MARKETS IN FOCUS
REAL ESTATE

Insurance Pricing & Market Update

Q4 2022

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Introduction

Without question, the most significant insurance market impact of late 2022 was Hurricane Ian, with insured losses upward of $60B. Ian impacted the Southwest Florida coast on September 28, as a Category 4 hurricane with sustained winds of 115 mph and a storm surge of 10-15 feet. Nearly 150 fatalities were recorded, making this the deadliest hurricane to strike this area in more than 80 years.

Even prior to Ian, those in the direct and facultative (D&F) markets were advising clients to expect increases of 10-15% in their treaty renewals due to other storm and wildfire losses. Ian no doubt adds significantly to that pressure. Reinsurance rates are likely to increase by 20% or more, accompanied by a reduction in capacity.

Standard markets will attempt to "de-risk" their portfolios, and they'll give greater scrutiny than ever before to construction quality. The encouraging news for the market, as well as for insureds, is that structures built in accordance with the most recent building codes and those that were designed and sited to better withstand high wind and elevated surges exhibited limited damage from Ian.

Property owners will also need to be aware of several additional trends as they plan for 2023.

As standard market carriers pull back in the market and scale back their limits, insureds may need to seek out excess and surplus lines for adequate coverage and tap overseas markets (potentially paying steeper prices) to obtain additional, lower layers of coverage. Layering, in general, will be a critical strategy for obtaining the necessary coverage, and more carriers will be needed to reach the desired level of coverage.

Submissions, already a focus in a competitive and hard market will become more important in 2023, with a focus on quality and timeliness. Providing correct data, accurate valuations and compelling stories up front will be more important than ever to access the best capacity in the underwriting market.

Due to nuclear and cumulative verdicts, pricing for excess markets insurance to cover high-risk businesses in high-risk locations will escalate dramatically and even outpace increases in the general liability markets. Here too, overseas markets may step in to fill capacity gaps.

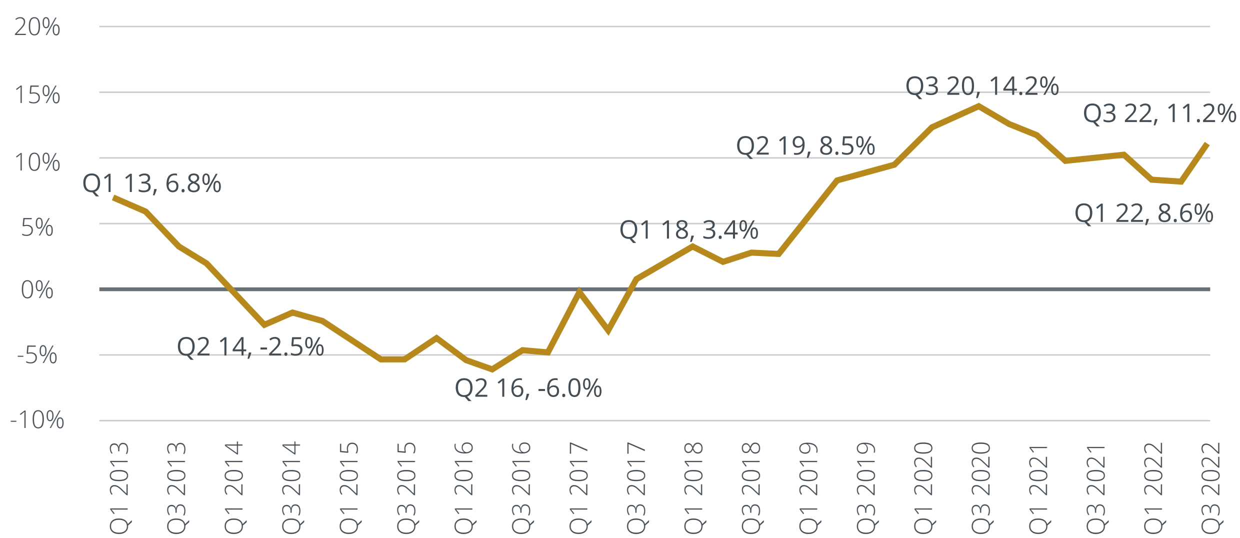
Finally, inflation is driving up replacement costs, so carriers will also look more closely at valuations, and rates will adjust accordingly with reported increases or decreases in valuations. Occurrence Limit of Liability Endorsement (OLLE) clauses will be even more commonplace in property insurance policies to protect underwriters from possible undervaluation of assets, in effect removing blanket coverage and only covering reported value. Depending on the carrier, the fine print in these endorsements may be modified to make them less onerous to the insured.

