Brown & Brown

QUARTER 2 | 2023

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.

Discover

Property

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Catastrophe Exposure and Rate Increases

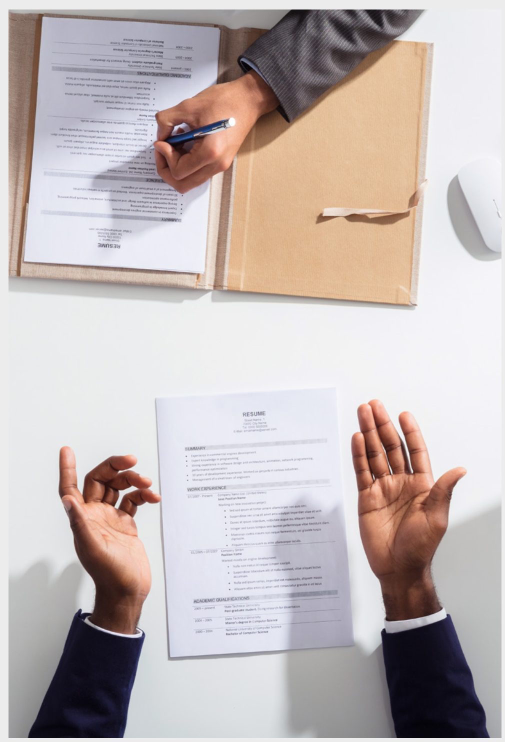
Uncertainty surrounds a bifurcated market, creating budgeting challenges for insureds considering rate plus value increases. These challenges are impacted by the factors listed on the right. Programs with challenging characteristics will likely continue to see rate increases of 25% up to 150% in the first half of 2023. CAT-exposed property with minimal loss history and good risk quality could see rate increases between 15% and 50%. In comparison, properties in non-CAT regions with minimal loss history will see rates up 5% to 10%. Reinsurance outcomes are driving underwriting and are impacting policyholders. Buyers seek strategic approaches to manage costs and risks when facing challenging renewals.

Following this year's January 1 property reinsurance renewals, carriers are:

1. Tightening capacity
2. Increasing deductibles and minimum premiums
3. Seeking double-digit rate increases

This is especially true for policyholders with:

- Technical risks
- CAT exposures
- Poor loss history
- Risk quality issues



Cyber and Property Events

Property carriers continue to push remaining cyber-related coverages toward a cyber solution. Carriers are moving towards an absolute exclusion or providing limited perils of fire and explosion when compared to earlier versions of ensuing "all-risk" peril through the cyber exclusionary wording.

Cyber-attacks have been aimed at gaining access to confidential or financial information, but many have now expanded into attacks that cause business disruption through physical damage. For example, a recent blast at a German steel mill resulted from hackers disrupting the control system and shutting down a portion of the plant, remotely disabling a power grid and uploading faulty firmware and malware. These remote actions caused trams to derail, causing property damage.

Though all types and sizes of companies are susceptible to cyber-attacks, those with industrial-control systems, such as manufacturers, energy suppliers and hospitals, appear most vulnerable. Cyber coverages typically exclude property damage, with property moving in that same direction. The cyber and property industry has yet to develop a uniform process to address this exposure, and with that, a monoline market has emerged to develop solutions. Ensuring property damage exposures should be assessed by cross-functional teams such as risk management, information technology, senior executives, operations and security to help build an all-encompassing strategy.

Renewal Preparation in 2023

To better prepare for renewals, begin strategy discussions three to six months in advance. Focus on the integrity of the information in submissions by conducting a thorough internal review to provide or supplement portfolio information for underwriting. Most importantly, understand the upcoming renewal strategy for incumbent carriers regarding capacity, deductibles and expectations of rate and value increases. Developing these insights can assist in adapting renewal strategies and preparing a high-quality submission that attracts new capacity.

Casualty

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Liability Market

As we continue into 2023, the liability market shows minimal increases in the single-digit range, depending on loss experience and exposure updates. Customers with poor loss history are still experiencing double-digit rate increases compared to customers with favorable loss history. Carrier appetites remain consistent, with no signs of change in the near future.

The umbrella/excess liability market continues to tighten. Carriers are still taking increases as high as 25%, with tightening guidelines regarding limits being offered. Capacity remains low, with most carriers reducing their lead capacity. This could result in multiple carriers working to meet customers' contractual obligations. Risks with heavy auto exposures will continue to see higher pricing.

