WOODRUFF SAWYER

Commercial Lines Insurance Market Update

Third Quarter 2023

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Executive Summary

Third-quarter headlines in the insurance market are typically dominated by the Atlantic hurricane season. This year's hurricane season has been relatively benign—instead, the focus has been on the casualty market. Casualty rate increases had started to level off in late 2022, but they ticked up again in Q2 2023, particularly in auto and excess casualty, and this trend continued into Q3. Many insurers specifically mentioned casualty as an area that requires continued attention in Q3 earnings calls—the main culprit they cite for continued rate increases is social inflation.

Although the Atlantic hurricane season was mild, the property rate increases we've seen in the first half of the year continued into Q3 and are expected to continue into 2024. The mild hurricane season isn't helping the property market because losses have been driven by secondary perils, which include hail, tornados, and severe wind.

On a more positive note, favorable market conditions for insurance buyers continue in the directors and officers (D&O) and cyber segments. D&O premiums continue to fall despite the fact that 2023 looks like it will be a record-breaking year in terms of securities claims settlements. Many insurers have been warning that the current rate environment is unsustainable based on developing losses, but the abundant capacity is keeping premiums low.

Cyber is the other segment of the market where premiums continue to decrease. Much like D&O, insurers are raising concerns, particularly around the increase in ransomware attacks throughout 2023.

Woodruff Sawyer:
Commercial Market Update Snapshot

Carrier competition continues to put downward pressure on rates in the D&O and cyber markets. The casualty market remains stable. We're also seeing stability in the property segment despite higher reinsurance costs causing carriers to pass on rate increases to insureds. In the cargo and stock throughput segment, the war in the Middle East has led insurers to scrutinize their 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

While property insurance carriers continue to seek rate increases in combination with adequate valuations, we are seeing rates stabilizing. The frequency and severity of natural catastrophes continue to pose challenges. Meanwhile, standalone catastrophe coverage is trending upwards.

Casualty

The casualty market remains stable. WC remains profitable and continues to see rate decreases, and the pace of GL rate increases has slowed with rate adequacy and competition. The pace of auto rate increases, however, is trending up. Lead umbrellas remain challenging, while high excess continues to be competitive.

Cyber

After two years of rate increases, pricing continues to decrease as more carriers compete.

D&O: Market Update

OUR POV

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

MARKET TRENDS

- A market-leading carrier has signaled that while current pricing is sustainable, it is 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.
- Recent IPOs were expected to deliver a big boost to what has so far been a lackluster IPO year, but through the third quarter, that hasn't happened.
- Challenges for businesses (inflation, higher interest rates, the threat of recession, the wars in Ukraine and the Middle East) are still present, but there is some cautious optimism for Q4 2023.

CONTEXT FOR CURRENT TRENDS

- Securities class action severity remains high. There were 92 settlements totaling $2.4B in 2022, exceeding the 2020, 2021, and 10-year medians. With $3.9B in settlements through Q3 2023 and 472 open cases yet to be resolved, 2023 is shaping up to be a record-breaking 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. Through Q3 2023, 140 cases have been filed, a 9% increase from the number filed through Q3 2022.
- 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.

3.0%
Likelihood of Being Sued
(decline for 3rd year in a row after 2019 all-time high)

472
Number of Open SCA Cases Pending

$12.8M
2022 Median Settlement
(10-year average $8.8M)

$25.5M
2022 Average Settlement
(10-year average $28.5M)

Property: Market Update

OUR POV

While property insurance carriers continue to seek rate increases in combination with adequate valuations, we are seeing rates stabilizing. The frequency and severity of natural catastrophes continue to pose challenges. Standalone catastrophe coverage is trending upwards, and without any significant capacity entering the market, that trend will continue into 2024.

MARKET TRENDS

- Catastrophe premium continues to be costly.
- Reinsurance changes at 1/1 added higher costs and more exposure onto insurance carriers' balance sheets.
- Material and labor costs are stabilizing, trending, on average, at ~4% year over year.
- Insureds are considering more options around deductibles and policy limits.
- For most industries, there are few changes to policy terms and conditions.
- Risk improvement remains a key aspect of differentiation.
- Relationships and in-person meetings are yielding more favorable outcomes.

