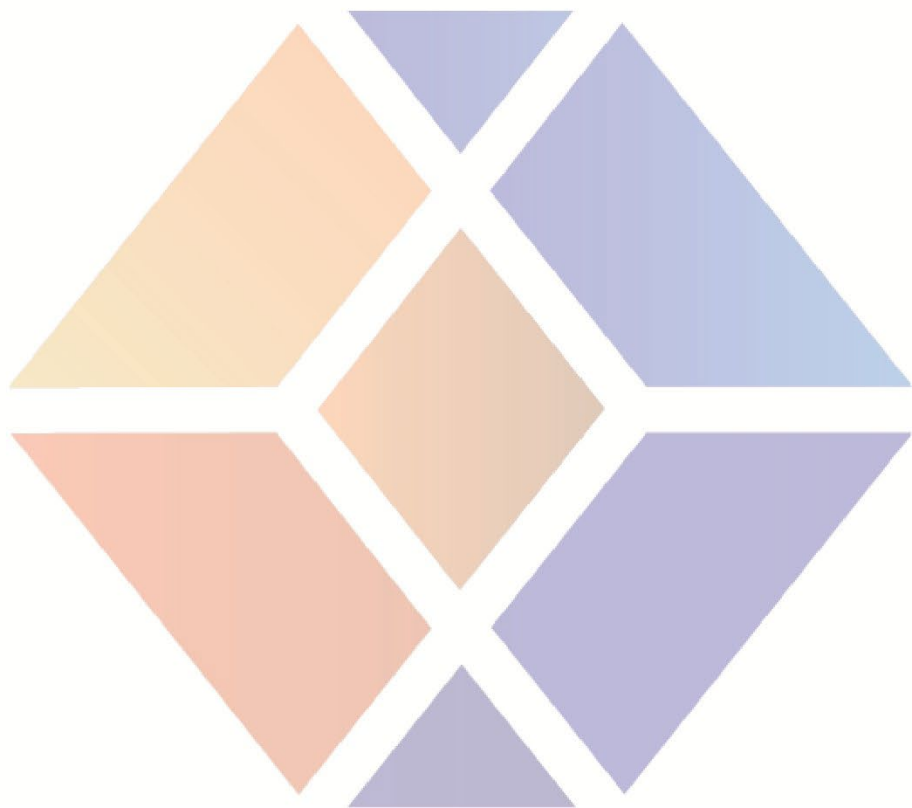
As noted above, the collective financial strength, expertise, and resources continue to make PRISM the best solution even, and perhaps especially, through these hard market conditions.

Please don't hesitate to reach out to us for assistance.

Sincerely,

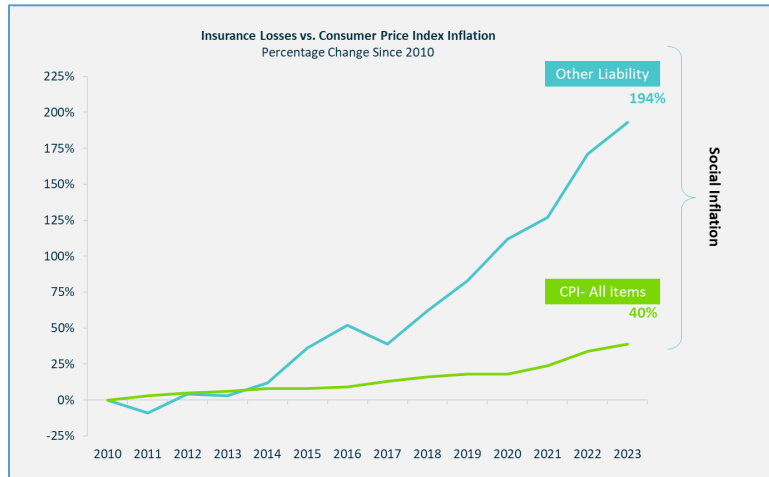
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Gina Dean



The same thing over and over

The Casualty insurance market continues to be extremely challenging, driven by the same factors that have caused the hard market conditions that we have experienced over most of the last decade. There has been a real shift in terms of available capacity, underwriters' appetite, and pricing adequacy. This shift is a result of the much higher volume of larger losses than in the past. In other words, the frequency of severity. The



Source: APCIA via BLS Federal Reserve Economic Data and S&P Global Market Intelligence.