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Commercial Auto

Commercial auto rate increases will persist through 2023 as losses continue to outpace premiums. Recent research from the Insurance Information Institute and the Casualty Actuarial Society suggests that social inflation could have driven losses up on commercial auto liability by as much as 18-20% over the last ten years.

The Central Analysis Bureau (CAB) reports should be frequently reviewed on trucking risks, and alerts should be addressed since the reports will be used in risk selection and pricing. Trucking and accounts with heavy auto exposure should be prepared to incorporate additional information on loss control and safety practices into their submissions. Underwriters want to see that companies' safety policies are current and have been adjusted to handle frequent and severe claims.

Workers' Compensation

Workers' compensation has experienced overall rate decreases over the past 7+ years. The market is experiencing flat to minimal rate decreases. Workers' compensation remains profitable for insurers, which helps with overall premiums. Many organizations continue their struggle to find talent and grow their operations, so workers' compensation should remain consistent throughout the year.

Executive Liability

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In Q1, the market saw the continued development of decreases and limit stabilization, which is expected to continue depending on the economy's trajectory and other systemic issues. The market continues to respond to the macroeconomic conditions 2023 has brought. From inflation to the discontinuation of financial lifelines for businesses – there are questions surrounding the financial stability of certain companies under these economic pressures and the status of renewals in the middle-market segment.

Public Companies

Overall, the frequency of claims is decreasing, which is good news for public company D&O. Coupled with diminishing capital markets, only a few companies are going through significant transactions, such as IPOs or mergers. This trend leads to well-performing books of business, but less opportunity, leading to more competition in the public company space.

The increased capacity has led to carrier interest in competitive alternative options for primary and excess layers. Increased Limit Factors (ILF) on excess layers have recently been inflated but are trending positively for insureds as carriers compete for these policies. With premiums decreasing this year, it has become a buyers' market.

For companies going through a workforce reduction or period of layoffs, employment practices will face scrutiny as employers look toward margins. Hiring has come to a halt as companies focus on their bottom line. Companies may continue to reduce their workforce further depending on marketplace conditions.

Underwriting Scrutiny & Controls

Underwriting continues to evolve, despite a softening marketplace. There appears to be continued scrutiny over coverages regarding social engineering, crime controls and excessive fee fiduciary claims. There are specific questions asked about these coverages provided in most policies. Some carriers are rolling out supplemental excessive fee fiduciary applications that ask for clarity on rates, fees and due diligence. These applications are helpful for customers to determine what may be missing from their controls or guidelines.

Companies meet control standards to help avoid unfavorable terms or no coverage at all. At the end of 2022, securities filings were reported as declining. This is the third straight year of decline for Securities Class Actions (SCAs), following the record pace from 2017 to 2019.

SVB Regulatory Takeover

Carriers are reevaluating books of businesses involving banks to determine the concentration and diversification of their portfolio. Because these banks are publicly traded, SCAs could stem as a result, potentially impacting the entire publicly traded marketplace. The financial tech space will be the first to feel significant impacts.

Companies scrutinize privately owned tech startups relying on SVB and Signature Bank. SVB had a large D&O tower, and most carriers anticipate it will be a limit loss, affecting the entire FI marketplace. Carriers with heavier private equity books of business, specifically VC, are monitoring this issue. Bankruptcies may arise, which could further impact underwriting.

The big question surrounding this space is whether these isolated incidents will become a pattern, becoming a systemic issue that could firm up the current soft market.

Overall, the competition in most of this space has led to price stabilization and growing leverage for companies. Carriers have become more creative and flexible to win business; they are rolling out new forms and more willing to provide antitrust or investigation coverage. Stable companies with few claims can now negotiate favorable terms and conditions not seen in nearly five years.

