Brown & Brown

QUARTER 3 | 2024

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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Following a prolonged repositioning of the property market, carriers may finally have a glimpse of profitability. With inflation tapering, carriers can no longer hit their numbers relying upon inflation-adjusted valuations to drive premiums. While carriers are still pushing for inflationary increases, they have come down to pre-pandemic percentages. Property carriers are beginning to seek new business opportunities while defending their preferred accounts.

Natural Disasters

With over a thousand tornados and additional damages from hailstorms reported through May, convective storms remain a significant concern for underwriters. Carriers are using deductibles and managing their aggregate exposure to the continuous expansion of high-hazard convective storm counties. Wildfire exposure remains a concern in western states.

NOAA projects an active 2024 hurricane season of 17-25 named storms, of which 8-13 may become hurricanes. This is the largest number of named storms forecasted historically. If one makes landfall in a populated area, causing significant damage, this could quickly reinstate a hard property market.

Rate Forecast

Loss-free accounts with attractive risk control parameters may finally experience rate stability ranging from rate decreases to low single-digit increases. When new carriers and capacity are introduced, moderate rate reductions are sometimes achievable. Poor-performing accounts could see flat to 20% increases, depending on experience.

Casualty

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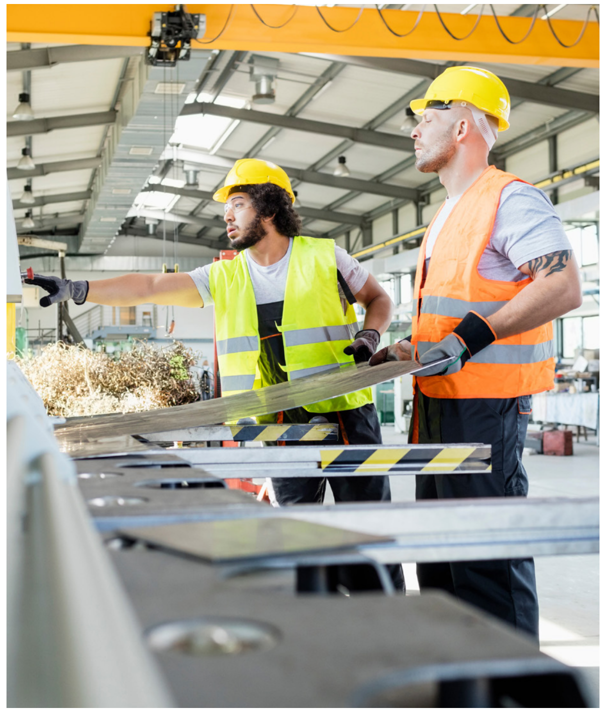
General Liability

General liability insurance continues to face a challenging market. Premiums have increased steadily, with 25 consecutive quarters of rate increases. Increased claims severity, higher litigation costs and economic inflation drive this trend. Underwriting capacity has decreased, causing carriers to become more selective in their underwriting criteria. In addition to traditional exclusions, incorporating exclusions for PFA liability exposures (forever chemicals) is becoming standard. Insureds are experiencing rate fatigue and frustration with the continual increase in premiums and additional requirements from carriers. The market is expected to remain tight, with carriers focusing on risk management, higher retentions and loss prevention strategies to mitigate rising costs.



> **While claims frequency has decreased due to improved workplace safety and automation, claims severity is on the rise, driven by medical inflation and higher indemnity costs.**

Workers' Compensation

The Workers' Compensation insurance market, long characterized by stability and profitability, is starting to show signs of change. For the past eight years, the market has experienced a soft cycle with high capacity and competitive rates. However, recent trends suggest a potential shift.

While claims frequency has decreased due to improved workplace safety and automation, claims severity is on the rise, driven by medical inflation and higher indemnity costs. This increase in larger claims may lead to higher reinsurance rates and a gradual shift from the current soft market conditions. California, New Jersey and New York are showing early signs of market hardening due to higher claims costs from litigation and medical inflation.

Business Auto

The business auto insurance market is experiencing significant rate increases and reduced capacity. Carriers are grappling with higher claims costs driven by increased accident severity, medical cost inflation and rising repair costs of more sophisticated vehicle technologies. Nuclear verdict concerns, driver shortages, novice drivers and distracted driving all add to difficulties in the insurance industry's effort to maintain profitability and stability. This has led to a hardening market with stricter underwriting standards and higher premiums.