Re, one of the world's largest reinsurance companies, noted that U.S. Liability claims costs rose by an annual average of 16% over that same time period. Unfortunately, social inflation is alive and well.

Nuclear/Thermonuclear Verdicts

Across the United States, nuclear verdicts continue to be a leading driver of the rising liability costs. The number of verdicts exceeding \$10M rose to 135 in 2024, representing a 52% increase from the prior year, and the total sum of all nuclear verdicts for the year was a staggering \$31.1B. The claim values are getting so big that the new category of Thermonuclear verdicts (those over \$100M) had 49 such claims in 2024 alone. Due to the various factors we will discuss later in this report (often collectively referred to as "social inflation"), the cost of claims is dramatically higher today than in the past. A very good example of this increase can be seen in 2 different "hot coffee" cases separated by 30 years. We probably all remember the original McDonalds case from the early '90s where a woman who had spilled a hot cup of coffee in her lap sued the hamburger chain, resulting in what was then a shocking almost \$3M award (\$6.4M in today's dollars). Fast forward to March of last year where a similar incident at a Southern California Starbucks resulted in a \$50M verdict. Even by Starbucks standards that is one expensive cup of coffee!

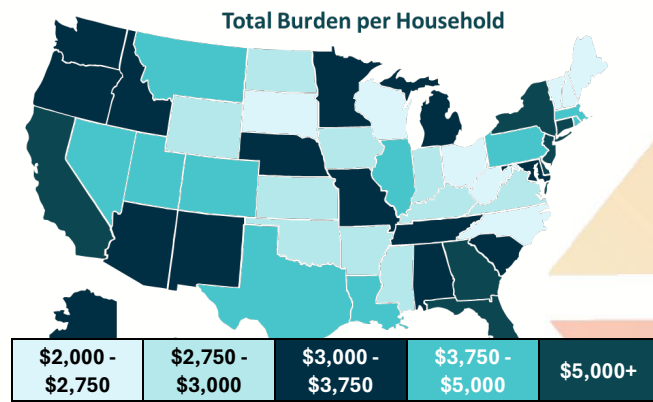
Larger Verdicts Lead to Larger Settlements

The size of these verdicts also drives much larger settlement amounts, further increasing the total cost of liability claims. Defendants facing skyrocketing demands and observing the verdicts described above often feel forced to settle at higher and higher values. No better recent example exists than the historic \$4B settlement that the County of Los Angeles agreed to in 2025 to resolve almost 7,000 claims of child sexual abuse tied to its juvenile detention facilities and the now-closed MacLaren Children’s Center foster care facility (a second \$828M settlement was reached for additional claimants later in the year). Claims for the abuse alleged to have taken place during the 1980s through the early 2000s were made possible due to AB 218, the so-called Reviver statute that temporarily extended the statute of limitations for survivors of childhood sexual abuse and permanently increased the statute going forward. The initial settlement of just over \$4B is the largest sexual abuse settlement in history.¹

While this is the biggest example, L.A. County is far from the only public entity impacted by AB 218. Although school districts have been especially negatively impacted by these revived claims, counties, cities, towns, and medical providers have also been impacted causing significant strain on budgets and detrimental impact on their ability to provide services. Many entities are resorting to creative financing to manage the financial impact. For example, in June 2025, the Los Angeles Times reported that the LAUSD Board had approved selling up to \$500M in bonds to help finance their own AB 218 related claims, which will add to the total claims costs but will spread the impact over 15 years and reduce the impact on its annual budget. And it’s certainly not just sexual abuse claims resulting in extreme settlement values. Just last month, the City of San Diego approved a \$30M settlement in a single plaintiff fatal police shooting case. Nuclear verdicts have certainly led to nuclear settlements.

