

QUARTER 4 | 2022

Market Trends

Commercial Insurance & Risk Management



Our Goal

Brown & Brown's Market Trends allows you to connect quickly to key topics and notable updates in the insurance marketplace. Dive deeper on any topic with our Brown & Brown team to better understand how these trends may impact your business. We welcome the conversation.

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Property

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Rate increases remain moderate, with low-catastrophic exposed accounts seeing low single-digit increases. However, accounts with traditionally challenging characteristics, such as a notable catastrophic footprint, challenging occupancies, active losses, poor risk improvement records or outdated valuations continue to see higher premiums overall. Due to the reinsurance market hardening, accounts may also experience hurdles in obtaining favorably priced capacity.

Compared to recent years, the rate increases could be considered tolerable. However, appropriate replacement costs and valuation corrections result in volatile premiums.

Due to global war and violence activity, the terrorism market is seeing double-digit increases and territory restrictions.

Managing this marketplace requires early review and verification of current, inflation-adjusted values along with the ability to demonstrate active risk control focus and improvement.

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Hurricane Season

As hurricane season continues to unfold, the [National Oceanic Atmospheric Administration \(NOAA\)'s FAQ](#) can serve a useful tool for businesses. In addition, reach out to your Brown & Brown team for additional resources on hurricanes.

Casualty

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Liability Market Stabilization

The liability market continues to stabilize. Middle-market insureds, depending on risk characteristics, are experiencing flat to low single digit rate increases. Marketed programs often improve rates since prospective insurers stretch for new business and incumbent insurers want to retain business.

Additional Capacity Balancing Rates

Larger insureds are experiencing more stable rate increases compared to the significant general liability and umbrella/excess rate increases experienced in the past 18 to 24 months. Some additional capacity has entered the marketplace to help balance the previous increases. Because sales and payroll are the traditional exposure rating basis for casualty lines, consideration should be given to whether these are actual exposure increases or the result of cost pass-throughs. Insurers are typically willing to discuss this phenomenon and adjust rates accordingly.



Challenges in Commercial Auto

The commercial auto market has experienced rate increases for 43 consecutive quarters, and there is no indication of these increases slowing. While the frequency of claims subsided during the pandemic shutdown, the severity increased. This has resulted in more dollars paid for claims. The additional cost to repair autos due to enhanced technology, shortage of replacement parts and supply chain delays all contributed to the increased cost of claims.

Competitive Workers' Compensation

Workers' compensation remains profitable for insurers, allowing for rate decreases in many industries. This line is continuously monitored by insurers as medical cost inflation and increased payrolls are predicted to increase the cost of these claims, shifting the profitability of the line.

Cyber Risk

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At the end of 2021, increases consistently exceeded 100%. This year, the market has shown signs of softening and stabilization, with average rate increases falling from 100% to 60%. Large buyers, those exceeding annual revenues above \$500M, are still seeing higher than average rate increases. New mechanisms are becoming available for large buyers who are well capitalized and involved in alternative risk transfer.

Retentions continue to be re-evaluated by insurers, often resulting in an increase. While each insured is different, retentions largely depend on the limits purchased and the buyer's size. Minimum premiums per million for small and middle-market businesses are also trending upwards.

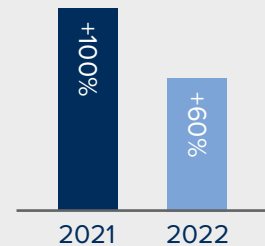
Over the last 12 to 18 months, there was a reduction in capacity from the greater marketplace. More recently, large, loss-free, well-protected buyers are seeing some capacity return.

Standards continue to evolve, and in certain markets, previously preferred standards are now mandatory. Underwriters are becoming more willing to quote accounts without ideal risk profiles. However, they often have corresponding exclusionary language for the lacking control(s). Most often, this impacts the coverage for ransomware.

Insurers continue to be concerned about systemic risk, evidenced by a growing trend of focus on patching cadences and end-of-life software exposures.

