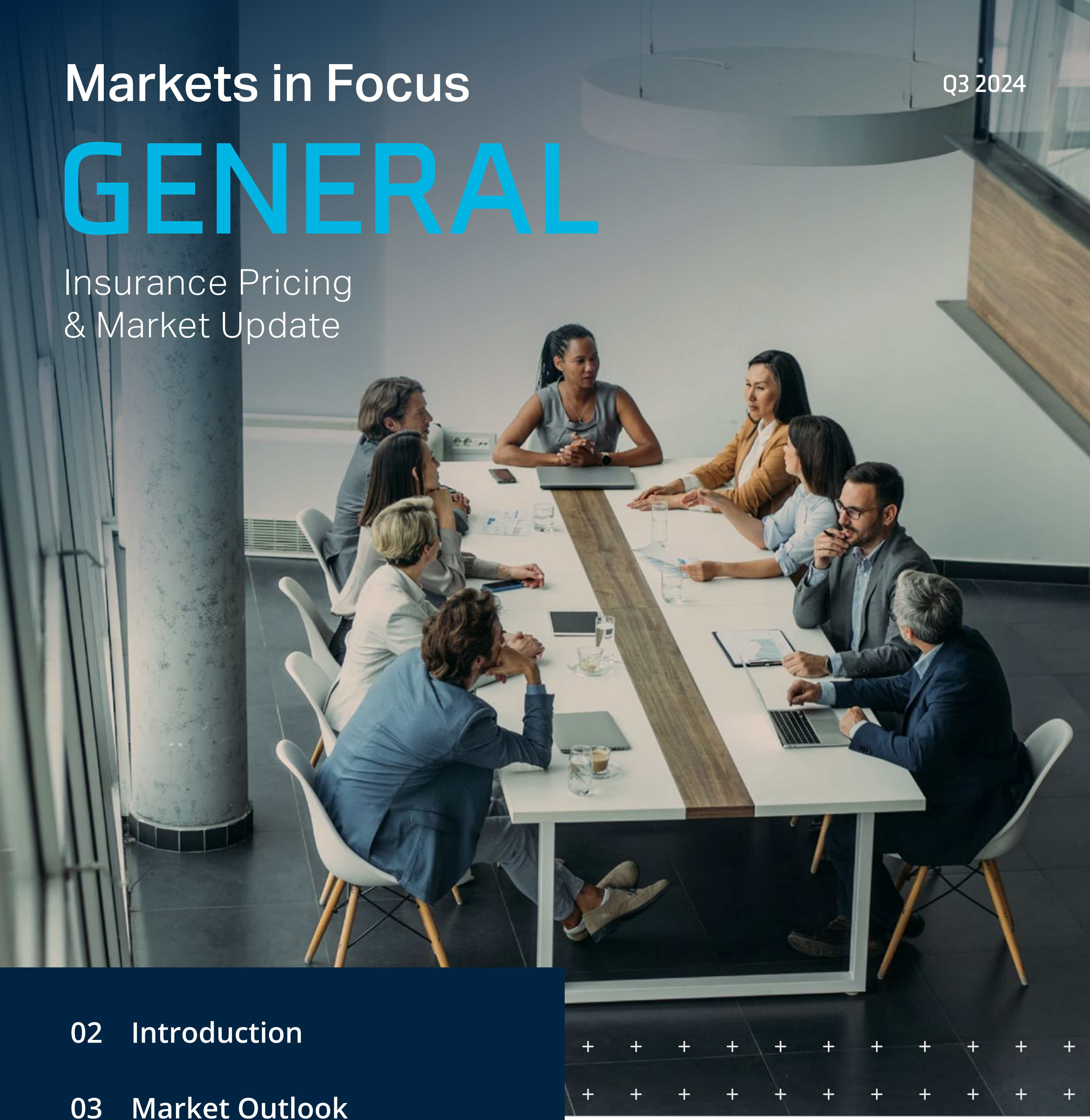
Markets in Focus

Q3 2024

GENERAL

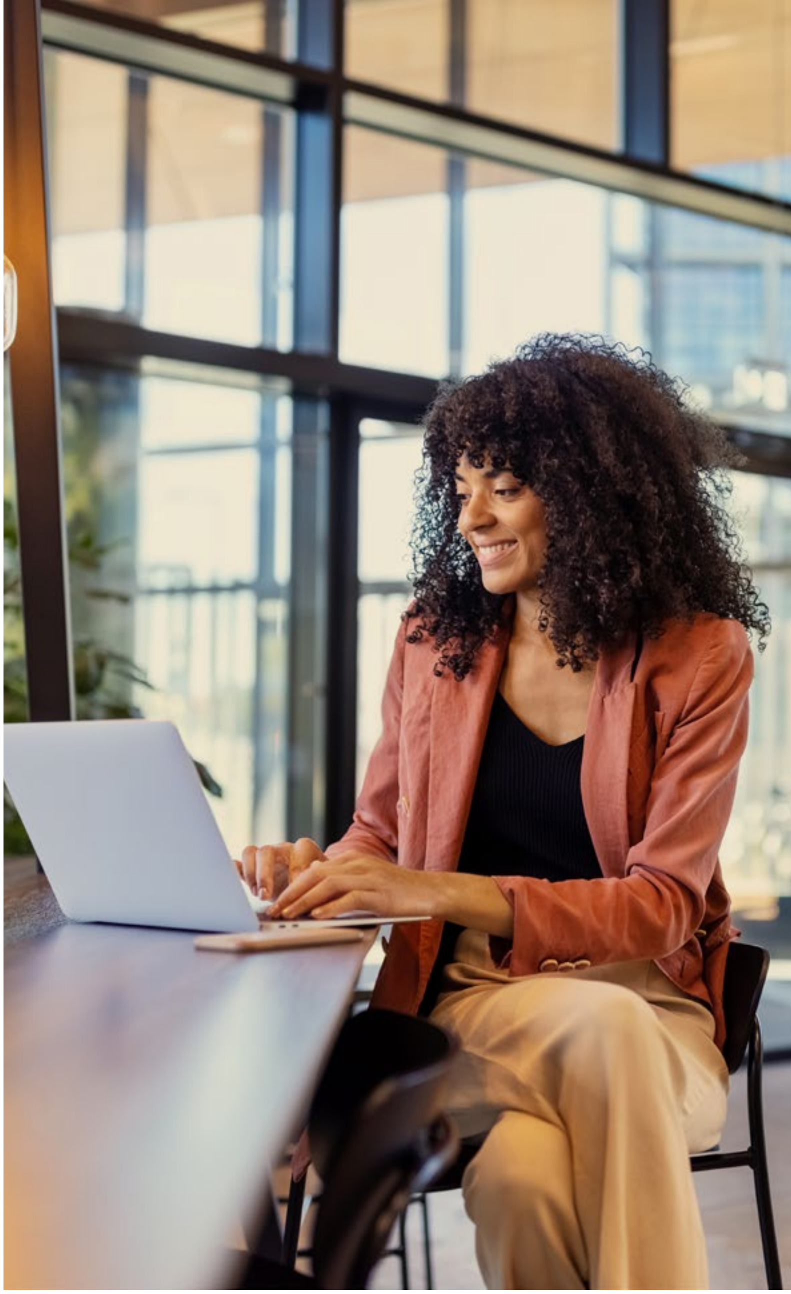
Insurance Pricing & Market Update



INTRODUCTION

The U.S. private passenger auto insurance market is projected to see a significant return to underwriting profitability in 2024, with S&P Global Market Intelligence (GMI) forecasting a combined ratio of 98.4, down from 104.9 in 2023 and 112.2 in 2022. As personal auto insurance comprises nearly 35% of overall property and casualty premiums, this turnaround is expected to drive the overall industry's underwriting profit.[1] Enhanced underwriting practices are anticipated to reverse the significant personal auto rate hikes implemented over the past three years.[2] Meanwhile, cost pressures in high-frequency excess reinsurance layers have led some carriers to increase retention levels slightly.[3]

In August, global markets experienced a sell-off, igniting fears of a recession among investors. As consumer spending weakens, companies are seeking assistance in adjusting to the softer demand. Hurricane Debby contributed to $89.5 million in insured losses, according to preliminary data from Florida's Office of Insurance Regulation.[4] The impact of a major cyber incident, linked to CrowdStrike, affected numerous industries, shifting claims focus from cyber policies to business interruption coverage.



MARKET OUTLOOK

PROPERTY

+ The unexpectedly intense start to the hurricane season has led to a reassessment of properties' insurance-to-value metrics, which continues to contribute to the activity in the property market nationally.

+ Q2 reported average premium increases across all lines were 10% or less, according to the Council of Insurance Agents and Brokers.[5]

+ Carriers continuously adapt to evolving weather patterns, influencing current and future policy renewals.

+ Limited carriers are present in the market to insure catastrophe prone areas with limited coverage limits and layered coverage.

+ To maintain coverage availability, ongoing weather events necessitate further refinements in underwriting practices, risk modeling, and diversified risk management strategies.

