WOODRUFF SAWYER

Commercial Lines Insurance Market Update

Third Quarter 2024

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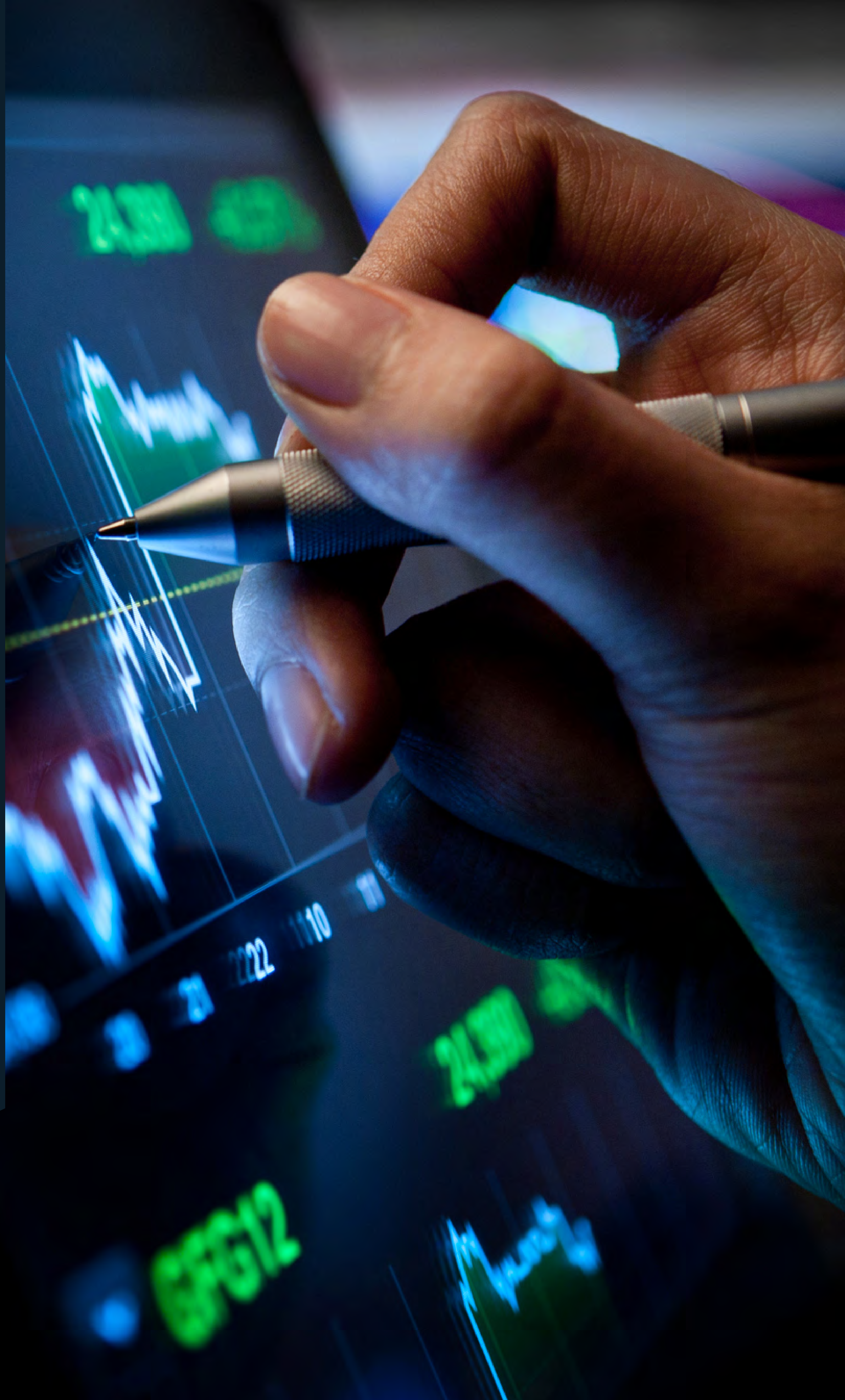

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Introduction

The good news for insurance buyers is that the North Atlantic Hurricane season has not significantly impacted property rates or coverage, and rates are continuing the trend of decreases that we noted in our last update. Insurance buyers can expect decreases across most lines of commercial insurance, including D&O, cyber, workers' compensation, and property if there isn’t a significant catastrophic exposure. The only segments of the insurance market that remain challenging are auto and excess casualty.