Legal System Abuse

None of the above is to imply that legitimate victims don’t deserve appropriate compensation. However, the cost of that compensation has increased substantially and disproportionately over the last decade, with a significant portion of both jury awards and settlements going to those other than the plaintiff.



According to the latest research from the U.S. Chamber’s Institute for Legal Reform (ILR), costs and compensation in the U.S. tort system amounted to \$529B in 2022, equivalent to 2.1% of U.S. GDP and \$4,207, per American household.

¹ The County of Los Angeles is not a member of PRISM.

The study also found that **only 53 cents of every dollar go to plaintiffs**. The rest covers litigation costs and other expenses. These eye-popping numbers show that our civil legal system is: 1) expensive; 2) inefficient; and 3) broken. As a result, every household in the U.S. is footing the bill through higher prices on everything from household products to services to insurance costs.

Plaintiffs' Bar

If only 53 cents out of every dollar is going to the plaintiff, then the other 47 cents is making others rich...namely the Plaintiffs' Bar. The increased payouts severely impact defendants, as well as society (and for government agencies, ultimately the taxpayers), but are a massive incentive for the plaintiff bar to keep seeking cases and pushing for larger and larger outcomes. We have all been so inundated with the advertisements on television, radio, billboards, and the internet promising millions if you've been injured or wronged that we are likely desensitized to just how pervasive they are. The following facts about the amount of advertising done by the Plaintiffs' Bar are disturbing and, sadly, true:

- \$2.6B spent on almost 27 million plaintiff attorney ads in 2024
- \$11.3B spent in the 5-year period from 2020 to 2024
- A 39% increase over that time period
- States with the most money spent: CA, FL, TX, NY and GA
- Jurors concerned/influenced by advertisements = 90%
- 15.3X Result increase with attorney involvement



The Plaintiffs' Bar is not only interested in driving up verdicts and settlements, they are also very well organized and successful. They have developed proven tactics such as the Reptile Theory where they use juror anger to instill a sense of fear or danger in the juror's minds, so they lash out at the perceived attacker (i.e. the defendant) and/or use safety rules to divert the juror's attention away from the real legal standard. Another favorite and highly lucrative approach is the use of Anchoring. This involves the plaintiff attorney throwing out arbitrary and very high verdict values early and often throughout the trial process so that when it comes time for the jury to deliberate an award, the number that has been repeated by plaintiff's counsel throughout the trial seems reasonable and appropriate. Even if the jury doesn't award the entire anchored number, it is typically set so high that even coming off the number to perhaps "somewhere in the middle" still results in a largely inflated verdict. Jurisdictions are taking steps to address Anchoring, with 1/3 of the States now limiting Anchoring in some way (Campbell, Chao, & Robertson, 2017). Unfortunately, California is not yet one of them.

