WOODRUFF SAWYER

Commercial Lines Insurance Market Update

Fourth Quarter 2023

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Executive Summary

Commercial insurance pricing trends in the fourth quarter followed the same pattern buyers experienced through most of 2023. Property premiums have finally started to moderate—this is a trend we noticed earlier in 2023 and we were watching the Atlantic hurricane season to see if storm losses would reverse the trend. The good news for insurance buyers is that the hurricane season was relatively mild. Insurers have found profitability in this line, and we've heard that no insurer had trouble finding capacity in their January 1, 2024, property reinsurance treaty renewals. We expect these factors to lead to the continued trend of moderating property premiums.

We are characterizing the casualty segment as stable. Auto continues to be a difficult line for all insurers due to frequent losses that are increasing in severity. This trend is also impacting premiums for lead umbrella placements, where rates continue to increase. Of all the various segments of the casualty market, workers' compensation continues to deliver profitability and is the bright spot for commercial insurance buyers, who can expect rate decreases in this line.

The trend of decreasing D&O premiums continued in Q4 and is expected to continue in 2024. Insurers have been signaling that loss costs are increasing in this segment, and the number of public company security claims seem to support this assertion. Securities claims reached their record high in 2019 and dropped every year until 2023, when the number of public company suits increased 12% from 2022. Capital, much of which entered the market when premiums were high in 2021, is still plentiful in this segment. We believe this abundance of capital will be the moderating force that will keep premiums from increasing in 2024 despite increasing loss costs.

Cyber was another segment where buyers experienced premium decreases in Q4. Despite falling premiums, insurers have restricted coverage in several critical areas depending on their perception of the level of risk. Ransomware activity set record highs in 2023, so a less favorable pricing environment may be on the horizon.

Woodruff Sawyer:
Commercial Market Update Snapshot

Carrier competition continues to put downward pressure on rates in the D&O and cyber markets, although increased cyber claims may soon change the direction of pricing. The casualty market remains stable, with workers' compensation continuing to remain profitable. Property rates are moderating, but war in the Middle East may lead to limited capacity for insureds with exposures in the region.

D&O

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

Property

After another profitable year for insurance carriers, we are seeing property rates moderate. Certain perils pose challenges, so there will continue to be a bifurcation of outcomes in the market. Portfolios with exposure to Israel may see reductions in available limit or meaningful premium increases.

Casualty

The casualty market remains stable. WC is profitable and continues to see rate decreases, and the pace of GL rate increases is decreasing with rate adequacy and competition. The auto market remains distressed. Lead umbrellas are challenging, while high excess continues to be competitive.

Cyber

Pricing in the cyber market continues to decrease. However, increased claims in 2023 portend fewer decreases on the horizon.

D&O: Market Update

OUR POV

With an oversupply of insurance capacity and few 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 have signaled that while current pricing is sustainable, they are not willing to chase the market below current levels.
- While many markets are eager to see pricing discipline, there is still too much capacity, which will continue to put downward pressure on rates.
- With interest rates expected to fall in 2024, equity markets hitting all-time highs, and data indicating private equity funds have held investments longer than normal, there is cautious optimism for the IPO market in 2024.
- Macroeconomic challenges that were in focus for the past few years (inflation, higher interest rates, threat of recession) were mostly resolved in 2023. Geopolitical factors, including the wars in Ukraine and the Middle East as well as numerous pivotal elections around the globe, will loom large in 2024.

CONTEXT FOR CURRENT TRENDS

- In 2023, the annual aggregate settlement dollar amount paid out was the highest it has been in 10 years. There were 93 settlements totaling $3.4B in 2023, a 42% increase over 2022 settlement dollars. With 480 open cases yet to be resolved, 2024 could be another notable year in total settlement dollars.
- 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 dropped to 210 in 2020, 182 in 2021, and 168 in 2022. In 2023, 189 cases were filed, a 12% increase over the 2022 number and the first increase since 2019.
- 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 (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)

480
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

After another profitable year for insurance carriers, we are seeing property rates moderate. Certain perils, such as convective storms and flooding, pose challenges, so there will continue to be a bifurcation of outcomes in the market. Global portfolios with exposure to Israel may see reductions in available limit and/or meaningful premium increases.