In this Q3 2024 *Commercial Lines Insurance Market Update*, we review insurance rates and pricing trends across various segments. Read on for more details by line of coverage.

Woodruff Sawyer

Commercial Market Update Snapshot: Q3 2024

Despite an increase in event frequency, the property market continues to soften. The North Atlantic Hurricane season has not significantly impacted rates or coverage, and buyers with a favorable loss history can expect rate decreases. Similarly, D&O and cyber insurance premiums continue to decline. However, the casualty market still faces rate increases in many areas, though workers' compensation remains profitable.

D&O

With an oversupply of insurance capacity and only a modest number of 2024 IPOs, insurers are still competing for public D&O renewal business, driving rates and retentions down for most companies.

Property

Each month produces better results than the prior, with new capacity driving competition in the property market. While 2024 has been an active catastrophe year, carriers' profitability and desire to grow have overshadowed losses.

Casualty

The casualty market remains challenging despite positive signs for certain lines of coverage. Auto, GL, & lead umbrella markets continue to experience rate increases due to adverse loss trends. WC has been consistently profitable and high limit excess is competitive.

Cyber

Systemic attacks are causing insurance carriers to hold the line on pricing. But competition between carriers continues to drive small rate decreases.

D&O: Market Update

OUR POV

With an oversupply of insurance capacity and only a modest number of 2024 IPOs, insurers are still competing for public D&O renewal business, driving rates and retentions down for most companies.

MARKET TRENDS

- Several market leading carriers are seeking pricing discipline, but new capacity continues to put downward pressure on overall rates.
- Even though there has been an uptick in IPO activity so far in 2024, many companies have taken a wait-and-see approach and deferred their public debuts to next year. Still, going public in 2025 will come with challenges, such as regulatory scrutiny, litigation risks, and changing economic conditions.
- From a macroeconomic perspective, global inflation continues to cool. The Fed made a 50-basis point interest rate cut in September and a 25-basis point cut in November, with more moves expected. As the Fed continues to lower interest rates, investors are expected to move more capital into equity markets in search of higher returns and growth opportunities.
- Geopolitical challenges including the wars in Ukraine and the Middle East will continue to loom large throughout the year.

CONTEXT FOR CURRENT TRENDS

- In 2023, the annual aggregate settlement dollar amount paid out was the highest it had been in 10 years. There were 93 settlements totaling $3.4B in 2023, a 42% YOY increase. Through Q3 2024, there have been 66 settlements totaling $3.0B, the third-highest total dollar amount paid out in the last decade.
- The likelihood of a public company being sued reached a record high of 5% in 2019, when 268 lawsuits were filed. The total number of suits declined each year from 2020 to 2022 but rose in 2023 when 189 cases were filed, a 12% YOY increase. Through Q3 2024, 161 cases have been filed, a 16% increase from the Q3 2023 number.
- Litigation is being driven by new and increased exposures, including cyber (data breach); privacy oversight (GDPR); derivative, bankruptcy, and regulatory concerns; ESG issues such as climate change; and COVID-19.
- Derivative actions are on the rise, with notable settlements (Walmart, Warner Bros. Discovery, Paramount Global, Cardinal Health, PG&E, Renren, Boeing, First Energy, American Realty, etc.) tapping “A Side-only” insurance.

3.4%
Likelihood of Being Sued
(first increase since the 2019 all-time high)

509
Number of Open SCA Cases Pending

$13M
2023 Median Settlement
(10-year average of $9.5M)

$37.1M
2023 Average Settlement
(10-year average $29.6M)

Property: Market Update

OUR POV

Each month produces better results than the prior, with new capacity driving competition in the property market. While 2024 has been an active catastrophe year, carriers' profitability and desire to grow have overshadowed losses.