Additionally, the trucking sector has seen escalating operating costs, prompting a closer examination of market dynamics and insurance program designs. The outlook for business auto insurance suggests continued pressure on rates and a focus on improving risk profiles to manage costs.

Umbrella and Excess Liability

The umbrella and excess liability insurance market continues to be challenging. High-profile claims, social inflation and third-party litigation funding contribute to increased litigation costs. Third-party haulers and non-owned auto risks are under heightened scrutiny. Carriers are imposing stricter underwriting guidelines and minimum underlying limits while seeking higher premiums to cover potential losses. Insureds are advised to work closely with brokers to navigate the market, focusing on risk management and loss mitigation strategies to secure favorable coverage terms.

Executive Liability

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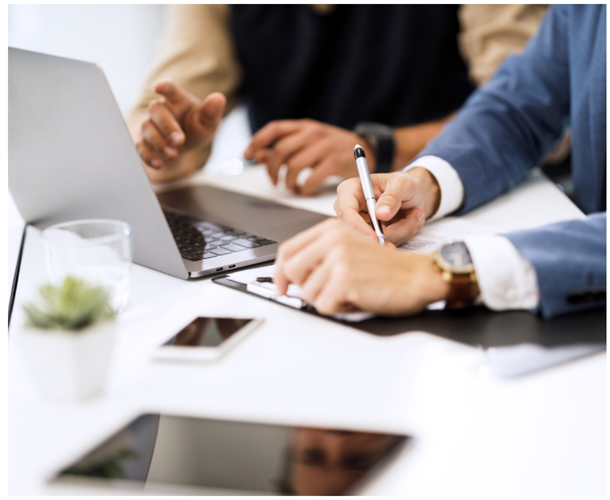
The executive liability market has remained stable, characterized by increased carrier competition and expanded capacity. This has created a favorable market for insureds, with broader terms, lower premiums and reduced retentions across most executive risk lines and coverage types.

Directors and Officers (D&O) rates have decreased while employment practice liability (EPL) claims have increased slightly. The errors and omissions (E&O) space is less soft than other lines, with minimal increases or flat rates, primarily driven by service exposures.



Employment Practice Liability

EPL renewals depend on employment count changes and loss history. Premium and retention increases are generally flat to low single-digit increases on accounts with stable exposures and favorable loss history. Underwriters continue to focus on high-wage earners and California employees, which can impact quoted terms. Biometric privacy remains a prominent issue that is influencing the market.

Commercial Crime

Social engineering continues to be a significant driver for claims in the commercial crime space. Carriers are potentially willing to offer higher limits, including excess social engineering coverage in crime policies. The market remains flat, with exposure increases managed through retention adjustments.

Financial Institutions

Financial institutions face increased scrutiny over their commercial real estate portfolios, with concerns about past-due payments, accruals and foreclosures. Professional liability continues to be the most challenging coverage to place due to claims activity and the carriers writing those lines of coverage. The asset management subsegment continues to be where carriers are the most aggressive due to the favorable performance of those books of business.

Artificial Intelligence

Rapidly evolving artificial intelligence (AI) technology continues to be uncharted territory, posing potential financial impacts or unforeseen exposures. Colorado recently passed the first regulatory bill for AI, which could lead to possible claims for those not responsibly and cautiously utilizing the tool. Public companies will likely face the brunt of the impact, with AI disclosures increasingly scrutinized.

Cyber Risk

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Rate Trends

The cyber insurance market continues to experience downward pressure on rates, averaging flat to 10% reduction, with significant variations based on size, industry and controls. Increased competition from new and returning carriers drives broader coverage, lower retentions and higher limits. Traditional markets, facing competition from insure-techs, are adjusting pricing to grow in small and middle markets and competition on layered programs is driving down excess pricing. There is concern that the continued elevated claims activity may cause broad market-wide rate increases and more challenging market conditions as we look to the second half of 2024 and the first half of 2025.