2H Outlook

PROPERTY

+ Rounding the corner of 2022, into 2023, the property market outlook is a little grayer. While we progressed through 2022 with slight decreases in rates, depending on the operations and geographic location, Hurricane Ian sent shock waves through the market.
+ With the property markets experiencing unexpected late-year struggles, especially with CAT-exposed areas, these performance factors have been exacerbated by underperformance, loss of confidence in modeling and especially in the last six months, inflationary pressures.[1]
+ Even before Hurricane Ian, there was an imbalance between supply and demand within the US wind CAT treaty market with rising demand and reinsurers looking to shed some of their exposure.[1] Capacity for CAT-exposed insurance portfolios are expected to diminish in the next year, making various Florida exposure potentially unaffordable.[1]
+ Inflation has had a large impact on construction costs, which have pushed underwriters to require higher valuations to write or renew property coverage.[2]

PREMIUM CHANGE FOR COMMERCIAL PROPERTY, Q1 2013 - Q3 2022



GENERAL PRICING ESTIMATES

Non-CAT exposed property with favorable loss history	10% to 15% increase
CAT exposed property with favorable loss history	15% to 25% increases
Property with unfavorable loss history and/or a lack of demonstrated commitment to risk improvement (unresolved recs, pattern of same issues, etc.)	10%+ increases for non-CAT 30% to 50%+ increases for CAT exposed accounts and higher depending on frequency/severity of losses and when there are limited markets for a risk due to occupancy/class of business or concerns related to loss control

CASUALTY

+ The Casualty market is in good standings with primary General Liability rates continuing to plateau for risks with favorable loss history. Carriers are looking for more history on loss information, along with details related to past losses and any subsequent changes made to prevent similar future losses.
+ Carriers are keeping a close eye on loss trends around the country, as court systems catch up to their pre-pandemic speed of operations. Carriers are preparing for large loss settlements and judgments from sympathetic juries, compounded more than ever with the pressure from social inflation.[3]

UMBRELLA/EXCESS

Carriers are looking to reduce capacity to protect against potential risks, some are providing limits as low as $5M and up to $15M, contrast to their traditional $25M. In turn, a stacking of insurance carrier tiers is now a necessity to achieve desired limits.

AUTO

Commercial Auto continues to be one of the most challenging lines of business. Due to nuclear verdicts, social inflation and carrier combined ratios greater than 100.0, carriers have been challenged by those who have large vehicle fleets. Demand for fleet monitoring technology has been on the rise and many auto carriers are investing heavily in telematics in hopes of improving loss ratios.[4]

WORKERS' COMPENSATION

Workers' Compensation is still one of the most profitable lines of coverage for carriers and pricing is fair for insurance purchasers with adequate capacity. Modification Factors and loss history will play a large factor in pricing, but carrier competition over accounts with adequate to strong loss history will continue to help pricing.

GENERAL PRICING ESTIMATES

General Liability	Up 5% to 15%
Workers' Compensation	Flat to Up 5%
Auto	Up 10% to 25% Up 30% if large fleet and/or poor loss history
Umbrella & Excess Liability – Middle Market	Up 10% to 25%+
Umbrella & Excess Liability – Risk Management and other Complex/Hazardous Exposures	Up 25% to 150%

EXECUTIVE RISK

D&O:

+ Over the past two years litigation has decreased in the D&O space, dismissal rates remain elevated and new capacity is entering the marketplace. Pricing for recent renewals has generally been more favorable than the past few years, this is more noticeable on excess layers of insurance.
  - Companies who are looking to IPO or de-SPAC transaction can continue to expect elevated pricing and retentions, but both are much more favorable than year ago levels.
  - D&O pricing is still largely dependent on a company's specific situation, therefore preparing the risk profile in the right way for D&O underwriters remains crucial.
+ The sharp decline in the number of IPOs and de-SPAC transactions in 2022 has contributed to improved pricing, which created a "hole" in the D&O carrier budgets that must be filled.
+ Looking forward over the remainder of 2022 and into early 2023, there is optimism that the trends we have seen over the last few months will continue to take hold, with additional pricing improvement and capital development.
+ An area that is under close watch is the shifting focus of the Security and Exchange Commission (SEC). In its most recent fiscal year, the SEC saw a record $6.4B in sanctions, which is ~40% higher than previous records.

Cyber:

The Cyber market suffered a shock in late 2021 and early 2022, premium increases hit their peak around Q4 of 2021 at 34.3%.[2] As carriers scrambled to contain losses, many began implementing strict risk control requirements for insureds.[2]

+ Premium pricing for Q3 2022 increased by 20.3%, which is notably down from the first two quarters of 2021 and the record high of Q4 2021.[2]
  - The premium increase of 20.3% is still the largest increase among all other commercial lines in Q3.[2]
+ Insureds will see stabilization in Cyber rates when they take a more aggressive risk management control posture and will show some relief.