MARKET TRENDS

- The property market continues to soften.
- Average rate changes are in the negative.
- Most property carriers remain profitable through the first 10 months of the year.
- Carriers are expanding lines on programs, in addition to expanding appetites.
- Opportunities exist to increase coverage at renewal.
- The North Atlantic Hurricane season has not significantly impacted rates or coverage.
- Valuation remains a concern, but trend factors have slowed significantly.
- Risk quality, risk improvement, and favorable business continuity plans drive better outcomes.

CONTEXT FOR CURRENT TRENDS

- Property carriers' profitability, desired growth, and a lack of major catastrophic events has led to increased competition throughout 2024. On average, we're seeing a negative rate environment, which is anticipated to continue into Q4 and 2025. Shared and layered programs are seeing much greater rate reductions than single carrier placements due to the removal of expensive capacity, restricting programs, and expanded lines from carriers.
- Competition on programs has created the opportunity to increase sublimits and, in some cases, reduce deductibles for well-performing accounts.
- There has been an increase in the frequency of events, particularly severe convective storms, such as tornados. Hurricanes Helene and Milton are anticipated to cost $25B–$50B in insured losses combined. However, neither have had a meaningful impact on the commercial property market.
- Carriers continue to emphasize relationships, risk quality/improvement, and differentiation when compared to the prior-year renewal.

Q4 2024 PROJECTED RATE CHANGES

-5% Non-CAT accounts with favorable loss history	**-2.5%** CAT accounts with favorable loss history
5%+ Non-CAT accounts with unfavorable loss history	**15%+** CAT accounts with unfavorable loss history

Cargo and Stock Throughput: Market Update

OUR POV

Increased capacity and well-performing books of business are leading to a continued "softening" of rates and appetite for growth within the cargo and stock throughput market.

MARKET TRENDS

- Markets are in growth mode and taking a more aggressive stance on both renewal and new business.
- With large growth targets to hit, carriers are reviewing their risk appetite. We are seeing more interest in areas that have historically been less popular, such as wine and retail exposure.
- Coverages are also slowly widening again as carriers begin to offer extended cover for additional premiums.
- As global conflicts in Ukraine/Russia/Belarus and Israel/Gaza continue, certain carriers are still offering coverage in these areas, at a healthy price.

CONTEXT FOR CURRENT TRENDS

- The cargo and stock throughput market is generally in a good place for both carriers and insureds.
- New entrants and the continued desire of incumbents to grow market share are generating competition within the market.
- Continued underwriter movement is fueling a broader market appetite.
- New MGA capacity, particularly in London, will commence underwriting from 1/1 and is looking to write larger line sizes, with fewer restrictions than their Lloyd's counterparts.
- Carriers have aggressive growth targets and are looking for ways to hit them.
- Fortunately, despite recent hurricanes Milton and Helene, the 2024 hurricane season has not produced as many stock losses as feared.
- Insurers continue to diligently analyze catastrophe exposures and insureds' building constructions and protection measures. Despite this additional focus, when strong information is provided, the CAT rating remains stable.
- Carriers continue to be cognizant of conflicts in Ukraine and the Middle East, recognizing the additional risks involved and their effects on global trade.

Q4 2024 PROJECTED RATE CHANGES

0%	10%–15%
Accounts with favorable loss history and a focus on risk management	Accounts with unfavorable loss history or those that do not meet rate adequacy for underwriters

Casualty: Market Update

OUR POV

The casualty market remains challenging despite positive signs for certain lines of coverage. Auto, GL, & lead umbrella markets continue to experience rate increases due to adverse loss trends. WC has been consistently profitable and high limit excess is competitive.

