WOODRUFF SAWYER

Commercial Lines Insurance Market Update

Second Quarter 2023

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Executive Summary

The outlook for the commercial lines insurance market remains largely unchanged since the first quarter, with the supply of capital driving pricing behavior in all segments.

For the directors and officers (D&O) market, rates and retentions are down for almost all companies as an oversupply of insurance capacity and few IPOs drive up competition. Mature public companies are experiencing strong rate relief, and newly public companies that had higher starting premiums are also seeing significant decreases. Meanwhile, securities class action severity remains high, and we expect 2023 total settlement dollars to be significant.

Another segment seeing premium decreases is the cyber market, as more carriers are competing for primary and low excess placements.

One reason for the lowered rates: decreased ransomware losses in 2022, which led insurers to chase market share with competitive quotes. However, we have seen ransomware claims activity increase again through the second quarter.

Pricing is stabilizing in the casualty market, continuing a trend we observed in 2022. Workers' compensation consistently remains the line where commercial insurance buyers can expect to save some money. In contrast, primary casualty insurers continue to seek rate increases for general liability and auto to keep up with loss trends.

Property remains the most challenged part of the commercial lines market, with the frequency and severity of natural catastrophes driving up losses. In 2022, we reported that many insurers were expecting difficult 2023 reinsurance renewals.

That came to fruition during the January 1, 2023, reinsurance renewal cycle as property carriers experienced significant increases in reinsurance retentions and rates. The shift in the reinsurance market means insurance companies retain more risk on their balance sheet. This, combined with increased losses and the current inflationary environment, means property buyers continue to see premium increases.

While the property market experiences rate increases, the cargo and stock throughput markets continue to experience stabilizing rates. Carriers have adjusted their appetites to better manage exposure due to rising reinsurance costs; however, new entrants have entered this market in the last year, and competition continues to build.

Woodruff Sawyer:
Commercial Market Update Snapshot

The outlook for commercial insurance buyers remains largely unchanged from Q1. Additional insurance capacity continues to drive down D&O and cyber insurance pricing. The casualty market continues to stabilize, and workers' comp insurance remains the most profitable line. Within property, significant losses from severe natural catastrophes have led to rising rates.

D&O

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.

Property

The property insurance market continues to seek rate increases in combination with adequate valuations. Risk improvement, combined with marketing meetings or site visits, generate more interest from new markets and better renewal outcomes.

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 has ticked 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

- While mature public companies are experiencing strong rate relief, newly public companies continue to see significant decreases due to higher starting premiums.
- Last year's slowdown in IPO activity has persisted through the first half of 2023 as companies remain on the sidelines while interest rates, inflation, and uncertainty around the banking crisis settle down.
- When the IPO market opens again, more stable pricing is expected due to 2020's Sciabacucchi decision regarding federal forum provisions, which has led to numerous state court Section 11 suit dismissals.
- Challenges for businesses (inflation, higher interest rates, the threat of recession, the war in Ukraine, and a volatile stock market) are still present, but there are some signals of macroeconomic improvement.

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 $3.1B in settlements through Q2 2023 and 460 open cases yet to be resolved, 2023 is shaping up to 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. Through Q2 2023, 95 cases have been filed, on par with the number filed through Q2 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 (Renren, Boeing, First Energy, American Realty, Wells Fargo, etc.) tapping "A Side-only" insurance.

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

460
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

The property insurance market continues to seek rate increases in combination with adequate valuations. The frequency and severity of natural catastrophes is trending upwards, with severe convective storms driving significant losses. Risk improvement, combined with marketing meetings or site visits, generate more interest from new markets and better renewal outcomes.

MARKET TRENDS

- Reinsurance continues to have an impact on line size and property insurance rates.
- Bifurcation exists primarily based on CAT exposure and industry.
- Trending of values remains a key focus for property carriers.
- 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

- Reinsurance has been a theme throughout 2023. Property carriers experienced increases to reinsurance retentions—in some cases, doubling—on top of reinsurance rates increasing by 30%+. Carriers are reducing their line size and charging additional rates because they retain more risk within their portfolios.
- Severe convective storms, such as tornados and hail, continue to see an increase in frequency and severity. The first half of 2023 saw $37B of insured losses from SCS.
- Carriers continue to focus on adequate values. Insureds must have a clearly defined process to determine and trend values. Absent a clear methodology, carriers are enforcing limitations on claims payments.
- Demonstrating risk quality and risk improvement is a key component to outcomes.
- Analyzing and evaluating all options—deductibles, limits, impact of BCP, property vs STP—ahead of renewals leads to better outcomes.

Q3 2023 PROJECTED RATE CHANGES

7.5%–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 experienced another quarter of stabilization. Some carriers adjusted their appetites and wording to better manage exposure due to reinsurance renewals. Competition continues to build, creating more favorable outcomes and additional options for insureds to consider.

MARKET TRENDS

- Underwriters continue to increase their focus on CAT rating due to the rise in climate and weather-related activity.
- The "Five Powers War Clause" has been required on all wordings since the start of 2023. The driver is underwriters' reinsurance wordings. RUB Exclusions continue to be a feature of wordings. Russia's recent exit from the grain corridor has resulted in reduced market capacity in the cargo war space.
- Underwriters require an accurate basis of valuation, and detailed COPE information or surveys of larger locations. There is particular focus on CAT-prone locations.
- Meaningful credits can be achieved for higher deductibles.

CONTEXT FOR CURRENT TRENDS

- Inventory build-up due to supply chain issues led to large peaks in values at certain storage locations. This can drive the cost of excess layers up or require additional carriers to complete the program.
- Underwriters continue to focus on obtaining as much risk management information as possible, oftentimes requiring engineering reports for larger locations.
- Some markets are pulling out of heavily exposed CAT business with little premium to "free up" their CAT aggregate for larger risks. In 2023, we may see markets pull out of or reduce line size due to pressure from reinsurers. This is not limited to US locations, but all over the world, given the five-fold increase in climate and weather-related disasters in the last 50 years.
- Many reinsurers have excluded war on land coverage for Russia, Ukraine, and Belarus, forcing risk placement elsewhere. Some carriers are capitalizing on the opportunity, albeit with very healthy rates. This coverage is excluded by many reinsurers from 1/1, meaning some carriers must take net lines affecting line size and appetite.
- Capacity in the market remains strong. In the last 12 months, we've seen a rise in new entrants: Everest Re, Parsyl, and Navium. Underwriters are providing different options to insureds to help secure good, profitable business with well-managed risks.

Q3 2023 PROJECTED RATE CHANGES

0%–5%	15%–25%
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 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 has ticked 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 to a profitable line of insurance like workers' compensation may improve results in a difficult market facing an increase in claims costs.
- Enhanced technology in vehicles coupled with supply chain issues is resulting in increased auto physical damage and third-party PD 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 decreaseas more carriers compete.

MARKET TRENDS

- More carriers are competing for primary and low excess placements.
- 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.
  - 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
- Many insurers are lessening their information requests after several years of intense scrutiny—this is driven by competitive pressures and having collected robust underwriting information during companies’ recent renewals.

% of ransomware attacks that resulted in the victims paying

34%

(down from 85% in Q1 2019)

Average Ransom Payment

$740,144

+126% from Q1 2023

Median Ransom Payment

$190,424

+20% from Q1 2023

Source: *Coveware July 2023 Quarterly Report*

About Woodruff Sawyer

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