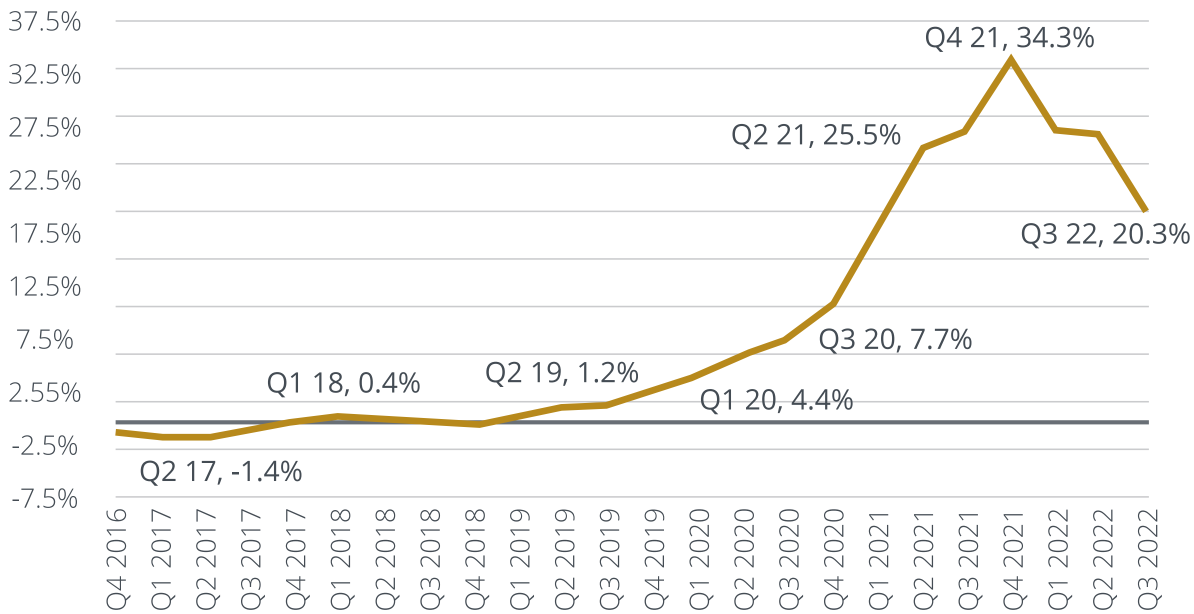
  Specific areas of focus:
  - Multi-Factor Authentication (MFA)
  - Remote Access
  - Privileged users
  - Enterprise implementation of Endpoint Detection & Response (EDR) solution
  - Data backup procedures:
  - Detection from the network or cloud-based
  - Encrypted
  - Restricted Access
  - Tested
  - Multiple Copies

+ Some carriers are implementing sublimits to specific coverages, such as ransomware/cyber extortion, insureds will see this on accounts with clean loss history, along with increased retention.[2]
+ Software patch management to ensure critical security patches are made within 30 days.
+ Insureds that do not have satisfactory control in place may see non-renewals or a reduction in coverage. This reduction comes in the form of sub-limits or co-insurance provisions.
+ Carriers are looking to reduce exposure to business interruption by reducing limits and increasing waiting periods – particularly true on contingent business interruption.
+ Carriers are seeing more submissions from clients who have previously declined the coverage due to all of the public discussion on ransomware and social engineering claims.[2]

GENERAL PRICING ESTIMATES

Professional Liability	Up 5% to 15%+
Cyber	Up 20% to 30%

PREMIUM CHANGE FOR CYBER, Q4 2016 - Q3 2022



Major Claims in the Sector

$37M VERDICT

A 22-year-old student who was attending an apartment party fell through a gap in the fire escape onto the second-floor roof, suffering spinal injuries and other injuries.[5] They were paralyzed from the waist down and require the use of a wheelchair and help from a daily aide.[5]

$91M VERDICT - PREMISES LIABILITY

The plaintiff entered a convenience store with only one employee present, and another store visitor attempted to rob the store of cash and cigarettes by threatening them with a baseball bat.[6] The store clerk told the plaintiff to call the cops, and while calling them, the robber pulled them out of their car and hit them with a baseball bat, bashing their skull. Cameras caught the incident.[5]

Guidance

BEGIN THE RENEWAL PROCESS EARLY

The **General Liability, Cyber, Excess/Umbrella** and **Property** markets are constrained and more challenging to navigate in the disciplined market. With an outcome of increasing prices across all lines of business and in every industry sector, brokers are being swamped with submissions from their insureds who want to minimize these additional costs.

PARTNER WITH INDUSTRY EXPERTS

It is important to work with your broker's industry experts who truly understand the business and the market for placing the specific risk. Collaborating with a team who can best represent your risk and partnering with your operations is more important than ever during this disciplined market we are experiencing.

HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

Frequent and severity of cyber claims are constantly on the rise, resulting in more underwriter scrutiny of companies' cybersecurity hygiene. **The importance of highlighting any additions in cybersecurity staffing or updated systems protocol cannot be overstated.**

ENGAGE LOSS CONTROL TEAMS

Frequent communication with your broker's loss control team is a top priority, especially when a claim arises. Engaging your loss control team in the event of a claim can help reduce the impacts to your business financially and operationally. We work with you to understand your financial goals and operational challenges so we can identify, develop and deliver Risk Control Solutions that strategically mesh with your objectives.

Sources
1 Target Markets: Four questions for the MGA market that need answering (insidepandc.com)
2 https://www.ciab.com/download/35895/?tmstv=1668540348
3 sotm_q2q3_2022_f.pdf (amwins.com)
4 What is a nuclear verdict and should you care? | CaseGlide
5 Top Premises Liability Judgments | Travelers Insurance
6 NLJ the top 100 verdicts of 2021 (travelers.com)

More Than Just Insurance

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