

**AON**

# Property & Casualty Insurance Market Overview

FEI Madison

March 11, 2024



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# Property Market Update

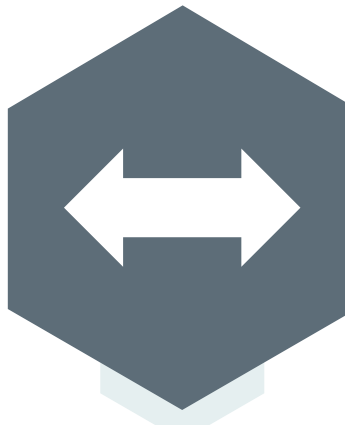


# Property Market Overview Themes: Q4 Results and Q1 Trends



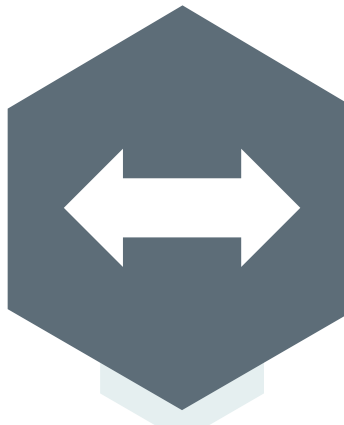
## Pricing

Property continues trend of rate increases but has moderated compared to Q4. We expect rate to be Flat to 10% in 2024.



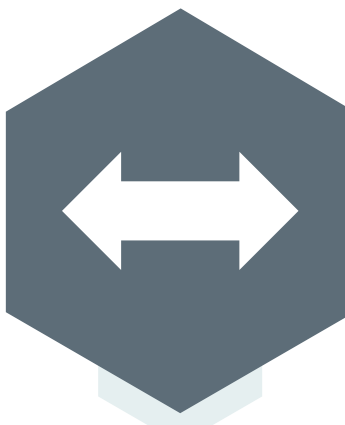
## Limits

Most clients maintaining limits



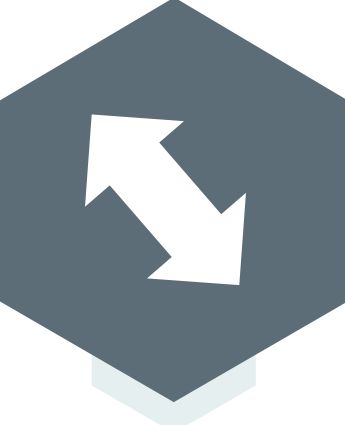
## Retentions

Clients maintaining the same deductible/ retention



## Coverage

No material change in traditional “all-risk” property coverage. Coverage extensions and Property Valuation are being further scrutinized



## Capacity

Continues to be adequate. More challenging for Nat-Cat

- Average Q3 Property rates continue to trend upwards in single digits to mid-teens. Exposure changes are still impacting pricing. Accounts with losses, heavily CAT exposed or in difficult occupancies continue to see higher average rate changes.
- **Outlook:** For 2024, the most desirable risks to underwriters should see rates of flat to +10%; loss-challenged and less desirable risk accounts should expect +10% or greater; Accounts that are predominantly natural catastrophe exposure should expect +10 or greater. Florida only accounts will still face capacity challenges and may still need to be prepared for +20 or greater.

- Majority of clients continue to purchase the same limits
- **Outlook:** We do not anticipate clients to actively seek to increase limits. Clients should be reviewing their current limits to ensure adequate coverage with inflationary pressures and more complex business interruption scenarios. Adequate limit availability will continue to exist for most accounts. We expect and see constriction in available Nat-Cat limits going forward as insurers and reinsurers evaluate climate, exposure size and their perceived ability to be profitable underwriting Nat-Cat risks.