Carrier Appetite

Most carrier appetites remain broad, although specific industries face difficulties due to outside political or economic factors. Newer environmental, social and governance (ESG) concerns, such as coal or non-renewable energy, affect utility companies and producers of vice products like tobacco and alcohol. These pressures may extend to other industries in the future.

On large accounts with significant premiums, carriers are more willing to increase limits from $5M to $10M. For small to middle-market businesses, carriers typically maintain $5M limits. Nonetheless, underwriting standards are still high, causing greater competition for buyers with a strong security posture.

Claims & Coverage Limitations

Carriers continue to raise questions about catastrophic losses, with many releasing new language limiting war coverage. These changes are driven, in part, by reinsurance restrictions. Many carriers will complete their reinsurance renewals on July 1, when we may see a renewed emphasis on specific risk areas.

Professional services, education and manufacturing sector policies continue to be the most impacted by cyber events, with a high frequency of business email compromise, ransomware and cybercrime claims. Carriers are concerned about privacy-related incidents, particularly those resulting from violations of the Biometric Information Privacy Act (BIPA) and tracking technology non-compliance.

While the immediate effect of new SEC cyber guidance appears limited to directors' and officers' liability policies, some predict the SEC requirement to report cyber incidents publicly will increase the frequency of class action lawsuits. The industry continues to monitor the implications of artificial intelligence and how to protect sensitive data disclosed via chatbots.

Multinational

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Multinational Casualty

The multinational casualty market continues to show flat to moderate rate decreases. These rate trends remain influenced by three core factors: favorable loss performance, heightened global exposure and reduced costs due to technology.

Loss performance primarily drives rate decision-making year-over-year, with minimal claims activity leading to a flat to nominal rate decline. Heightened exposures, driven by global inflation and customer growth, enable economies of scale pricing strategies, reducing program rates and premiums. Additionally, technological advancements across various functions are providing a catalyst for reduction in issuance costs, exposure collection and accuracy, and global program management.

Overall, the market outlook remains positive for the remainder of 2024, with proactive discussions and collaborative efforts to address emerging risk factors within evolving global markets. These preparatory measures are essential for achieving the best outcomes amidst dynamic market conditions.

Inflation and Tax

Globally, inflation has seen year-over-year increases since 2020 (source: Moody Analytics). Since 2020, the global inflation rate has ranged from +3% in 2020 to +9% in 2022. Several resulting considerations include the following:

1. Whether the current policies adequately capture the value of all assets
2. How quickly an organization can recover from a business interruption event
3. If the current limits for their Directors & Officers are sufficient given rising costs

> **Technological advancements across various functions are providing a catalyst for reduction in issuance costs, exposure collection and accuracy, and global program management.**

Local Market Changes

Individual markets continue to evolve and adapt to the changing claims environment and global insurance marketplace, with each jurisdiction experiencing unique challenges and opportunities across the insurance industry.

INDIA

Effective April 1, 2024, India's general regulations stipulated that fire, engineering, motor and other miscellaneous lines of insurance coverages are de-tariffed. From a tax perspective, this change could impact insureds aiming to procure the notated coverages within India. The Insurance Regulatory and Development Authority of India (IRDAI) has advised that those prevailing tariffs, including terms, conditions, clauses, warranties and wordings, are entirely de-notified in all business classes as of the specified effective date. Insureds may begin reviewing carrier offerings to identify relevant, customized solutions, limit changes and tailor coverage needs based on their risk profile.

MEXICO

Mexico's cargo market has seen premium increases for locally placed programs since 2023. The primary driver of these increases is a significant theft claims volume, leading to 25-35% premium hikes. This has resulted in coverage limitations, premium adjustments, and potentially increased deductibles, depending on the experience of specific claims.

EASTERN EUROPE

Eastern Europe continues to face significant challenges due to the ongoing Russian invasion of Ukraine, which began in 2022. Many insurers and reinsurers have left the region, including Russia, Ukraine, Turkey, Poland and Czechia. This has led to a hardening of the property market specific to the region, particularly for more hazardous industry segments.

AUSTRALIA

In recent quarters, the local Australian insurance marketplace has experienced greater competition following premium pressures and restrictive coverage. Market capacity has been volatile since 2020, but there has been a mild resurgence in the capacity to offer premium relief and customizable insurance solutions in the local markets.