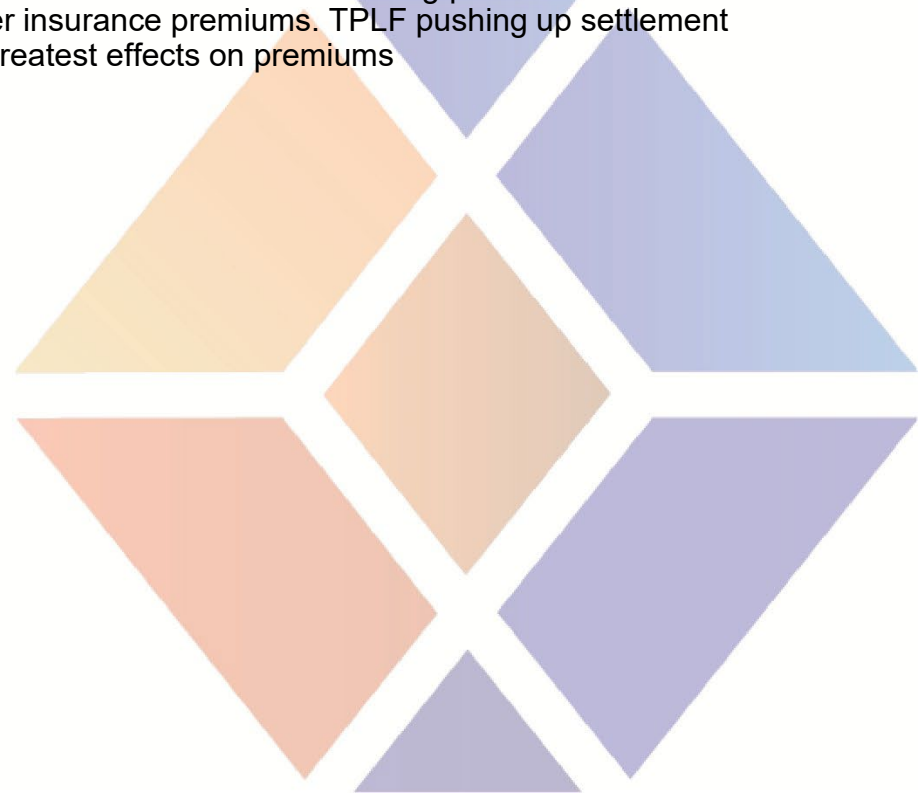
Third-Party Litigation Funding (TPLF)

It's not just the Plaintiffs' Bar that is investing in the outcome of these claims. Third Party Litigation Funding (TPLF), a rapidly growing, multibillion-dollar global industry allows outside investors to provide capital to a party (plaintiff or law firm) to cover legal expenses in exchange for a share of any successful settlement or judgment, operating on a non-recourse basis (no repayment if the case loses). This practice is purely speculative with the financiers betting on the outcome of the trial. While TPLF is often described by those

that partake in it as providing funds to enhance the pursuit of justice, in practice, it often has the opposite effect. By making it more likely that plaintiffs or their attorneys will have sufficient funding to prosecute even questionable claims at trial, third-party funding may create pressure on defendants to settle all but the most frivolous claims, and at amounts much higher than the probable value based on the merits. In fact, third-party funding is likely to encourage even the filing of frivolous lawsuits in cases where the potential payout is not very large.

Impact of Third-Party Litigation Funding

1. **Increasing the *volume of litigation*** - External capital through TPLF has enabled law firms – including small law firms – to expand plaintiff recruitment efforts through increased advertising
2. **Increasing *settlement values*** - Plaintiffs are seeking greater recoveries to satisfy their obligations to the funder. Because the rates of repayment are so high, plaintiffs are rejecting fair settlement offers to seek extra money to make up the amount they must repay
3. **Increasing *litigation costs*** - Since plaintiffs are receiving money up front, they have little incentive to settle a case early and reasonably, which leads to longer and costlier litigation. Businesses and insurance carriers will have to decide whether they are willing to pay more early on to resolve a case or pay the extra costs and expenses to litigate
4. **Increasing *frivolous claims*** - TPLF may incentivize plaintiffs to pursue frivolous lawsuits, especially in cases where the potential payout is very large, such as cases involving Commercial Auto and Umbrella policies.
5. **Increasing *premiums*** - The increased cost of TPLF is being passed down to the policyholder, resulting in higher insurance premiums. TPLF pushing up settlement and verdict size has had the greatest effects on premiums