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Cyber Risk

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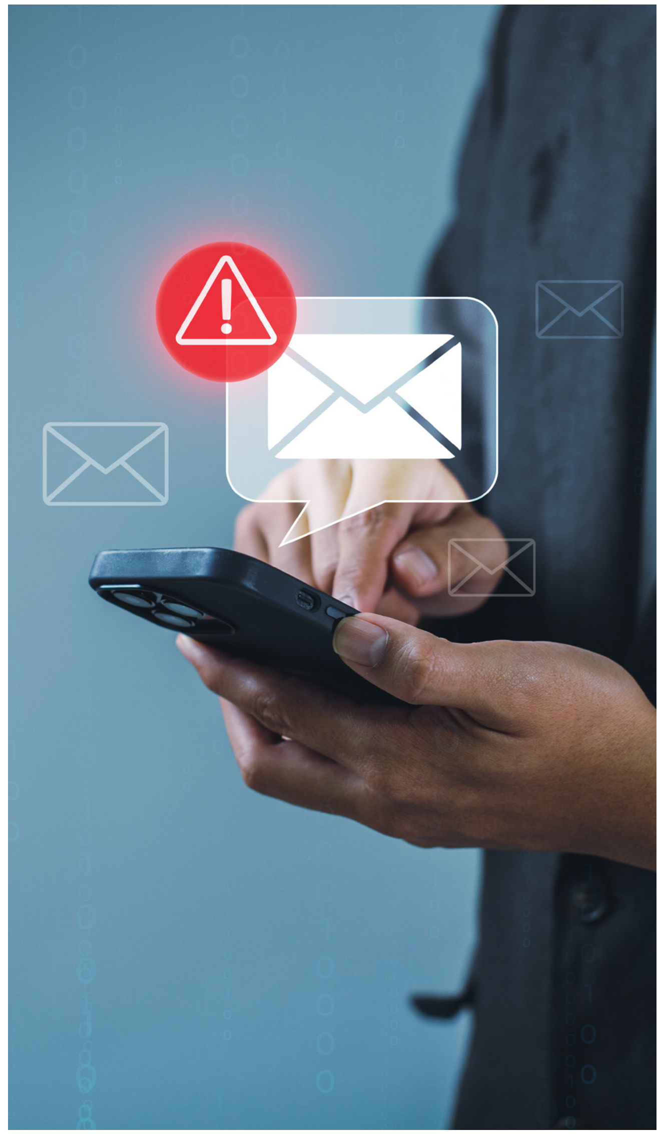
The cyber market is improving from previous quarters, with flat renewals and rate reductions becoming common. This is especially true for those who have made IT security improvements. Excess rates are decreasing, which has a strong positive impact on buyers of layered programs. For now, most insureds will likely see a 10% decrease to a 10% increase on primary layers. Those with claims and deficient controls will possibly see higher increases, and those with significantly improved controls able to save more.

Carriers who previously only offered excess or excess layers at a high rate could drop to lower levels, positively impacting excess pricing. New market capacity is available to help provide competition and fills gaps.



Cyber Claims Trends

Ransomware claims frequency decreased through 2022. However, the market saw a rise in ransomware claims in Q1 of 2023. Should ransomware claims continue to increase in frequency through Q2, there is potential for rates to trend upward. While ransomware claims often demand an extortion payment from the organization whose assets have been encrypted, triple extortion is a new trend that puts additional pressure on organizations to pay the ransom demand. Triple extortion demands payment using three types of threats: data encryption, threatening to leak sensitive information and threatening involved third parties.

Privacy claims have increased in frequency, specifically those related to pixel technology and biometric data. Business email compromise incidents continue to lead the industry as the most frequent type of claim. As the U.S. economy prepares for a potential recession, activities such as large company layoffs could create a vulnerability for bad actors to exploit.

It will be essential for organizations to ensure multi-factor authentication controls remain in place and accessibility to private company information is immediately removed for terminated employees. With tax season, we often see spikes in W2 theft incidents. Companies are urged to be diligent in their privacy controls and security training to avoid potential employee privacy issues.

Capacity Increases and Growing Competition

The market has continued to see additional capacity enter the marketplace, with more and more carriers offering $10M on a single layer, as opposed to the previous maximum limits of $3M or $5M and $50M or more from new players. With rates trending down, underwriters are under significant pressure to maintain their renewals and compete on new business, a stark contrast from the last 6-18 months.

Coverage Limitations

Carriers are trying to protect financial stability by limiting their risk transfer for potential catastrophic events. Those events could be cyber terrorism, state-sponsored attacks or other widespread events.

While the strict war exclusions were first seen mandated in the London market, several carriers in the domestic marketplace have added new war exclusion language intending to exclude cyber terrorism claims associated with war. Widespread events, such as log4J, SolarWinds and Kaseya, potentially pose threats similar to war-like actions, and carriers have begun limiting their exposure to these events.

Customers with unfavorable security postures could see coverage limitations specific to ransomware. However, in the current market, carriers are more willing to provide value-added services to help improve their security posture.

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Multinational

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Multinational Casualty

The multinational casualty marketplace experienced an anticipated recurrence of short and long-term historical trends, with flat to marginal rate reductions driven by multinational casualty carrier profitability. On a global program basis, the flat to marginal rate decreases are often based on the program's global scale and policy count, given continued satisfactory portfolio loss performance. The expense ratios and costs related to program administration often play a significant role in multinational programs' rate and minimum premium funding requirements.