CONTEXT FOR CURRENT TRENDS

- Increases in the frequency and severity of catastrophic events led to increased reinsurance retentions and higher rates throughout 2023. These changes mean insurance carriers are retaining more risk. That exposure and increase in cost have been passed from insurance carriers to insureds.
- The most significant changes to deductibles and limits has been related to severe convective storms, such as tornados and hail.
- Valuation challenges are individualized. The magnitude of year-over-year increases in material and labor is slowing. When current values are appropriate, we're seeing a year-over-year building and equipment replacement cost increases of ~4%. Insureds who have a clearly defined process to determine and trend values are seeing the broadest coverage.
- Demonstrating risk quality and improvement is a key component to outcomes.
- Analyzing and evaluating all options—deductibles, limits, impact of BCP, property versus STP—ahead of renewals leads to better outcomes.

Q4 2023 PROJECTED RATE CHANGES

5%–10% Non-CAT accounts with favorable loss history	**15%–20%** CAT accounts with favorable loss history
20%–30%+ Non-CAT accounts with unfavorable loss history	**40%+** CAT accounts with unfavorable loss history

Cargo and Stock Throughput: Market Update

OUR POV

The cargo market continues to see stabilization for another quarter, into Q4. Reinsurance renewals earlier in the year have provoked some minor changes to appetites, with a particular focus on wordings. There is more capacity in the market, so underwriters are using more creative ways of securing accounts.

MARKET TRENDS

- Reinsurance costs for 2024 are estimated to increase across the board.
- An increase in climate and weather-related activity continues to increase underwriter focus on CAT rating.
- Underwriters require an accurate declaration of values and basis of valuation as well as detailed COPE information or surveys of larger locations. They are particularly focusing on CAT-prone locations.
- Given the mounting pressure in the Middle East, underwriters are scrutinizing exposures in Israel and Gaza.
- Capacity remains strong.

CONTEXT FOR CURRENT TRENDS

- Reinsurance rates are estimated to be +5% at 1/1/24 renewals; this increase in expense for insurers is likely to be passed onto clients.
- Lithium-ion batteries are a challenging risk for underwriters; additional risk management information is required.
- Claim activity has been relatively benign in the last six months and with the end of hurricane season nearing, we expect a positive impact on renewals.
- Underwriters are wary of large peaks in value at storage locations, requiring the introduction of additional carrier(s) for capacity and increasing costs.
- Some markets are pulling out of heavily exposed CAT business with little premium to “free up” some of their CAT aggregate for larger risks.
- Due to the Hamas attack on Israel, and following tensions building in the region, underwriters require more information on transits and storage. Some are issuing NOCs in respect of War/SRCC risks in the region, but London carriers remain open to reinstating coverage for applicable APs.
- Capacity remains strong with new entrants. Underwriters are using their creative flair to secure good, profitable, well risk-managed business by providing different options to insureds. Many underwriters have changed jobs recently, meaning some may be unfamiliar with accounts—this could result in more information being required.

Q4 2023 PROJECTED RATE CHANGES

2.5%–7.5%

Accounts with favorable loss history and a focus on risk management

15%–25%

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 remains profitable and continues to see rate decreases, and the pace of GL rate increases has slowed with rate adequacy and competition. The pace of auto rate increases, however, is trending up. Lead umbrellas remain challenging, while high excess continues to be competitive.

MARKET TRENDS

- Primary casualty insurers continue to seek rate increases on GL/auto overall for the 23rd 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 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 Q2 2023 Rate Changes Ranged from -0.7% to +10.4%

	Auto	WC	GL	Umbrella
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%
Q3 2022	7.6%	-0.7%	5.7%	11.3%
Q2 2022	7.2%	-1.2%	4.7%	11.3%

Source: CIAB Q2 2023 Rate Survey

Cyber: Market Update

OUR POV

After two years of rate increases, pricing continues to decrease as more carriers compete.

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.
  - Buyers must demonstrate proper controls around obtaining consent and providing adequate disclosure to obtain non-breach privacy coverage.
- Ransomware claims activity has increased again through Q2 2023 after several quarters of decreased activity
- 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.

% of ransomware attacks that resulted in the victims paying

41%

(down from 85% in Q1 2019)

Average Ransom Payment

$850,700

+330% from a year prior

(Q3 2022)

Median Ransom Payment

$200,000

+476% from a year prior

(Q3 2022)

Source: *Coveware October 2023 Quarterly Report*

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As one of the largest 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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