Jurisdiction

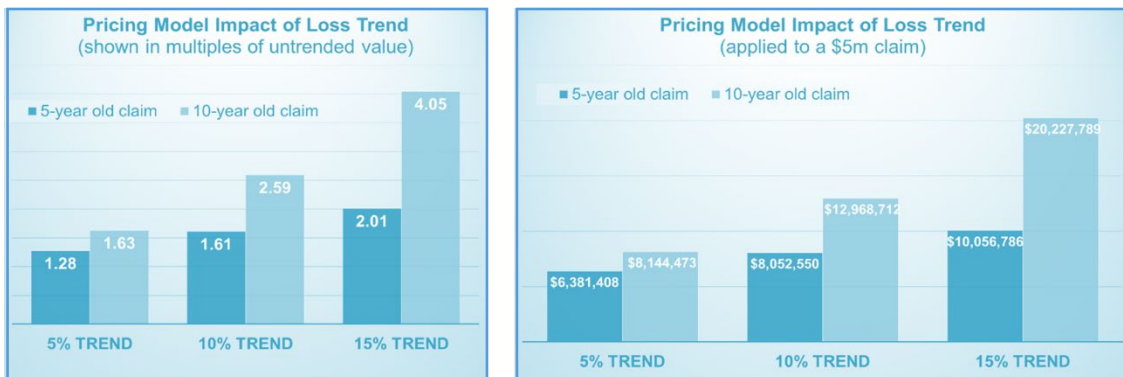
The jurisdiction within which we operate continues to have a significant impact on claims costs, and our jurisdiction continues to be among the worst in the country. Since 2002, The American Tort Reform Foundation's (ATRF) Judicial Hellholes® program has identified and documented places where judges in civil cases systematically apply laws and court procedures in an unfair and unbalanced manner, generally to the disadvantage of defendants. More recently, as the lawsuit industry has aggressively lobbied for legislative and regulatory expansions of liability, the Judicial Hellholes® report has evolved to include law and rule-making activity, much of which can affect the fairness of any given jurisdiction's civil justice climate as readily as judicial actions. At the right is the list of the top 10 Judicial Hellholes® for 2025/26. Unfortunately, as shown in the following, California has ranked in the bottom 5 (meaning the worst) jurisdictions for the last 8 years with Los Angeles taking the top spot this year.



For much more detail on the jurisdictions who made the ATRA list this year, the following link will take you to the full [2025/26 Judicial Hellhole Report](#). A very interesting and disturbing read.

Reserve Adequacy

The global consulting firm, Milliman, published research in 2025 showing that the cost increases described throughout this report caused U.S. casualty insurers to struggle with reserve adequacy in 2024. According to the study, insurers reported \$7.8B in adverse prior-year development across all liability lines in 2024, more than double the \$3.7B seen the previous year. Not surprisingly, this indicates that prior year pricing has proven to be inadequate against the rising costs of liability claims. As shown in the following graphs, this also impacts premium increases going forward as underwriters are forced to use higher and higher trend factors when forecasting future loss costs.

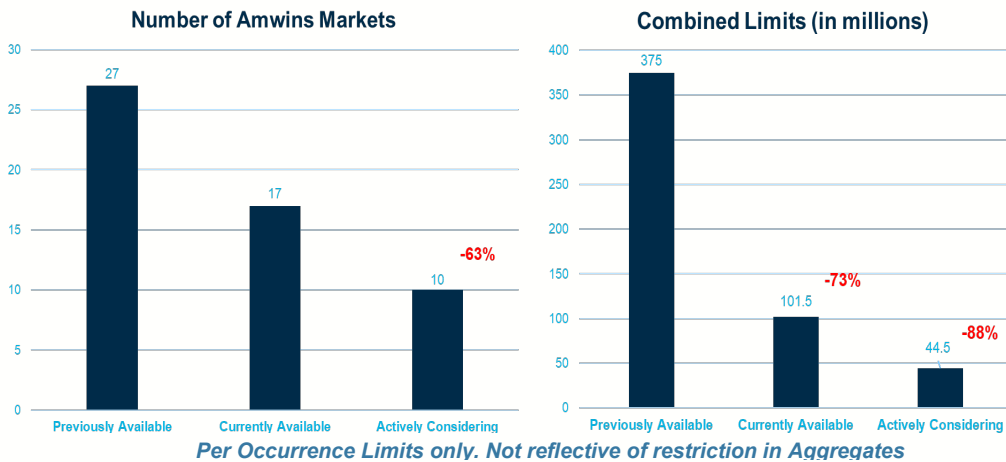


Trend, while warranted based on loss development in recent years, has an extreme impact on both analyzing prior year reserve adequacy and especially pricing new policy periods. Different carriers use different trend factors based on their own pricing and actuarial models. They range from 7.5% to as high as 12% to 13%. As shown above, an increase in trend has a magnified increase to the value of a claim as it gets older.