+ E&S Property carriers have greater confidence in their portfolios, anticipated reinsurance limits, and associated costs. In response, they strategically target premium and exposure growth, accompanied by a recalibration of pricing benchmarks. This approach has facilitated clients' ability to secure enhanced coverage limits, standardize terms and pricing across various placements, and frequently attain notable rate reductions.[6]

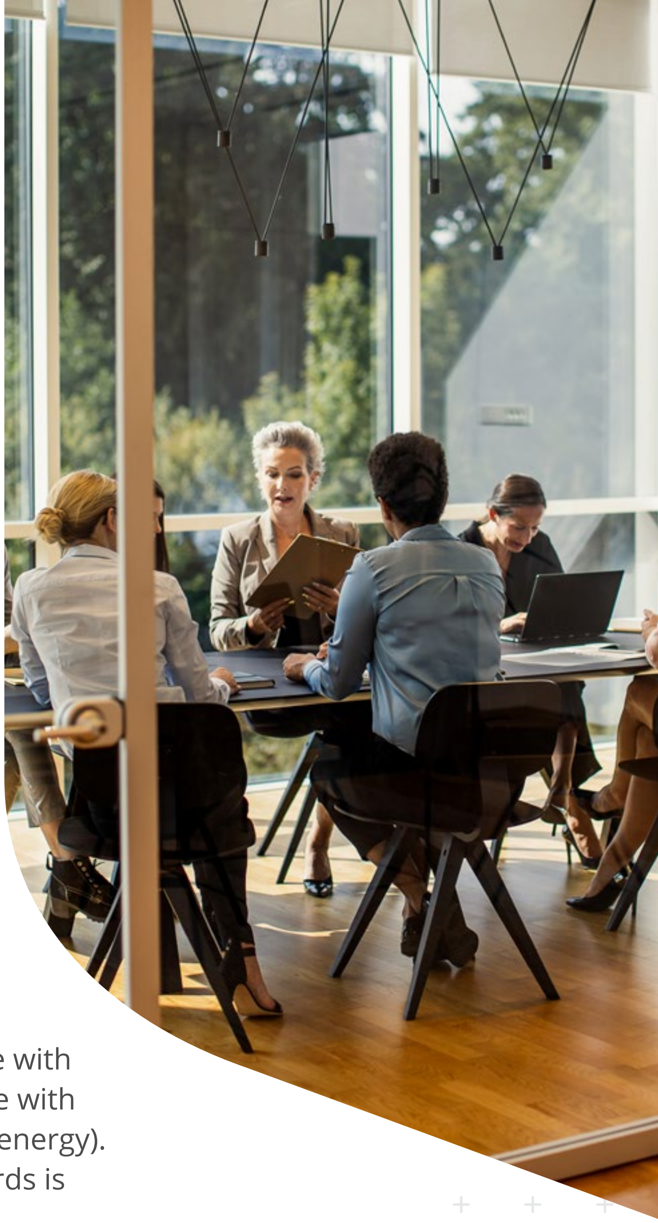
GENERAL PRICING ESTIMATES

Non-CAT exposed property with favorable loss history	Up 9% to 19%
CAT exposed property with favorable loss history	Up 20% to 29%

CASUALTY

General Liability

- Despite some concerns, the casualty market grew exponentially in 2023, with carriers writing business where profitability is expected, especially in manufacturing, commercial construction, and environmental industries.
- General liability (CGL) market is projected to remain challenging, with several key factors influencing pricing, underwriting, and overall market conditions. Premiums for CGL coverage are expected to rise driven by claims severity and ongoing inflationary pressures. Insurers are likely to maintain a conservative pricing strategy, particularly for business in high-risk sectors (e.g., construction, manufacturing, and energy).
- While rate increases are likely across the board, certain sectors such as hospitality, retail, and healthcare may see more significant hikes due to higher liability exposure, including rising litigation risks and worker-related claims.



Excess Liability

- Premiums for commercial excess liability are expected to rise with rate increases projected across most sectors, especially those with higher risk exposures (e.g. construction, transportation, and energy). The continued frequency of large claims and high injury awards is driving insurers to maintain elevated rates.
- Excess capacity exists up to $25 million in certain markets as carriers want to provide solutions to insure risks.
- Higher excess layers are becoming more expensive, and capacity is tightening as insurers reduce the amount of coverage they are willing to provide for high-risk industries.

GENERAL PRICING ESTIMATES

General Liability	Up 5% to 9%
Umbrella & Excess Liability	Up 1% to 9%

Workers' Compensation

+ Workers' compensation premiums have continued to decrease, and insurer profitability is on the rise as safety becomes a greater focus. This results in overall growth and can increase coverage availability.

+ In the past year, lost-time claim frequency decreased by 8%, continuing a long-term trend driven by improved workplace safety measures. These advancements, supported by evolving safety technologies, have contributed to consistent annual rate decreases across most U.S. states.[7]

Auto

+ The auto insurance sector faces significant challenges, particularly from nuclear verdicts and escalating medical costs. These nuclear verdicts remain prevalent in auto accident cases, contributing to the constrained availability of standalone auto insurance markets.

+ This is the first year since Q4 2022 where auto premiums increased greater than property at 9%.[8]

+ The projected slowdown in private auto premium growth is expected to bring down the annual growth rate of direct premiums in the U.S. property and casualty industry to mid-single digits between 2025 and 2028.