Surety

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ESG Governance

Various governments and regulatory bodies have implemented stricter environmental, social and governance (ESG) reporting requirements through 2024. These regulations mandate companies to provide more comprehensive and transparent disclosures regarding their environmental impact, social responsibilities and governance practices. Surety underwriters must incorporate ESG factors into their risk assessment models more rigorously than previously required. This includes evaluating projects' environmental sustainability, construction activities' social impact and the governance structures of the firms they insure.

Companies seeking surety bonds will incur higher compliance costs to meet these enhanced reporting standards, which could influence their overall financial health and risk profile. More risk generally results in higher premiums, which traditionally diverts into a more challenging market and less overall capacity for new jobs.

Basel 4

Basel 4, the latest iteration of the Basel Accords, is set to go live in July 2025. It introduces new capital requirements for banks and financial institutions. These requirements aim to enhance the stability and resilience of the financial system by ensuring that institutions hold sufficient capital against potential losses. Surety companies, particularly those affiliated with banks or financial institutions, will need to hold higher capital reserves, which could affect their liquidity and capacity to underwrite new bonds. The need for increased capital may lead to more conservative underwriting policies, emphasizing the financial health and stability of companies seeking surety bonds.

Infrastructure and Inflation Reduction Act

The United States continues to roll out significant funding initiatives for infrastructure and public works projects to stimulate economic growth. These initiatives often come with specific regulatory requirements regarding project execution and sustainability. Projects funded by these initiatives must comply with stringent regulatory standards, including labor practices, environmental impact assessments and timely project completion. There has been a significant surge in demand for surety bonds to support these large-scale infrastructure projects, presenting a promising opportunity for the industry. Surety companies have been scaling up their operations to meet this increased demand while being met with a lack of new talent to fill gaps in the industry.

The Inflation Reduction Act will continue affecting cost structures and economic conditions for construction projects and the healthcare market. Changes in inflation control measures could lead to fluctuations in material and labor costs, impacting the overall cost of bonded projects. The broader economic impact of these amendments will influence the financial stability of contractors and developers, affecting their eligibility and risk profile for obtaining surety bonds.

Aviation

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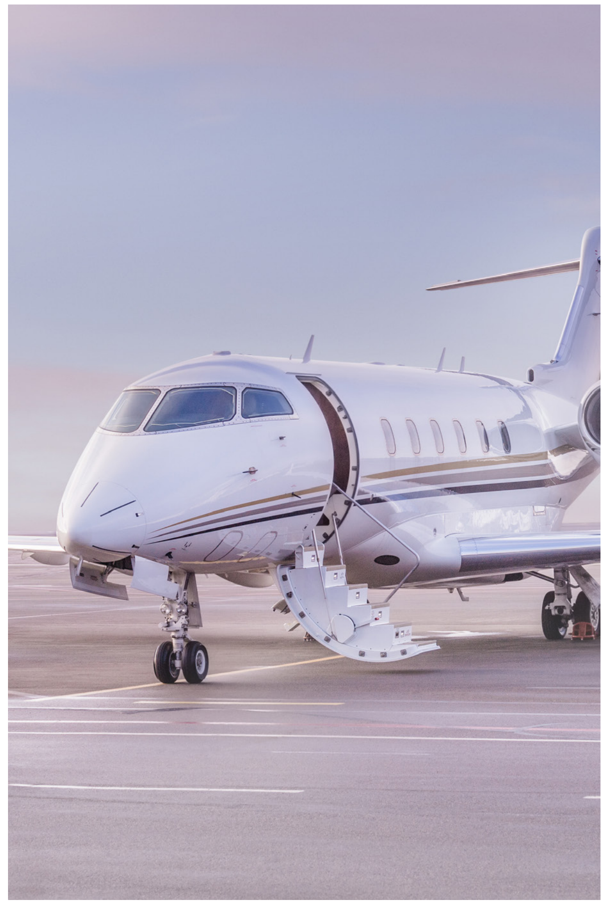
Positive trends continue in the aviation sector throughout the third quarter of 2024. Available capacity within the primary aviation insurance marketplace is abundant. The increased capacity has also increased underwriting interest, creating a competitive environment. It remains essential for organizations to highlight their operating differentiators and detail their safety program.



