2022 Insurance Market Trends in Review and What to Expect in 2023

Presented By:
Brown & Brown

Hays Companies, Inc., an owned subsidiary of Brown & Brown, Inc.

Presentation Agenda

1. Introductions
2. What Happened in 2022
3. What We Anticipate Happening in 2023
4. Q&A

Panelists

Aaron Stone
Brown & Brown, Moderator

Scott Stence
Brown & Brown, Panelist

John Paul Foley
Brown & Brown, Panelist

Deanna Olmstead
Brown & Brown, Panelist

02

2022 Review

Executive Risk

- Underwriting topics of concern in 2022
  - » ESG
  - » Cyber Risk
  - » Fiduciary controls
  - » Employment environment
- Securities filings continued to decline in 2022
  - » After record setting 2017-2019, SCA's declined in 2022 following declines in 2020 and 2021.
- Rate stabilization of the marketplace in 2022
  - » In some cases, certain accounts received substantial decreases.
- Through 2022, we experienced an increase in competition
  - » New markets grabbing market share
  - » Established markets retaining market share
  - » Expanded appetites
  - » Improved terms and conditions

Property

- Most Property Insurers reported a profit (FM Global 76.7% Combined Ratio for 2022, QBE 93.7%, Travelers 95.6%).
- Disciplined Underwriting remained with increases in rates and tightening of terms (water damage deductibles were common as well as higher % wind/hail deductibles in Midwest, South and Coastal locations).
- Hurricane Ian (Sept 2022) was a notable event for the industry with an estimated $60 Billion of insured losses.
- Carriers reported increased cost of losses due to building cost increases (structural steel increased 55% over past 3 years & lumber 35% over same period) and skilled labor shortage (9 out of 10 contractors report they are struggling to find skilled laborers and delaying projects as a result).

Casualty

- Summary of combined ratios
  - » WC 92%
  - » Inland Marine 91%
  - » Auto 103%
  - » Products 105%
  - » Liability 108%

Source: AM Best Review & Preview (2022); University of South Carolina, Risk and Uncertainty Management Center

- Inflation severities across property, auto and other lines have surged.

- Hurricane Ian and Nicole, although property losses, will impact Property & Casualty market as carriers expected to pay out billions in losses. Impacts of Ian as well as other severe weather impacted supply chain and helped create inflationary pressure.

