Brown & Brown

QUARTER 4 | 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

Q4 | 2024

Growth goals for this year have created more competition in property underwriting. There is evidence of modest softening, as reporting determined that Q2 of 2024 was the first quarter since 2022, with an average property rate increase below 10% (CIAB).

Reinsurers have returned to strong profitability through repricing, elevating attachment points and shifting away from high-frequency loss layers, forcing primary insurers to retain more risk. After significantly reducing capacity in 2023, reinsurers are modestly increasing their appetite.

However, the market does not anticipate significant softening in natural catastrophe insurance and reinsurance rates. Increasing and unpredictable weather losses are difficult to model and price, coupled with low-risk, high-yield investment alternatives, serve as barriers to entry for capital deployment to attract capital deployment into new reinsurance capacity. Underwriters are expected to focus on accurate property valuations to address replacement cost inflation and risk quality by completing engineering recommendations and business continuity planning.

Severe convective storms (SCS) are an increasingly significant loss driver, with percentage wind/hail deductibles becoming a standard practice. Loss-free, well-protected accounts can expect flat to modest rate increases. Poorly performing, protected or exposed risks may continue to experience double-digit rate increases.

Casualty

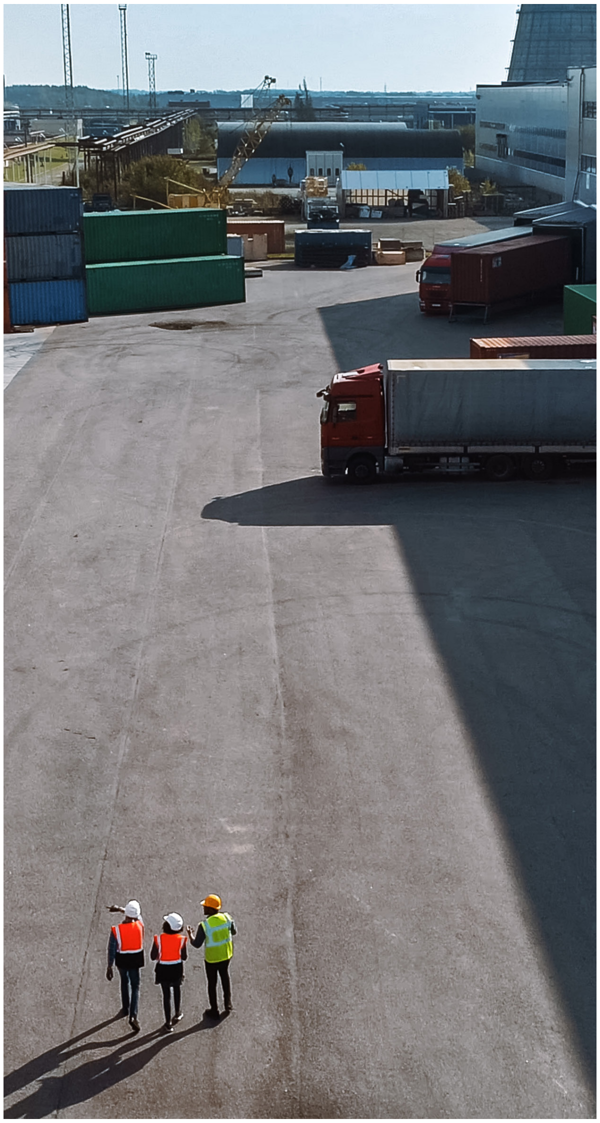
Q4 | 2024

General/Umbrella Liability

The market is stabilizing for accounts with no loss activity. Capacity is available but limited. Few carriers are willing to underwrite $25M layers. Understanding underlying fleet exposures is essential, as this topic is driving underwriter discussions. Flat to 10% rate increases can be anticipated for most of the marketplace. Carriers remain focused on risk management, higher retentions and loss prevention strategies to help mitigate rising costs.

Auto

For automobile liability and physical damage coverage, carriers face higher claims costs driven by increased accident severity, medical cost inflation and rising repair costs. Costs to repair vehicles outpace the ability of insurers to profit in this line of business. Depending on loss activity, rate increases range from 5-15%. Nuclear verdict concerns and labor shortages still impact the insurance industry's effort to maintain profitability and stability, leading to stricter underwriting standards and higher premiums in an ongoing hardening market.