MARKET TRENDS

- Rates are stabilizing, although carriers are cautious.
- Adequate catastrophe premium continues to be a focus for carriers.
- Reinsurance renewals were orderly at 1/1/2024.
- Material and labor costs are stabilizing trending, on average, at +2% year over year.
- Capacity in Israel may be challenged as the war continues.
- Risk improvement remains a key aspect of differentiation.
- Relationships and in-person meetings are yielding more favorable outcomes.

CONTEXT FOR CURRENT TRENDS

- 2023 was another profitable year for most property carriers. Two to three years of profitability is leading to aggressive growth goals for property carriers, and they can't rely as heavily on an uplift in replacement values. As such, an increase in competition will help achieve more favorable renewals than experienced in years past.
- Severe convective storms (SCS) represented ~60% of insured natural catastrophes in 2023. Property carriers will be intently focused on limits and deductibles for insureds that have exposure to SCS.
- Flood will also be a peril of focus throughout 2023 as more precipitation occurs, particularly in coastal cities.
- For more favorable renewals, insureds should demonstrate year over year risk improvement.
- Stock throughput programs have been financially beneficial in past years. Bringing that exposure back into property programs may be advantageous.

Q1 2024 PROJECTED RATE CHANGES

2.5%–7.5% Non-CAT accounts with favorable loss history	**7.5%–12.5%** CAT accounts with favorable loss history
20%+ Non-CAT accounts with unfavorable loss history	**30%+** CAT accounts with unfavorable loss history

Cargo and Stock Throughput: Market Update

OUR POV

Additional capacity, which generates competition, and an orderly reinsurance renewal season continue to stabilize the cargo market into 2024. The war in Israel has led to some cancellations of coverage in the region and/or additional information being requested, with a corresponding premium increase.

MARKET TRENDS

- Reinsurance costs for 2024 were moderate.
- Catastrophe exposure remains a focus.
- A vast amount of capacity in London, with 7 new entrants in the past 18 months.
- As has become customary, cargo underwriters require detailed COPE information and surveys of larger locations in addition to confirmation of risk improvements.
- Given the mounting pressure in the Middle East, underwriters are scrutinizing exposures in Israel and Gaza.
- Capacity and competition remains strong, with new MGAs/MGUs offering alternative capital sources.

CONTEXT FOR CURRENT TRENDS

- A "softening" cargo market will continue to be a source of relief for clients affected by the hardening property market, further highlighting the benefits of STP alternatives.
- Underwriters are using their creative flair by providing different options to insureds to help secure a good, profitable, well risk-managed business.
- Insurers continue to analyze catastrophe (CAT) exposures as the frequency and severity of CAT events rise. Despite this additional focus, CAT rating remains stable.
- Israel/Gaza: Exposures are being scrutinized by underwriters, given the mounting pressure the region faces.
- Red Sea: Conflict in the Middle East is disrupting global trade. Insurers continue to assess exposures in the region with consideration given to reduced coverage or increased premium for War & Strikes risks.
- Ukraine/Russia/Belarus: Many reinsurers continue to exclude coverages for Russia, Ukraine, and Belarus as the war continues. Certain carriers are still offering coverage, at a price.
- Supply chain disruptions: Requests for increased policy limits coupled with enhanced, client tailored coverages during this time will remain a feature.

Q1 2024 PROJECTED RATE CHANGES

0%–5%	10%–20%
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 stable.
WC is profitable and continues to see rate decreases, and the pace of GL rate increases is decreasing with rate adequacy and competition. The auto market remains distressed. Lead umbrellas are challenging, while high excess continues to be competitive.

MARKET TRENDS

- Primary casualty insurers continue to seek rate increases on GL/auto overall for the 25th consecutive quarter to keep up with loss trends.
- Thanks to high interest rates and insurer investment income, workers' compensation remains the most competitive and profitable line of coverage. Wage and medical inflation, the 24/7 exposure of remote work, and an increase in claim frequency from a return-to-office push may impact rates in time.
- The high excess market remains stable and competitive, given healthy capacity. Lead umbrella insurers continue to 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 many cases work their way through a backlogged court system. Social inflation, litigation financing, and creative plaintiff tactics continue to put upward pressure on settlements as insurers rush larger payouts 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, and PFAS (forever chemicals).