Capacity

All of the challenges described above occur to some degree or another all across the country. While California is particularly impacted, even those states with tort cap protection have been impacted as they experience accelerated migration of claims into federal courts where they are being pled as constitutional rights violations and can thereby avoid the state's tort caps. As we operate in a finite marketplace, everything so far discussed shapes the carriers appetite for writing business and has a negative impact on the amount of capacity available in the market. The following chart from AmWins (the largest wholesale broker in the U.S.) clearly shows the decline in available capacity over the last decade. In summary, this lack of capacity has led to the hard market conditions and dramatic premium increases we have experienced in recent years.

Domestic Capacity Historical vs. Current Public Entity Liability Market Participation *(*approximate 10 year to present)*



Working to Create a Different Result

While we continue to see the same thing over and over in terms of the factors driving the hard market, we are not just sitting back and hoping for a different result. Instead, we are working to create a different result. PRISM and its members continue to invest effort, time, and resources into different strategies to mitigate the increasing costs.

PRISM has always been proactive in managing the GL programs with our exposure and experience-based allocation approach to ensure an equitable distribution of costs amongst the members. This year, after months of analysis and work with the Underwriting Committee, the GL1 Program implemented changes to the allocation formula making it more responsive to losses by shifting more costs to those members that are hitting the Program with higher-than-average losses. The Program also negotiated a buy-down of the Pool layer with Chubb, generating protected surplus and protecting the Pool against downside risk of adverse loss development. The Program also invested heavily in the Benchmark Analytics Early Intervention System. Benchmark works with law enforcement agencies by using data science to transform how agencies measure and improve officer performance, wellness, and success. Their predictive analytics can help to identify and prevent loss scenarios before they occur. The GL2 Program introduced a corridor deductible into the \$10M xs \$15M layer to mitigate premium increase. It is also considering the use of Benchmark Analytics.

PRISM was also among the first Joint Powers Authorities (JPAs) in the nation to establish its own captive insurance company, PRISM ARC. The Captive has been used strategically to earn greater investment returns on monies held to pay claims in the group corridor deductible layers. Public entities are very restricted in what they can invest in, impacting overall returns. The Captive, while still very conservative, is not as restricted and can therefore generate higher yields. This is a benefit to PRISM members as it allows PRISM to discount the premiums to the members in anticipation of the investment returns.

The organization has also hired staff to assist in reducing the overall cost of risk in many different areas. PRISM's claims staff works closely with the members and their TPAs to accurately reserve open claims and to develop strategies to resolve them as cost effectively as possible. With the right facts and in the right circumstances, this can mean taking the case to trial and achieving a defense verdict. Other times, it is more cost effective to reach a settlement. Members can rely on PRISM staff's expertise to assist in making these decisions. PRISM staff see large, complex claims from all over the state and have relationships with complex claims resources at the carrier level. They are able to leverage this experience and expertise to assist in strategy, suggest expert witnesses and other resources, determine an appropriate case reserve, and advise on settlement negotiations.

PRISM is among the nation's few JPAs with internal actuarial staff and the only one we are aware of with its own Data Scientist. These specialized human resources leverage the massive volume of data that PRISM's Data and Analytics Department collects from the membership on a monthly basis to better predict future costs and identify loss trends. This trend identification allows PRISM's robust Risk Control and Member Services staff to tailor training and services to address problem exposures and developing member needs. As previously noted, a new service offering, Benchmark Analytics, is specifically designed to address one of the Program's lead loss drivers - law enforcement liability.