Premium increases are stabilizing after four years of a challenging aviation market. These market conditions are defined by increased insurance premiums and underwriting requirements combined with coverage limit reduction or removal of coverage. Many aviation insurers are presenting renewal terms at single-digit increases, or even as expiring, to customers viewed as preferred risks. Preferred risks have a favorable loss history, operate newer aircraft and are crewed by qualified pilots who complete annual training on the specific make and model. The market has witnessed significant adjustments in coverage offerings, limits and rates, particularly impacting large fleets, airlines, large airports and loss-sensitive risks.

Market Impacts

The frequency of catastrophic aviation losses has slowed in recent years, but their severity has increased dramatically. Ongoing geopolitical events have significantly influenced market dynamics, especially in the aviation reinsurance marketplace. Primary aviation insurers experienced double-digit rate increases in their reinsurance premiums and increased retention levels. It is now common for these insurers to have additional requirements, exposing more capital than in previous years. European Union sanctions have stranded over 400 leased aircraft in Russia, valued at $10B, resulting in substantial hull war claims totaling $6.5B. Now that court proceedings have begun with some of the world's largest aircraft lessors and their insurers, a resolution could happen in 2024.

This has had cascading effects on contingent liability, war risk and terrorism premiums. War risk renewals are experiencing upward adjustments, with aviation insurers modifying hull war rates to counteract losses.

Safety Management Systems (SMS) Development

A recent development in aviation safety will impact thousands of operators throughout the county, increasing safety for the entire industry. The FAA issued a Notice of Proposed Rulemaking expanding Part 5 SMS, requiring all Part 135 operators to implement an SMS by Q3 2025. An SMS is not required for those providing Air Charter Services operated under FAA Part 135 and is entirely voluntary. The forward-leaning who have proactively incorporated an SMS into their operating principles are considered best in class and viewed favorably by underwriters.

What Is a Safety Management System?

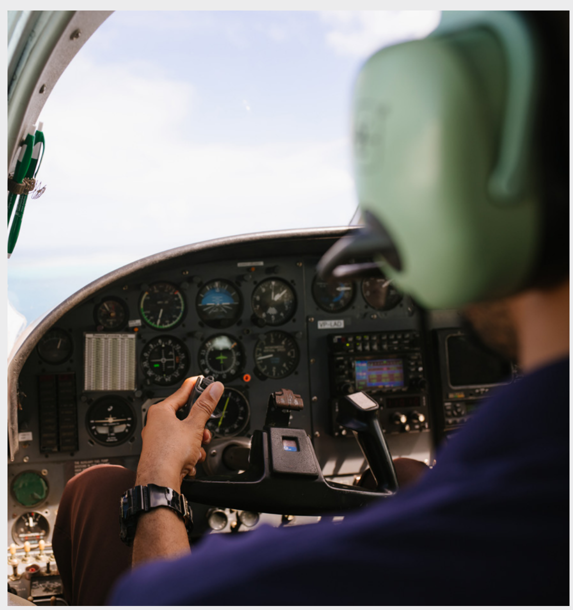
The Federal Aviation Association (FAA) defines a Safety Management System (SMS) as “a program that promotes a defined structure and a “learning culture” within an aviation organization that continually seeks and analyzes information, then turns that information into action that eliminates or mitigates safety risks before they become unwanted events.”

Aviation insurers have continually provided operators with various safety resources to implement. Official requirements are expected to be released by the FAA in October and are anticipated to impact over 4,000 Air Carrier Certificates. This has been a requirement for all Air Carriers operating scheduled air service under FAA Part 121 since 2018.

As we progress through this year, there is a sense of optimism as books are balanced, risks are undertaken, and retentive measures are strengthened. However, a catastrophic loss or a series of attritional losses could dramatically impact the stability of the current aviation marketplace.

Challenges and Opportunities

The third quarter of 2024 presents new challenges and opportunities. Inflation has become the latest hurdle in the already challenging insurance market. The aviation industry is grappling with rising oil prices, impacting overall profitability. A labor shortage stemming from increased demand for air travel and a limited supply of pilots and technicians has prompted underwriters to tighten training requirements, resulting in higher training costs for simulators and instructors. In addition, overall claims costs are rising as aircraft valuations continue to increase with the advances in technology and construction.



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

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