By-Line Q4 2023 Rate Changes Ranged from -1.8% to +7.6%

	Auto	WC	GL	Umbrella
Q4 2023	7.3%	-1.8%	3.8%	7.6%
Q3 2023	8.8%	-2.0%	4.2%	7.4%
Q2 2023	10.4%	-0.7%	5.2%	8.1%
Q1 2023	8.3%	-0.5%	4.6%	8.5%
Q4 2022	7.3%	-1.1%	4.9%	9.6%

Source: CIAB Q4 2023 Rate Survey

Cyber: Market Update

OUR POV

Pricing in the cyber market continues to decrease. However, increased claims in 2023 portend fewer decreases on the horizon.

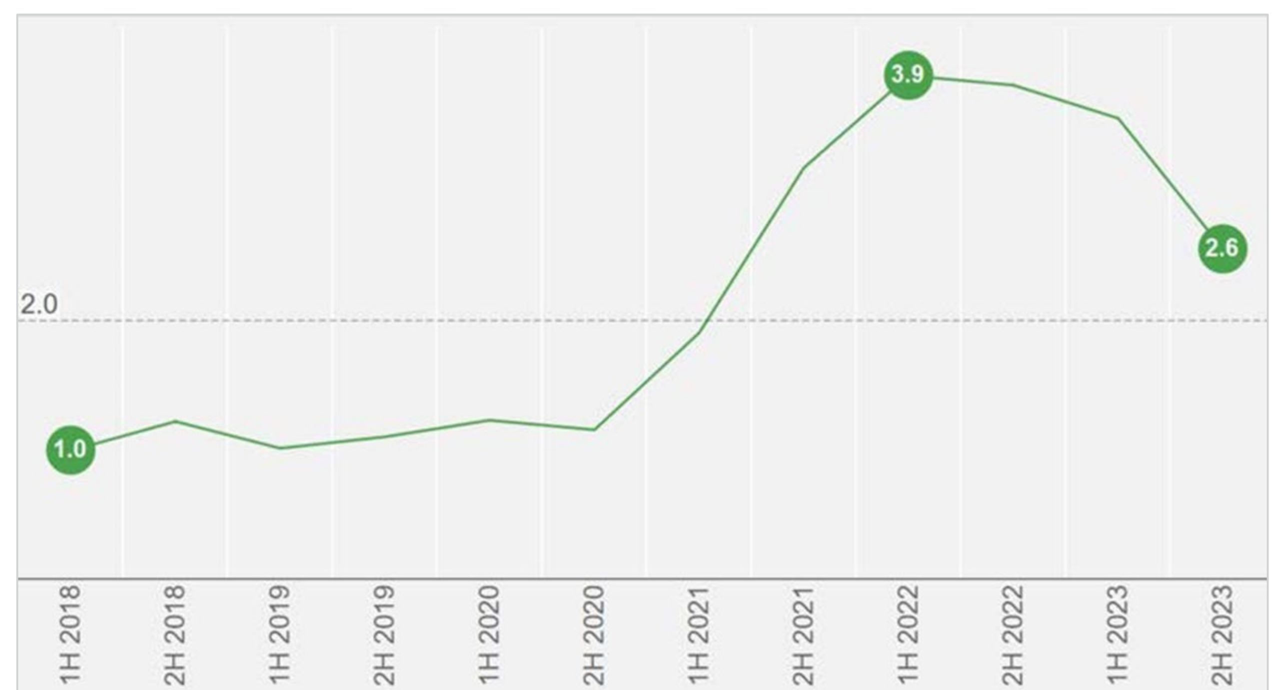
MARKET TRENDS

- More carriers are competing for primary and low excess placements.
- 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 sublimited
  - “Systemic risk” exclusions
- There is significant focus on the application of the war exclusion for nation-state-backed cyberattacks.

CONTEXT FOR CURRENT TRENDS

- Carriers have restricted wrongful collection coverage in response to claims activity.
  - There is increased attention on pixel tracking and similar data tracking technologies.
  - Insurance buyers must demonstrate proper controls around obtaining consent and providing adequate disclosure to obtain non-breach privacy coverage.
- Ransomware claims activity set record highs in 2023—this portends a more level market with fewer rate decreases as the year progresses.
- 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 Pricing Index, 2018–2023



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