Workers' Compensation

Recent trends in a historically soft market have shown a shift. Though workplace safety and automation have improved, claims severity is rising, driven by medical inflation and higher indemnity costs. Loss-sensitive accounts are experiencing a competitive market with reductions when the program is marketed. Some insurers accept a portion of the collateral in the form of a surety bond instead of a letter of credit or cash. In guaranteed loss programs, carrier competition and capacity continue to flourish.

Executive Liability

Q4 | 2024

The overall market remains stable in a space characterized by increased carrier competition and expanded capacity.

With broader terms, lower premiums and reduced retentions across most lines and coverage types, insureds enjoy a favorable market. In addition to traditional executive liability coverages, other capabilities to consider include kidnap and ransom, active assailant, standalone employed lawyers and standalone wage and hour coverages.

Directors & Officers

Despite an uptick in securities filings for the first time in four years, directors and officers (D&O) rates have decreased. Cybersecurity-related risks associated with D&O have remained an area of concern for underwriters. With recent events like CrowdStrike, cybersecurity-related risks will likely become a more significant concern for underwriters. 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.

Employment Practice Liability

EPL coverage is rated on employee count, location of employees 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. Wrongful collection of biometric data continues to concern carriers in this space. A stable market encourages competition, making negotiations with carriers more feasible.

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Commercial Crime

The commercial crime market remains flat, with exposure increases managed through retention adjustments. Social engineering fraud 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. Though not broadly applicable, some carriers offer an extension of social engineering to capture money, securities and property. Additionally, there have been enhancements to terms. Other insurance clauses amend the policy to make social engineering coverage primary to any other purchased coverage, such as a cyber liability policy.

Errors & Omissions

Errors and omissions (E&O) remains a stable market. Renewal terms and premiums are primarily driven by service exposures rather than influenced by outside market trends.

Financial Institutions

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. Financial institutions face increased scrutiny over their commercial real estate portfolios, with concerns about past-due payments, accruals and foreclosures.

Cyber Risk

Q4 | 2024

Rate and Appetite Trends

While the most common result is a flat to 5% rate reduction, factors such as size, program structure and claims activity may skew results from the average. 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.**

Most carrier appetites remain broad, although specific industries face difficulties due to outside political or economic factors. 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.

There is concern that the continued elevated claims activity may cause broad market-wide rate increases and more challenging market conditions. However, despite headline news events, challenging market conditions will likely be seen at the beginning of 2025.

Claims and Regulatory Landscape

CrowdStrike Outage

It is reported that the CrowdStrike outage will result in insured losses between $300M and $1.5B. Carrier feedback indicates that the event is not anticipated to significantly impact loss ratios and that carriers have contemplated large-scale events like the CrowdStrike event into their pricing and underwriting models. However, the event will likely influence underwriter appetite, scrutiny of third-party risks and coverage considerations for widespread or catastrophic losses.

Industries Facing Impacts

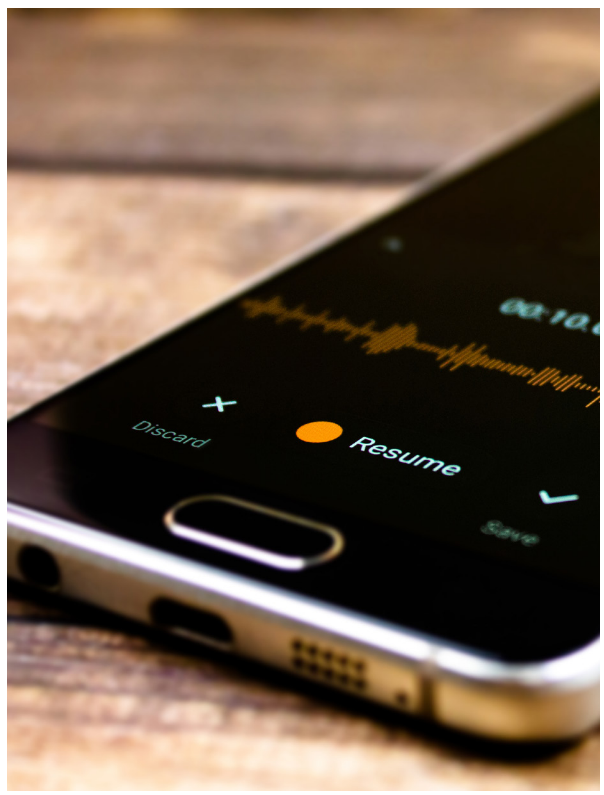
Healthcare, professional services, education and manufacturing sector policies continue to be the most affected by cyber events, with a high frequency of business email compromise, ransomware and cybercrime claims.