03

2023 Forecast

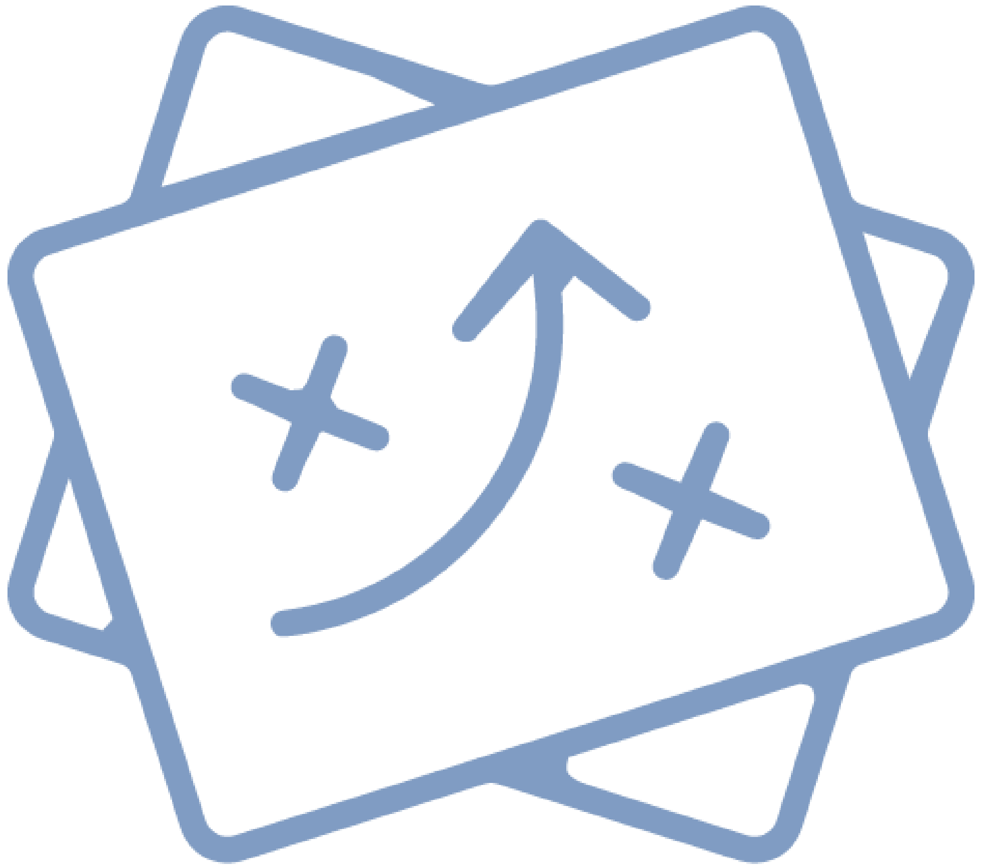
Executive Risk

- After multiple years of increased premiums and retentions, reduced capacity and restriction of coverage, the Executive Risk market has begun to improve.
- Rates have stabilized and insurer capacity is increasing.
- Competition is strong, as new carriers have entered and/or re-entering the marketplace, resulting in increased competition as carriers need to meet 2023 underwriting goals.
- Carriers are fighting for new business like we haven't seen in 3-5 years.
- Losses arising out of the Covid pandemic have not been as substantial as initially expected.

Executive Risk

- Carriers are comfortable with current pricing and retention levels.
- IPO/SPAC marketplace has slowed significantly, and the number of Securities Class Action lawsuits has dropped.
- Public companies are seeing premium decreases, especially in the excess layers.
- Companies who are within 2-3 years of a recent IPO are seeing substantial decreases – 10-40%+
- EPL and Fiduciary Liability (Excessive Fee) claims are persisting.
- Social Engineering claims driving losses on Crime policies.

Cyber



Current Trends

- The market is fairly stable with most buyers seeing rate increases less than 30%.
- Capacity is returning with carriers beginning to offer $10M on a single layer, opposed to the previous maximums of $3M or $5M.
- For the most part, underwriting standards have not changed and applicants lacking fundamental security practices such as MFA for remote access, MFA for local admin access, MFA for access to backups, or EDR tools, will experience difficulty in the market, typically in the form of declinations and, when underwriters do quote, they are likely to apply sub-limits, co-insurance, and/or exclusions regarding claims involving ransomware.
- Pressure on coverage:
    - Russia’s increased military efforts against Ukraine triggered new concerns regarding potential coverage for cyber attacks launched in conjunction with or in support of physical war. Unlike physical war, the potential impact is not geographically limited, and this potential systemic exposure has caused both insurers and reinsurers to reevaluate this language, with many applying more restrictive endorsements. Similar concerns regarding other systemic risks such as the outage of a major cloud provider or latent defect in commonly used open source code have resulted in similar limiting or exclusionary language.

Cyber

Market Specific

- Healthcare continues to be the outlier industry with average ransom demands increasing by more than double from 2021 to 2022.
- Healthcare is also the industry most likely to pay the ransom (and arguably this is why they are targeted more often) because it tends to be more costly to recreate the data than to pay the ransom demand to recover from a bad actor.
- Manufacturing was the most attacked industry in 2022, particularly with threats of interrupting the supply chain from bad actors.
- Financial Institutions also remain a popular target industry.

Concerns for the Future

- There is not currently a government-backed program in place in the event of a catastrophic cyber event. In order to protect financial stability, carriers are adding stricter war exclusions that no longer include a carve back for cyber terrorism.
- Markets are concerned about attacks and privacy issues stemming from China.

Property

- Coastal Property placements will experience the most volatility as the gap widens between reinsurance supply and demand (estimated currently at $60 Billion) and carriers struggle to secure adequate reinsurance to support placements.
- Sophisticated buyers will react to the continued pressure on pricing by choosing to increase deductibles/purchase less limit and "bet on themselves."
- Competition will still exist for those insureds who can demonstrate best in class status and/or a strong attention to risk control and improvement in facilities.