PRISM also takes an active role in the legislature. The Legislative Committee works with their lobbyists to oppose legislation beneficial to the Plaintiffs' Bar and support that which is helpful to the defense. In recent years, they have been successful in inserting immunities into numerous bills that otherwise would have created additional liability exposure for public entities. PRISM also works with other JPAs and associations to gather data to support legislative efforts.

At the recent PRISM Executive Committee and Committee Chair Retreat, a considerable amount of time was spent discussing how to best protect public funds against many of the issues discussed in this report. There was general support to invest heavily in efforts to promote tort reform and educate the public about the waste of taxpayer dollars. The Executive Committee will continue to advance these initiatives in future meetings.

Finally, PRISM and its broker, Alliant, have developed long-term relationships with excess insurance and reinsurance underwriters. They work throughout the year to not only maintain their participation on the program in a very difficult claims environment, but also to analyze structural changes and other strategies to make the overall cost as efficient as possible. This can include changes in the layering of the Program to maximize the available carrier capacity, as well as the prudent use of self-insurance in the pool layer and/or corridor deductibles, or PRISM quota share participation in the excess layers.

While PRISM's premiums will increase for 2026/27, the premiums are still less costly than an entity would likely be faced with outside of PRISM. A testament to the continued

competitiveness of the Program are the new members that join each year at considerable price savings compared to their other stand-alone or JPA options. In addition to premium savings, PRISM members enjoy broader coverage and avoid coverage restrictions and limitations that are often quoted outside of PRISM.

Member's Response

There are several steps that can, and should, be taken by members during these turbulent times.

1. First, communicate the state of the market to all your stakeholders, so there is an understanding that this is an industry-wide problem. We are happy to participate on conference calls or attend meetings to assist with this communication if so desired.
2. The severity of claims is on the rise. If you are not yet participating in the Optional Excess Liability (OEL) Program, consider doing so. This Program provides 3 options of additional limits in excess of the GL programs: \$10M, \$15M, or \$25M. Alliant will be prepared to offer another, higher layer of optional limits for those interested.
3. Anticipate an increase in your own SIR funding being suggested by your actuary.
4. It may be tempting to consider increasing your SIR to save premium dollars; however, this needs to be weighed against the increased cost to fund the higher SIR. In addition, given these new severity trends, all things being equal, the bias should be toward transferring risk due to the uncertainty of these changing claim trends.
5. Manage your individual risk by taking advantage of the best practices programs and service partner programs we offer. The cheapest claim is the one that didn't happen.
6. Vigorously defend the claims that are defensible.
7. In a hard market environment, the quality of loss data will undergo additional scrutiny. Make sure your data is in good condition.
8. Stay up to date on maintenance, inspections, and trainings.
9. Support legislative change beneficial to defendants.
10. Help educate the public that the costs of nuclear verdicts are not borne by the insurance industry, but rather by the public entities and ultimately the taxpayers.

The importance of #10 cannot be stressed enough. When members have high-value claims settle or awarded by verdict, it can be tempting to comfort constituents by letting them know "we're covered by insurance." However, the public won't ever truly understand the magnitude and impact of social inflation and nuclear verdicts if entities aren't forthright in acknowledging that these do in fact cost the entity, and ultimately the taxpayer, a lot of money. Please click [here](#) for sample language for your use in messaging.

Last but not least, PRISM Risk Control staff wants you to know that you are not alone while managing the multitude of risks facing your agency. Our team of specialists is here

to help, whether by providing direct consultation or connecting you with one of our trusted partners. Regardless of the topic, we encourage you to reach out to the Risk Control team for assistance with your organization's risk management challenges.