MARKET TRENDS

- Primary casualty insurers continue to seek rate increases on GL/auto overall for the 28th consecutive quarter to keep up with loss trends.
- High interest rates and insurer investment income is keeping workers' compensation competitive and profitable. Wage and medical inflation, the 24/7 exposure of remote work, and an increase in claim frequency with a return to offices may impact rates over time.
- The high excess market remains stable and competitive, given healthy capacity. Lead umbrella insurers continue to reduce capacity and achieve rate increases due to sustained large claim activity and limited competition.

CONTEXT FOR CURRENT TRENDS

- Large verdicts and liability settlements continue to impact the market as carriers experience adverse development on historical claims. Legal system abuse, litigation financing, and creative plaintiff tactics continue to put upward pressure on settlement costs to avoid unpredictable juries.
- Organizations with large auto fleets, high-hazard products, or significant premises exposures are facing difficult umbrella renewals. Using buffer layers to increase attachments can help mitigate premium increases.
- Anchoring auto liability, which has experienced rate increases for over 50 straight quarters, to a profitable line of insurance like workers' compensation may improve results in a difficult market facing rising claims costs.
- Enhanced technology in vehicles, coupled with supply chain issues, is resulting in increased auto physical damage claims. Longer repair times are also affecting supplemental claim costs like rental car reimbursement.
- Carriers continue to refine coverage terms and conditions. Insurers seek to apply exclusions for biometric data privacy, abuse and molestation, assault and battery, PFAS (forever chemicals), and sublimits for liquor liability.

By-Line Q3 2024 Rate Changes Ranged from -1.4% to +8.6%

	Auto	WC	GL	Umbrella
Q3 2024	8.5%	-1.4%	4.8%	8.6%
Q2 2024	9.0%	-2.2%	5.1%	7.2%
Q1 2024	9.8%	-1.8%	4.1%	7.0%
Q4 2023	7.3%	-1.8%	3.8%	7.6%
Q3 2023	8.8%	-2.0%	4.2%	7.4%

Source: CIAB Q3 2024 Rate Survey

Cyber: Market Update

OUR POV

Systemic attacks are causing insurance carriers to hold the line on pricing. But competition between carriers continues to drive small rate decreases.

MARKET TRENDS

- Systemic events in recent months (Crowdstrike, Change Healthcare, and CDK outage) are pushing losses higher for most carriers. Many are trying to hold the line on pricing and not provide decreased premiums.
- Competition between carriers remains high, which itself can result in lower premiums and rate decreases.
- The level of underwriting scrutiny can vary significantly across different insurers but remains high.
- Coverage restrictions remain for some:
  - Non-breach privacy (GDPR, CCPA, BIPA)
  - Dependent business interruption and system failure—largely sub-limited
  - “Systemic risk” exclusions

CONTEXT FOR CURRENT TRENDS

- Systemic events—a single attack or outage that ripples throughout many more downstream customers—have driven insurance carrier loss ratios higher.
- Early reports on reinsurance renewals coming this fall suggest that many carriers will be holding the line on rate decreases in response to these increasing loss ratios.
- Carriers have restricted wrongful collection coverage in response to claims activity.
  - Insurance buyers must demonstrate proper controls around obtaining consent and providing adequate disclosure to obtain non-breach privacy coverage.
- Artificial intelligence (AI) risk is a hot topic among clients—but the use of AI has minimal impact on overall cyber risk. There are privacy considerations to keep in mind, and the use of AI can impact the severity of your loss, but underwriter questions on this topic remain infrequent.

CYBER LOSS STATISTICS

$400M–$1.5B

Estimated insurable losses due to Crowdstrike event

Source: CyberCube

$2.3B–$2.45B

Estimated loss due to Change Healthcare ransom attack

Source: United Health Group

About Woodruff Sawyer

As one of the largest independent insurance brokerage and consulting firms in the US, Woodruff Sawyer protects the people and assets of more than 4,000 companies. We provide expert counsel and fierce advocacy to protect clients against their most critical risks in property and casualty, management liability, cyber liability, employee benefits, and personal wealth management. An active partner of Assurex Global and International Benefits Network, we provide expertise and customized solutions to insure innovation where clients need it, with headquarters in San Francisco, offices throughout the US, and global reach on six continents.

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