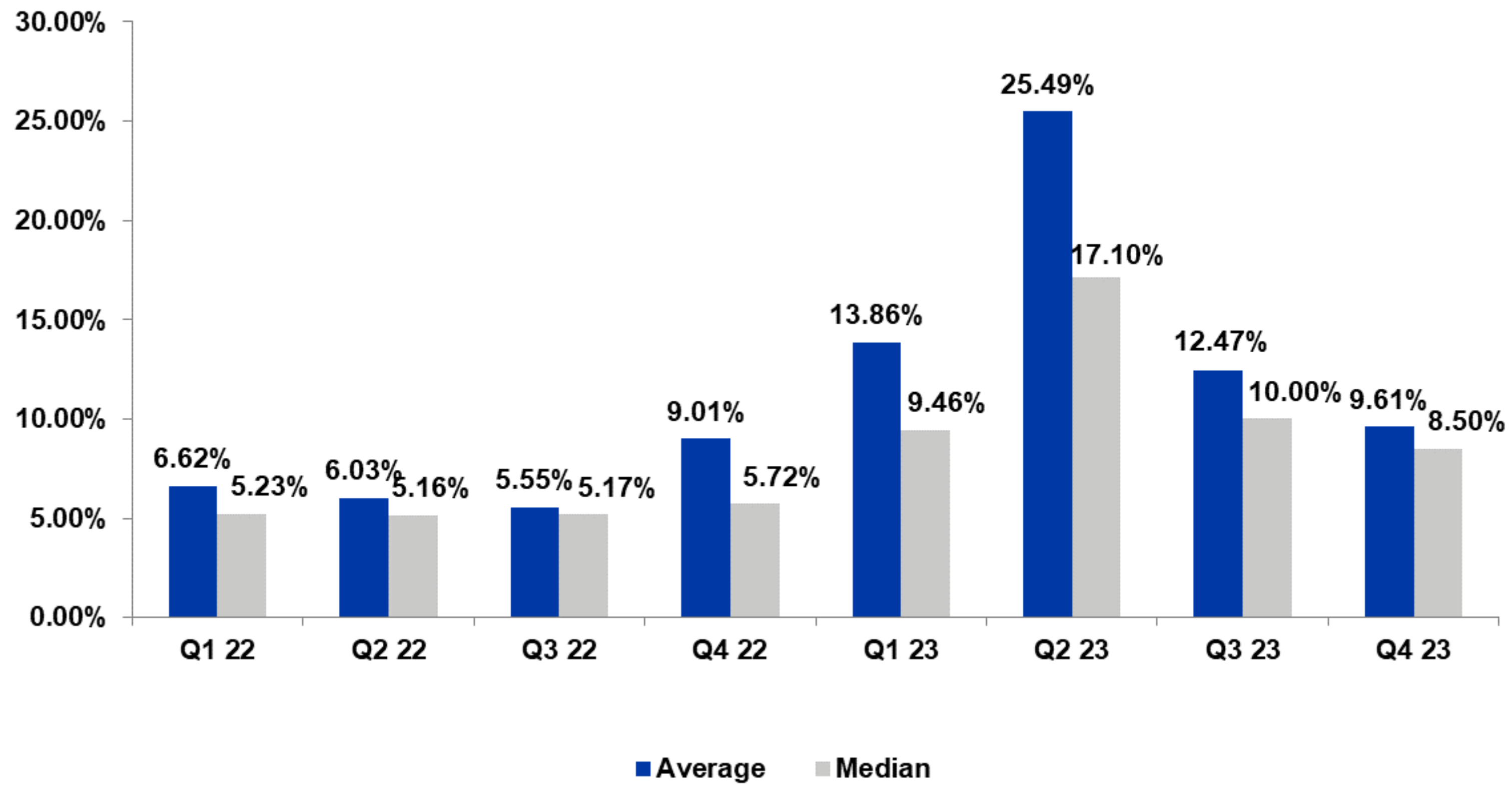
- Most insureds are renewing the same deductibles/retentions. Many insureds are considering higher deductibles/retentions to offset upward rate pressure.
- **Outlook:** Retention increase is now more the result of a client controlling costs as opposed to being forced by insurers. The introduction of separate deductibles for secondary perils could develop given the impact secondary perils contributed to 2021 – 2023 global insured losses.

- Underwriter pressure on proper valuations will not disappear, but with inflation moderating it should be less of an issue for clients that have addressed their values over the past five years. Supply chain management and contingent business interruption remain at the top of each underwriter's question list
- **Outlook:** We expect terms and conditions will be stable and some increased competition may lead to some improvements for some clients compared to a market last year that had very little flexibility as respects coverage.