We would also like to call your attention to a few services and resources we think you should be taking advantage of:

General Liability

- *PRISM members are provided free access to our in-house [Labor Law/Employment Practices Services](#). The service provides members with unlimited telephone calls, email communications, and/or faxes to answer employment law questions as they arise. PRISM also provides step-by-step coaching and advice in a privileged context for employment law decisions and subsequent actions.*
- *Staff has developed [Resources](#) specifically for Law Enforcement. The online brochure is designed to be a one-stop-shop for law enforcement related resources including [Benchmark Analytics' Early Intervention System](#), POST approved training, [ConcernPlus First Responder Program](#) (an EAP of culturally competent clinicians, [Peer Support Services](#), and additional PRISM service partnerships.*
- *The [School Liability Handbook: Student Activities and Employment Issues](#) was created in conjunction with Lozano Smith, a law firm specializing in school liability legal services. The Handbook consists of 5 modules, such as School Activities and the Law and Employment Issues for School Districts.*
- *PRISM Partner, [Plexus Global](#), provides an electronic platform that allows employers to monitor employee driving records on demand and provides automatic e-mail notification when a reportable event occurs. The system also includes a record management system.*
- *PRISM staff developed a pair of resource documents designed to assist members with [Road Maintenance](#) risk. These documents include discussions regarding the use of Geographical Information Systems and other general design and maintenance best practices.*

Talking points for the GL Programs

Aggregate Claims Trends

- As both frequency and severity have risen for the GL programs, just like the general liability industry, the claims trend and lack of capacity will result in anticipated rate increases.
- The natural result of this significant change in losses is that PRISM has adjusted forecasts and rates to account for new loss trends, as have our carriers.

The total number of claims in the GL programs over \$1M in the last 5 years has more than doubled. This is a big indication of how jury verdicts (and settlements) are increasing!

Benefits of Being in a Pool

Economies of scale benefits

- Access to insurance options. PRISM's size provides more leverage in the insurance market. It also allows access to the reinsurance markets, which are not available to individual buyers, thus expanding the universe of available coverage options. PRISM has been able to leverage this access and the Program's premium volume to secure unique and beneficial reinsurance agreements.
- Maintaining broad coverage. Public agencies with stand-alone placements are seeing reductions in their coverage limits and/or exclusions. Although the GL programs continue to face the potential for coverage restrictions, PRISM has largely been able to maintain broad coverage in the programs.

Equitability

- PRISM's members with large loss experience have better coverage and premium options in the pool than finding coverage alone, but members with less severe loss experience also receive benefits from pooling as they are recognized and rewarded through premium reductions.

General Market and Program Information

- The size of our program, with 130 members, more than \$8.4B in payroll and 703,000 ADA, offers great purchasing power to our members and provides much greater stability than smaller programs or individual risks.
- The liability market continues to harden. We continue to see a significant increase in plaintiff demands and high dollar liability claims. Jury verdicts (and settlements) are much higher than they have been in years past and that is affecting the industry's surplus.
- There are many factors causing this including tactics plaintiff's counsel are using (such as the use of the Reptile Theory and Anchoring) to drive up claims' verdicts and settlements. The selection of appropriate defense counsel, who are experienced in dealing with these tactics, has never been more important.
- Markets continue to be more judicious with how and where they deploy their capacity and/or limit their exposure, with some leaving the market entirely. The overall "supply" of limits has been reduced by more than 50% in the last 5 years. The size, stability, and premium volume of the GL programs have attracted markets that may not consider participation otherwise.
- We have always been proactive in our management and funding approach, and this remains the same today. One of the strengths of the GL programs is the active

involvement of the Underwriting and GL2 Committees and their ability to be flexible. This approach often means modifying the program structure and the program's retained risk to keep premiums as low as possible for the members.

- We are not unique in experiencing rate increases for liability coverage as the claims environment in California and across the nation is increasingly adverse for public entities.
- Our membership has increased every year. This shows that the programs are still competitive in the market.
- The benefits of pooling shine brightest during a hard market when our economies of scale, our leverage in the reinsurance markets, and our sharing of best practices help our members manage risk.