Privacy Concerns

Carriers are concerned about privacy-related incidents, particularly those resulting from violations of the Biometric Information Privacy Act (BIPA) and tracking technology non-compliance. We continue to see the application of legacy laws like the California Invasion of Privacy Act (CIPA), enacted in 1967, and the Video Privacy Protection Act (VPPA), a 1988 law, to current privacy practices. The CIPA was designed to protect individuals from eavesdropping or recording without consent. The VPPA sought to protect consumers' privacy by prohibiting the sale of their video rental choices. Both these laws have been applied to recent data collection and sharing practices.

Artificial Intelligence

The industry continues to monitor the implications of artificial intelligence and how regulation will seek to address safety issues. The Safe and Secure Innovation for Frontier Artificial Intelligence Systems Act (Senate Bill 1047) has passed both chambers of California's legislature and is awaiting the Governor's decision. This California bill is one of the first significant legislation to regulate the development and deployment of advanced AI models. 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.



Multinational

Q4 | 2024

Multinational Casualty

Global casualty historical program trends continue with marginal variance by line of business and flat to marginal rate reductions in aggregate. Substantial variance by individual line of business is limited; however, auto liability persists as the most challenged line of business for many regions from a portfolio loss performance perspective. This is partly driven by notable increases in loss severity, inflationary pressures and rapidly evolving risk factors.

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

The multinational casualty market outlook is favorable from a rate perspective for the remainder of 2024 and into 2025 due to substantial market capacity, favorable loss experience and new global casualty carriers with multinational capabilities entering the market. The trends are expected to continue Through technology-enabled solution development and heightened global competition.

Regional Market Updates – Worker Safety

Worker safety represents an increasing global focus, emphasizing the duty of care for international business travel and jurisdictional and country-specific updates to private sector and government-sponsored worker injury compensation schemes. For example, the Australian Workers Compensation & Injury Management Act (2023) recently underwent substantial updates effective July 1, 2024. Amendments included increased compensation caps, enhanced injury management requirements and psychological injury protection. Similarly, the United Arab Emirates has begun to increasingly utilize technology to ensure employee protection is in place and well maintained. Globally, the frequency and pace of worker protection advancements are expected to increase.

Technology and Online Platforms

An increased focus on real-time access to global insurance details places an ever-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 uninterrupted while planning for prospective global growth. 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 an ever-dynamic global program.

Surety

Q4 | 2024

Private Equity and Contractors

Private equity and construction have been heavily linked since the middle of 2021. With surety companies historically weary of the ideals (churn and burn method) that come with private equity, the space has seen an appetite change from some of the more aggressive markets.

With the continued growth within private equity, surety markets have found that risk management, acquisition strategy, project financing, operation functions and exit strategy can facilitate an agreement that was not available before. This allows continued growth in the surety realm, which includes renewable energy, condos/apartments, commercial real estate development, roadwork and more. With adequate capital and higher returns, operations will improve, and surety-related acquisitions could transpire, overcoming the prior loss dynamics.

Broadband Equity, Access and Deployment Program (BEAD)

High-speed internet is inconsistent throughout the U.S. This limits the productive capacity in many small towns, rural areas and underserved neighborhoods in large cities. Consistent high-speed connectivity is needed across the U.S. to maintain its global competitiveness and to improve education, healthcare and public safety.

To conquer this inconsistent infrastructure problem, the National Telecommunications & Information Administration and Broadband USA are rolling out the Access Broadband Act, providing billions of dollars of grant money to each U.S. state and territory. When grant money is awarded to a broadband service provider, they must provide a letter of credit (LOC) or surety bond to guarantee the proper use of the funds. Posting a performance bond instead of the LOC provides greater cash flow to the service provider. Surety providers are gearing up for a large influx of new surety applications in late 2024 and 2025.