- Pricing and capacity challenges have moderated. We expect this moderation to continue, largely due to increased capacity from reinsurance markets, and less-than-significant loss events to-date in the Atlantic Basin. Clients can continue to expect aggressive efforts on the part of insurers for shared and layered accounts with desirable occupancy classes, nominal CAT and profitable historic loss ratios. Accounts with poor loss experience and/or Nat-Cat exposures may be challenged in gaining access to adequate capacity
- **Outlook:** Anticipate a competitive environment on the part of insurers for risks with desirable occupancy classes, nominal CAT and profitable historic loss ratios. Expect reduced capacity on accounts with poor loss ratios. Capacity for Florida Windstorm (due to Hurricane Ian), Severe Convective Storm and Wildfire may be problematic. Capacity for California Earthquake continues to be challenging. Pressure is also being seen with exclusions for Strikes, Riots & Civil Commotion due to treaty restrictions.

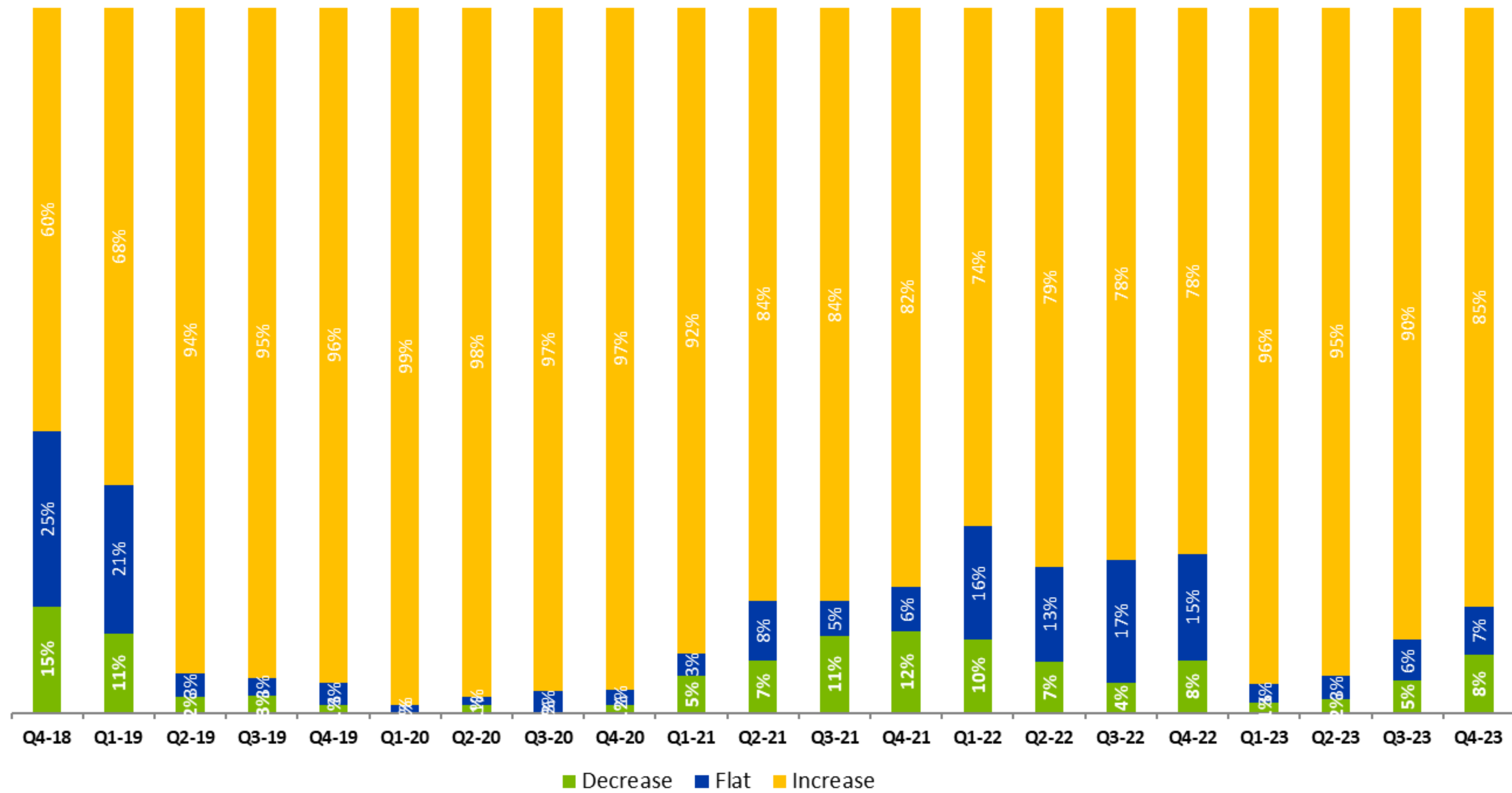
# Pricing

**Average and Median Rate Change**  
Last Eight Quarters  
Source: Aon Data



# Pricing

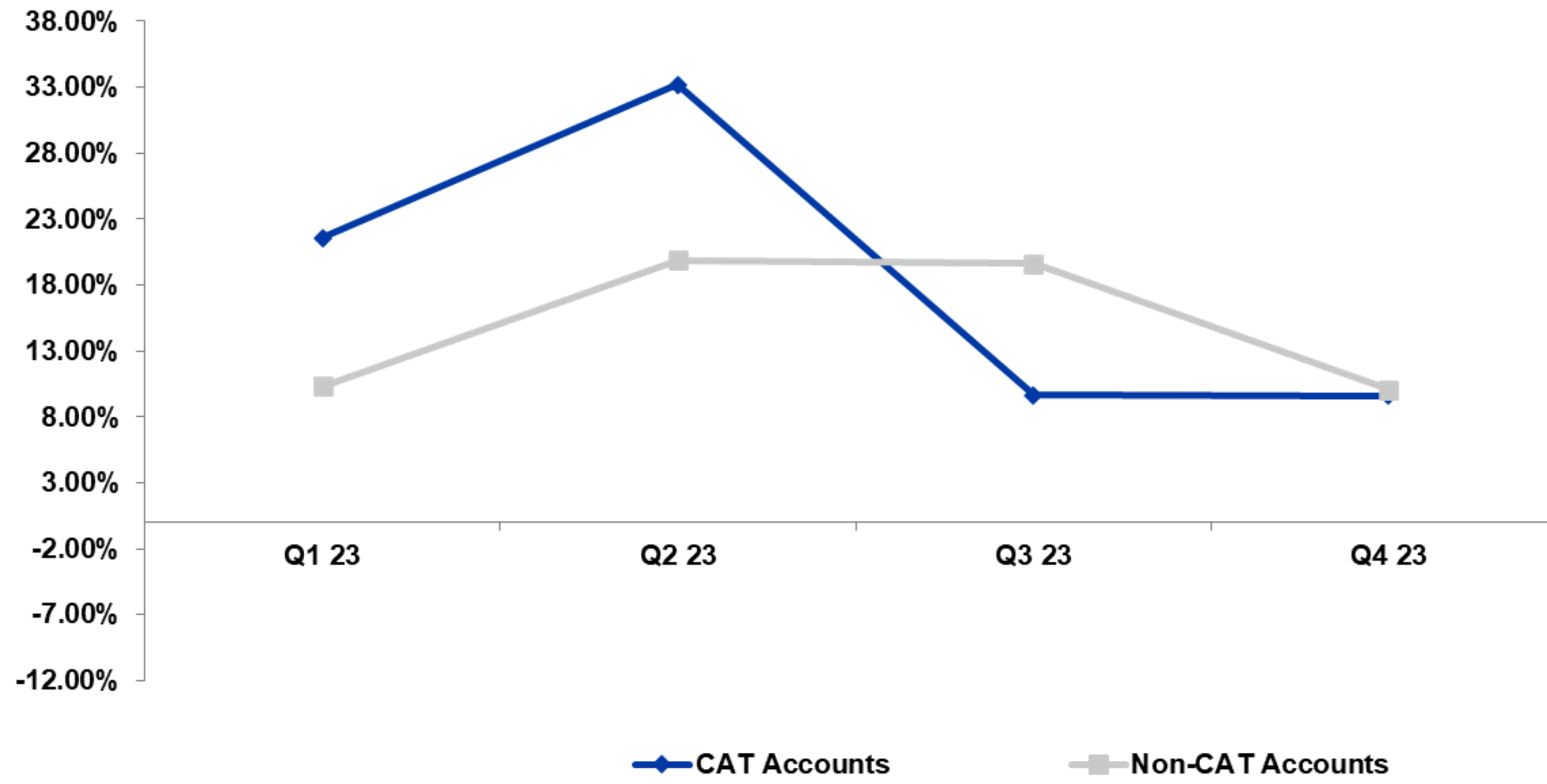
**Quarterly Rate Direction by % of Programs: Decrease-Flat-Increase**  
 Last Five Years  
 Source: Aon Data



Programs with a rate change of +/- 2% or less are considered Flat in this analysis.