Average Rate Increases

↓ 40%



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Take Note

Politicians are showing a renewed interest in privacy. While ransomware claims have driven the state of the market for the last two years, underwriters still consider protections around sensitive data a vital underwriting component. Outside of various state laws, there have yet to be wholesale changes on a federal level.

Executive Liability

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After three years of a historically hard market, renewal rates continue to flatten for both public and private entities. Depending on risk characteristics, some premiums are seeing decreases as the year continues, with claims developing favorably. This shift is due in part to the “Great Resignation.” As underwriters have moved to new insurers, they are often seeking to grow books of business and grow market share. This had led to scenarios where underwriters aggressively undercut pricing of the incumbent insurer.

Another factor contributing to the gradual softening of the market is IPOs, which is the lowest it has been in the past three years. Special purpose acquisition companies (SPACs) faced a sharp decline throughout 2022. Because both IPOs and SPACs have large premiums, insurers writing those accounts are experiencing a gap in new business premium. To solve this problem, insurers are seeking business to increase their market share and gain optimal results.

California-based insureds continue to see higher-than-average increases, especially for Employment Practices Liability (EPL), given the loss trends in the state. As employers consider responses to a recession, underwriters have a heightened awareness of employee lay-offs, sometimes posing additional questions to insureds.

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International

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The global casualty marketplace remains competitive, and this trend is expected to continue throughout 2022. The global casualty market remains a highly profitable underwriting class for insurers. The premium rate is highly dependent on losses; however, there are opportunities for rate decreases if the loss history is favorable. Company size and marketing efforts also continue to impact renewal rates. Recent renewals on middle-market global casualty programs experienced flat rates. Larger multinational casualty accounts with poor loss history are facing increasing rates, while those with positive loss history are seeing decreased rates.

Additionally, global litigation continues to be slower than the U.S., keeping rates stable. Many insurers continue to open their capacity to tougher products and risks.