Data Centers and High-Tech Manufacturing

There has been a significant increase in data center and semiconductor/high-tech manufacturing buildouts, which will continue into 2025. This increase has led to supply chain issues for mechanical and electrical equipment, which suffer from historically high lead times.

Because these data centers and high-tech manufacturing facilities tend to be very large and concentrated in specific parts of the country, such as Texas, Kansas and Iowa, they are experiencing tighter labor markets. Because of their size and complexity, just one project can tie up many trades for an extended period. Despite recovering from workforce losses during COVID-19, the industry faces rising wages due to inflation and a lack of sufficiently skilled workers, highlighting the need for effective training and employee retention strategies. Surety underwriters are closely monitoring build activity and associated pressures to complete projects on time and on budget.

Aviation

Q4 | 2024

Positive trends are expected to continue throughout the fourth quarter of 2024, with the abundance of capacity within the worldwide aviation insurance marketplace being a key driver. Underwriting interest remains high in areas where artificial intelligence (AI), robust safety standards and sustainable aviation fuels (SAF) developments are highlighted.

Decarbonization efforts remain at the forefront of the aviation sector. This increase in capacity has also increased underwriting interest, creating a competitive environment. Organizations must continue to highlight their operating differentiators and detail their safety programs.

Stability in premium increases is reassuring as commercial aviation enters the fourth quarter with positive growth. In line with the global economy, the North American and Asia-Pacific regions are reporting record profits and an all-time high volume of international air passengers, contrasting with the more challenging sectors of Europe and Latin America. The industry is largely rebounding to pre-pandemic levels, with many aviation insurers presenting renewal terms at single-digit increases or "as expiring" for customers with relatively flat exposures and considered a preferred risk. A preferred risk has a favorable loss history, operates newer aircraft and employs pilots who complete aircraft-specific annual training. The market has witnessed significant adjustments in coverage offerings for those with large fleets, airlines and loss-sensitive risks, indicating a stable and growing industry.

Market Impacts

While the aviation sector has seen positive trends, many challenges remain. These challenges include soaring aircraft repair costs and the shortage of qualified aviation mechanics. Insurance claim costs across the sector are becoming some of the highest value and highest profile losses compared to other incidents like natural disasters. The lack of skilled mechanics, limited availability of aircraft parts and increased replacement part costs have risen significantly. Ground handling claims, weather issues and technical problems, coupled with the ongoing geopolitical climate, have had impacts on the market dynamics in the reinsurance sector, along with increased activity and influence in the multinational and international placements.

Artificial Intelligence

AI continues to change the landscape of aviation through improved maintenance procedures, enhancing flight safety and supporting route management protocols. Optimizing flight paths is crucial in increasing fuel performance, with fuel efficiency at the forefront of the industry. With the ability to monitor weather patterns and real-time air traffic, the use of AI towards airline emission goals and increasing overall performance will continue to be a heavy investment in this sector as they try to reach net zero emissions by 2050.

However, this emerging technology comes with its own unique risks. Data privacy and safety standards will be a top concern as increased cyber threats weigh heavily among aviation industry leaders. AI could also impact careers within the industry as it continues to be utilized and developed. Additionally, AI could help drive continued innovation and expansion as we look to space as the new frontier. Continued optimism remains as we enter the final quarter of 2024.

Challenges and Opportunities

The worldwide aviation insurance marketplace has experienced a slight profit of approximately 4%. However, this profitability could be impacted by any significant aviation loss occurring within the final months of the year. The final quarter of 2024 could also signify one of the largest losses in aviation history concerning the Russian confiscation of several hundred aircraft due to European Union sanctions. This has been reemphasized by the recent conflicts in Sudan, resulting in the destruction of several aircraft at the Khartoum airport. The continued tensions in the Middle East are playing a significant role in the grappling rise of oil prices, impacting the profitability of commercial operators. The labor shortage continues to influence underwriter training requirements, increasing demand for simulator training resources that are limited to instructor availability. These challenges, while significant, are not insurmountable, and the industry is well-prepared to navigate them.

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 program.

Find Your Solution at BBrown.com