Auto liability and physical damage cover often represent the loss leader for multinational casualty portfolios, given pricing pressures in numerous global jurisdictions with expected claims volume and severity for sizeable corporate fleet exposures. There is a limited marketplace for global casualty carriers able to effectively implement and manage the claims for large global auto fleets. Multinational carriers with global auto capabilities frequently offer this coverage to help secure the more favorably performing general liability, workers' compensation and employer's liability programs.

The general liability market outlook is favorable, with guaranteed cost programs receiving rate decreases where merited and increases limited to account-specific loss trends. The overall U.S. multinational casualty portfolio performance suggests considerations for alternative program structures are required, evaluating the total cost of risk to help ensure the more conventional guaranteed cost solutions continue to reflect an equitable solution for global insureds.

Technology and Online Platforms

An increased focus on real-time access to global insurance details places an increasing need for collaboration between the insured, broker and carrier - creating a reliance upon effective technology and tools to drive global program transparency and efficacy.

Technology-focused resources allow multinationals to operate without interruption while planning for prospective global growth. However, technology platforms offered as part of global programs through the global broker or carrier have been historically underutilized. More recently, they are a prerequisite for managing a dynamic global program.

Regulatory Policies and Reporting Requirement Considerations

The evolving regulatory landscape requires routine evaluation and unique considerations based on each multinational program's mix of coverage lines, jurisdictions and underlying business operations and activities. Penalties for non-compliance vary substantially by country, although recent trends include an increasing severity, particularly in emerging markets for which insurance and tax-related requirements are expanding rapidly.

Geopolitical changes and the resulting regional instability impact local, regional and often even global regulatory environments as immediate and longer-term regulatory policies evolve. With so much change, multinational programs must operate through continuous improvement and assessment. This is driven by proactive planning and review as well as taking action on an established recurring cadence well beyond the traditional annual renewal cycles.

Surety

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The surety market remains incredibly soft, with the bipartisan infrastructure law delivering a massive boost to the renewable energy industry and the associated entities supporting it. As interest rates continued to rise through Q1, so did the pressure on businesses to find quick and practical solutions to weather the storm resulting from the current economic downturn.

While monthly inflation rates are no longer accelerating upwards from an all-time high of 9.1% in May of 2022, there appears to be a light at the end of the tunnel. Shipping prices are currently stabilizing, and commodity prices are likely to continue to stay low. These small changes can deliver some relief towards slowing U.S. inflation rates and resolving supply chain issues that have built up over the last two years.

The market is expected to see more commercial surety customers attempting to utilize fix-rate surety programs over the volatile cost of letter of credit facilities. All industries could also benefit from using surety-backed letters of credit to support large insurance placement security requirements.

Maintaining a solid relationship with your broker and surety provider while managing constant communication is vital to a successful surety program.

Aviation

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Through the end of 2022 and the beginning of 2023, the conditions of the aviation insurance market showed improvement across all segments. This development resulted in a more favorable aviation underwriting environment than previous years.

Despite these positive signs, the aviation marketplace is anticipated to harden again in the second quarter of this year, possibly flattening into the third quarter of 2023. The immediate focus of domestic aviation insurers is capturing single-digit rate increases upon renewal, although some are now actively competing on renewals and insureds considering changing markets.

Workers' compensation, one soft sector in the Aviation market, has seen QBE and AIG Aerospace exit the sector in 2023, reducing capacity. Sufficient capacity remains to spark competition for aviation workers' compensation placements.

The ongoing Russia/Ukraine conflict and the aviation reinsurance marketplace continue to present double-digit premium rate increases to aviation insurers. More than 400 leased aircraft, valued at $10 billion, cannot depart from Russia after European Union sanctions forced the termination of leases. The reported hull war claims total $6.5 billion result from aircraft remaining in Russia.

Another major factor impacting reinsurance rates is the Boeing 737 Max grounding loss. The claim has increased from $1.3 billion to $3 billion. This increase makes it nominally the most significant claim in the history of the aviation market, having exceeded the $2.5 billion paid out after 9/11. The immediate impact is on contingent liability, war risk and terrorism premiums. This factor will continue to affect aviation carriers' reinsurance renewals through July 2023.

Aviation carriers continue to see a change in their underwriting ranks with recent promotions and changes. Those who outline clear underwriting information and consistent safety management protocols can receive the most competitive balance of rate and coverage. For a successful renewal outcome, we encourage insureds to work through any anticipated challenges and consider renewing proactively, up to thirty days in advance where possible.

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.

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Find Your Solution at BBrown.com