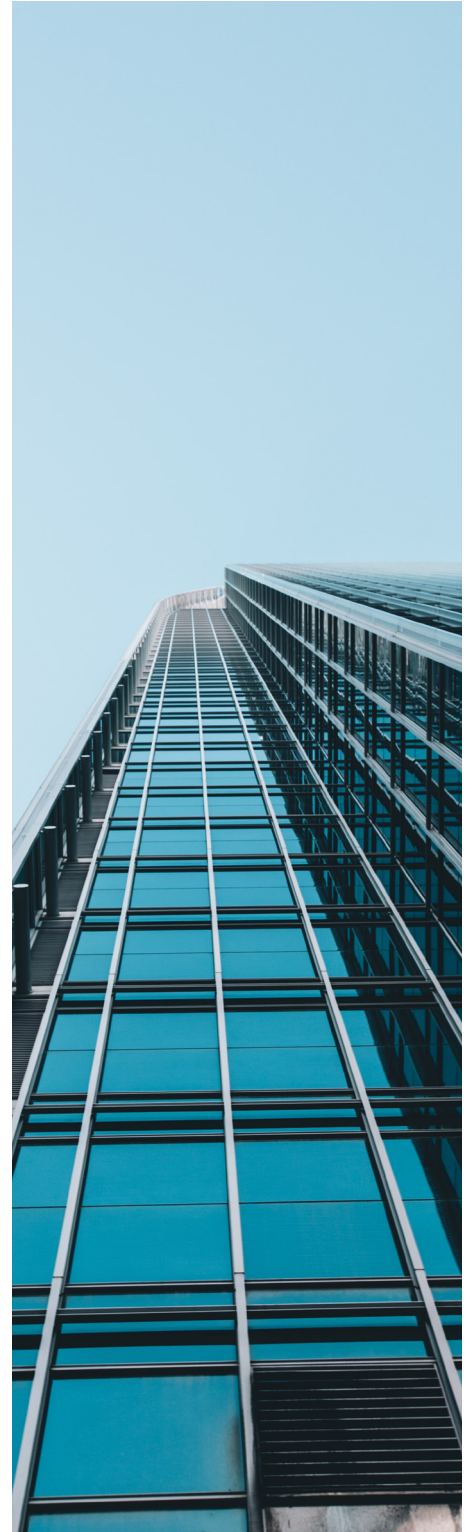
Traveling Requirements

Many countries require travelers to prove they have medical insurance and quarantine expense coverage to pay for treatment of illness, including costs associated with COVID-19. A quality Business Travel Accident (BTA) policy, with coverage for out-of-country medical costs, provides layered protection and extends the duty-of-care for employees engaging in travel. Additional coverages for quarantine-related expenses are also available.

Russia/Ukraine Conflict

Due to the war between Russia and Ukraine, most global insurers have pulled out of Russia, Belarus and Ukraine and are unwilling to write exposures in these countries. There are a handful of markets that will, on a case-by-case basis, assist in placements. Brown & Brown can work through our global resources for direct placements in country to secure coverage.

War is a standard exclusion for global casualty programs. However, political and security evacuation extensions can be added to global casualty programs depending on the insurer. The extensions assist in getting the employees out of areas where the government has issued formal evacuation recommendations.



Surety

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The commercial surety market continues to expand its appetite, despite volatility in the overall insurance marketplace. Surety underwriting remains soft, allowing large customers to negotiate rates, assuming favorable loss history and profitable financials.

Renewable Energy Industry

Since 2020, the renewable energy industry has been filling in the premium gaps created from the competitive rates. What was previously considered a specialty or high-risk bond program is now underwritten in the standard markets.

Construction Industry

Despite tightening monetary policy and surging inflation over the last two quarters, the construction industry continues to grow. Unemployment reduced from 5.9% in June 2021 to 3.6% in June 2022, and labor force participation increased by nearly a full percent over the same period.

While contract surety is not as soft as commercial surety, it is in an opportune place for negotiations, particularly for businesses that came through the pandemic with their balance sheets intact.



Working with New Industries

Private equity firms are growing by entering private and government-contracted businesses in the health care, retail and real estate sectors. Large growth is anticipated for the surety industry in these areas.



HEALTH CARE



RETAIL



REAL ESTATE

Aviation

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Across all aviation segments, market conditions are improving, leading to a more favorable environment for insureds in 2022. Despite these positive signs, the aviation insurance market has been thrown back into a volatile state, with more questions arising about sustainability.

Throughout the Russia/Ukraine conflict, the global aviation market has been concerned as western-built owned and leased aircraft were nationalized in Russia. From the \$13B in valued assets that remain on the ground in Russia, more than \$5B have been turned in as leased airline hull claims. The immediate impact on contingent liability, war risk and terrorism premiums are a 50% to 100% rate increase.

Occurrences and fatalities remain consistent in 2022, both in the U.S. and international arenas. Immediate focus from U.S. markets is on capturing single-digit rate renewal rate increases.

Outside Pressures Impacting Rates

New challenges for the aviation industry include macro-pressures affecting most markets, which include lack of talent, supply chain issues, inflation and rising interest rates. These factors impact reinsurance rates, which aviation underwriters use to hedge risk levels. Airports, aviation product liability and low limit general liability placements are seeing the most competition amongst insurers.

Areas of remediation for insurers include maintenance, repair and operation (MRO) facilities, airlines, ground handlers, rotor wing and international operators. While flat to modest increases are still consistent on most aviation renewals, insureds that outline clear underwriting information and consistent safety management are receiving the most competitive rates.

It is strongly anticipated that the fourth quarter of 2022 will remain favorable and consistent for insureds as competition for favorable business grows. However, the impact of the nationalized aircraft on the ground in Russia remains uncertain, as the outcome may support continued rate lift and a re-hardening of the market into 2023.

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How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving property & casualty insurance program.



Find Your Solution at [BBrown.com](https://www.BBrown.com)

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