• Property

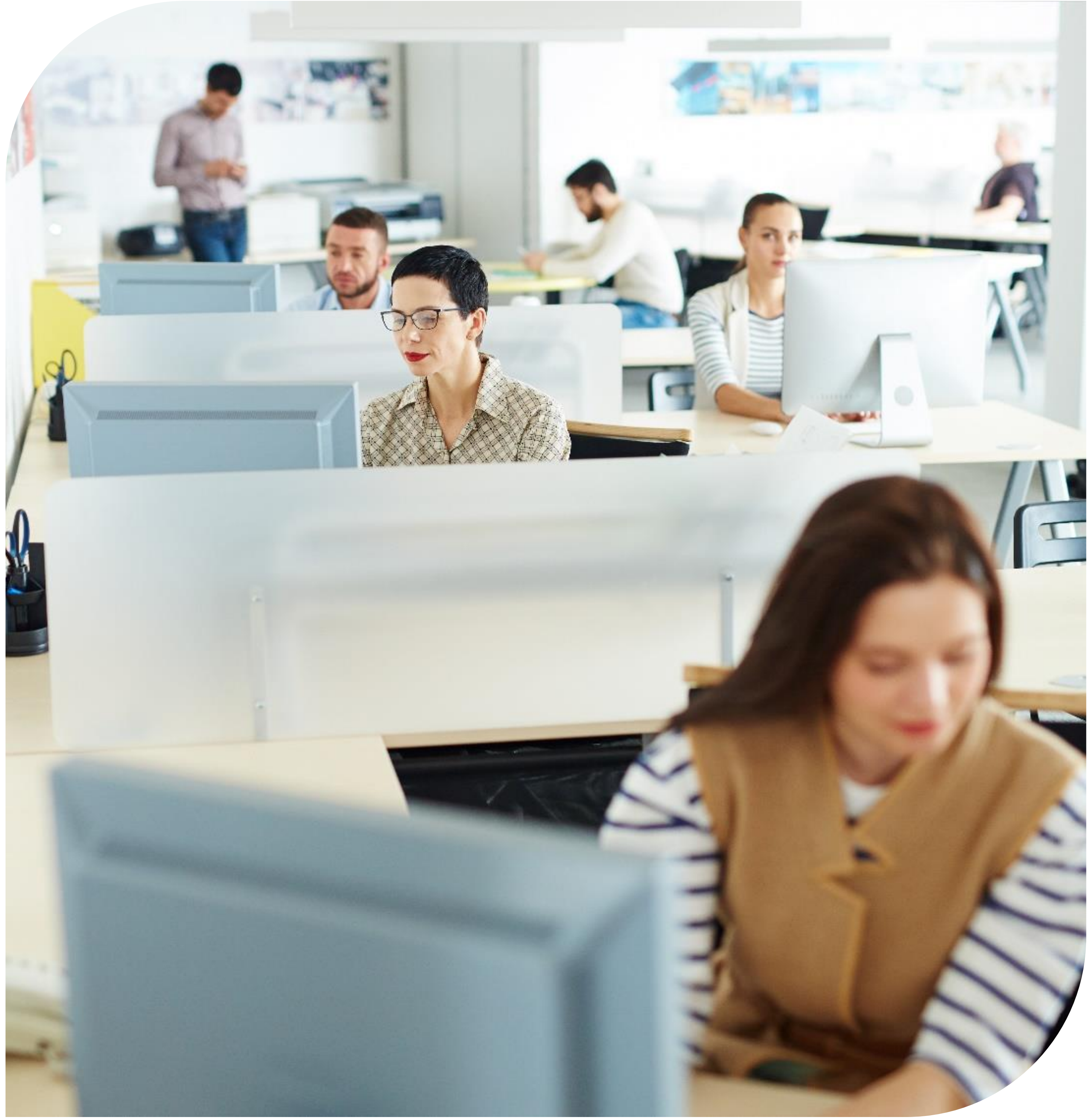
- Valuation will continue to be a focus with carriers seeking 5-10% inflation value increases on buildings. Most client's have struggled to keep pace with trends the past 24 months as inflation has increased and so we forecast additional % increases will be sought for those clients who have not kept up.
- Higher water damage deductibles will continue to be implemented across accounts as more real estate and hospitality clients experience large losses in these areas.
- Increased pushback/inability to meet lender insurance requirements will exist as insurance requirements that were agreed to years ago in soft market cycles will either be unable to be achieved cost-effectively or simply unable to be achieved. We expect insureds to seek more insurance requirement waivers/side guarantees with lenders.

Casualty

- Workers Compensation
  - » Overall, coverage remains competitive.
  - » The pandemic had created challenges such as labor shortages. Companies were forced to hire and train in remote environments while trying to identify qualified workers. Many have remained in a remote environment, while others have started to transition back to in-person environments. A positive culture has been a focus by many to offset turnover, as an increase in turnover impacts safety and claims risks.
  - » Areas of impact remaining include aging workforce, medical inflation, opioid addiction.
- Commercial Auto
  - » Market has experienced rate increases for 44 consecutive quarters.
  - » Carrier loss ratio is 103%.
  - » Increased vehicle repair and labor costs along with distracted driving have impacted auto rates.
  - » Carriers are focusing on Hired and Non-Owned exposure with increased scrutiny, confirming companies are verifying valid drivers license, insurance and driving records.
- The Liability/Excess market has showed signs of stabilization.

Casualty

- Ongoing concerns about Claims impacting rates
- Nuclear Verdicts at all-time high
  - Increasing Propensity to Sue
  - Size of Jury Awards
  - Courts/Juries Favoring Plaintiffs
  - Growing Distrust of Large Corporations
  - Litigation Financing
  - Aggressive Plaintiff Bar Ads
  - Changes in Regulatory and Legal Environments



04

Questions and Answers

Brown & Brown

Find your solution at **BBrown.com**

Any solicitation or invitation to discuss insurance sales or servicing is being provided at the request of Hays Companies, Inc, an owned subsidiary of Brown & Brown, Inc. Hays Companies, Inc. only provides insurance related solicitations or services to insureds or insured risks in jurisdictions where it and its individual insurance professionals are properly licensed.