+ Enhanced underwriting practices are anticipated to rapidly mitigate the substantial personal auto rate increases implemented over the past three years.

+ Fitch reports that successive substantial hikes in auto premium rates have significantly contributed to recent improvements in underwriting performance. CPI data indicates that motor vehicle insurance costs increased by 50% over the three years from July 2021 to July 2024.[9]

GENERAL PRICING ESTIMATES

Workers' Compensation	Down 2% to up 9%
Auto	Up 9% to 20% Up 20% to 30%+ if large fleet and/or poor loss history

EXECUTIVE RISK

Cyber

+ The complexity of cyber risks and the volume of sensitive data in sectors such as manufacturing, healthcare, legal services, and technology necessitate the expertise of specialist cyber brokers.
+ There is a growing trend in enforcing and expanding data privacy laws, reflecting heightened regulatory scrutiny and compliance demands.
+ The cyber-attack on Change Healthcare has escalated financial impacts, with costs reaching $2.4 billion, underscoring the substantial economic consequences of cyber incidents in the industry.
+ Cyber insurers are increasingly eager to expand their portfolios, which could be reflected in the adoption of more lenient underwriting standards and an expanded appetite for risk.
+ Evidence suggests that insurers are becoming more willing to cover organizations lacking fundamental security measures, such as multifactor authentication.
+ Underwriters are demonstrating flexibility by enhancing coverage to secure or retain key accounts. There is a noticeable trend of insurers extending their services to smaller and larger organizations previously considered outside their risk appetite.
+ Unless a significant cyber event disrupts the profitability of cyber insurance portfolios, the current market trends are expected to persist through the third quarter.
+ Data breaches continue to be a critical issue, with a 14% increase in incidents in the first half of 2024 compared to the same period in 2023.[10]
+ Noteworthy breaches during Q2 2024 include Ticketmaster (560 million records), Advance Auto Parts (380 million records), AT&T (73 million records), and Dell Technologies (49 million records). The Financial Services, Healthcare, Professional Services, and Manufacturing industries were the hardest hit. The vast majority of breaches resulted from cyberattacks.

Directors & Officers (D&O)

+ Recent directors and officers (D&O) insurance renewals have seen more favorable pricing than last year, especially for post-IPO and post-de-SPAC companies.
+ Numerous D&O carriers and reinsurers have publicly expressed concerns about the unsustainability of current pricing levels. In a December 2023 market report, reinsurer TransRe criticized the D&O market as being "untethered from empirical data and unhindered by logic," resulting in inadequate pricing.
+ Current trends are anticipated to persist, with gradual pricing improvements and stable capital deployment throughout 2024.
+ The trends look optimistic as the year progresses, expecting further incremental pricing adjustments and sustained capital deployment stability.

MAJOR CLAIMS IN THE SECTOR

WRONGFUL DEATH

$15 MILLION VERDICT

The decedent was exposed to asbestos at his workplace and later developed mesothelioma, which led to his death. Jurors awarded $15 million.[11]

$68.5 MILLION VERDICT

The decedent fell while working on a townhouse balcony. His family sued numerous parties, alleging issues with the guard rail of the balcony and the provided safety measures for falls. Jurors awarded $68.5 million.[11]

$11 MILLION VERDICT

A plaintiff suffered a fatal injury due to a wasp infestation in a dog waste bag dispenser located in a common area. The plaintiff's complaint asserted that the defendant negligently failed to remove the wasp nest or implement preventative measures, such as poisoning the nest or installing wasp traps. Despite assurances that the hazardous condition would be addressed, the plaintiff was stung twice more in the exact location, with the final sting triggering anaphylactic shock, from which he never fully recovered. The plaintiff ultimately succumbed to his injuries. The case concluded with a settlement of $11 million awarded to the surviving spouse.[12]

GUIDANCE

BEGIN THE RENEWAL PROCESS EARLY

Partner with your broker early to prepare for any changes to increase renewal success.

PARTNER WITH INDUSTRY EXPERTS

When placing the specific risk, it is important to work with your broker's industry experts who understand the business and the market. Collaborating with a team that can best represent your risk and partner with your operations is more critical than ever in this disciplined market.

HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

We have a team dedicated to managing cyber risks. They offer expert assistance, including coverage analysis, economic loss exposure benchmarking, contract language review, in-depth cyber threat analysis, and strategic development of comprehensive, high-value cyber insurance programs.

CONTRACT REVIEW

Our contract review team adds value to our clients' overall risk management program by ensuring the indemnity language is market standard and doesn't expose our clients to unforeseen losses that may not be insurable.

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KEEP READING

PREVIOUS EDITION

GENERAL RISKS IN FOCUS

EMPLOYEE BENEFITS BLOG

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