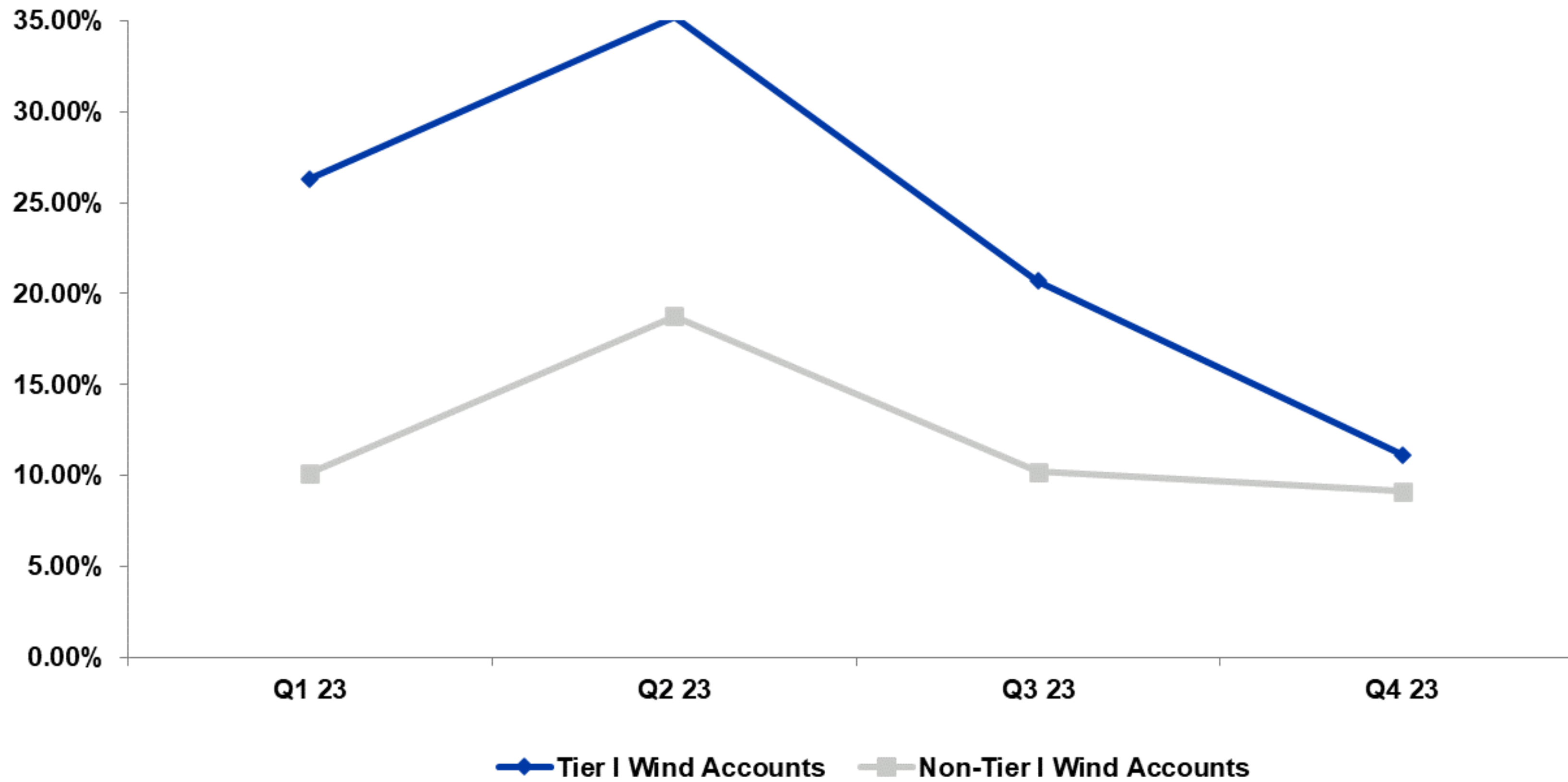
# Pricing

**Rate Change - CAT vs. Non-CAT**  
Last Four Quarters  
Source: Aon Data

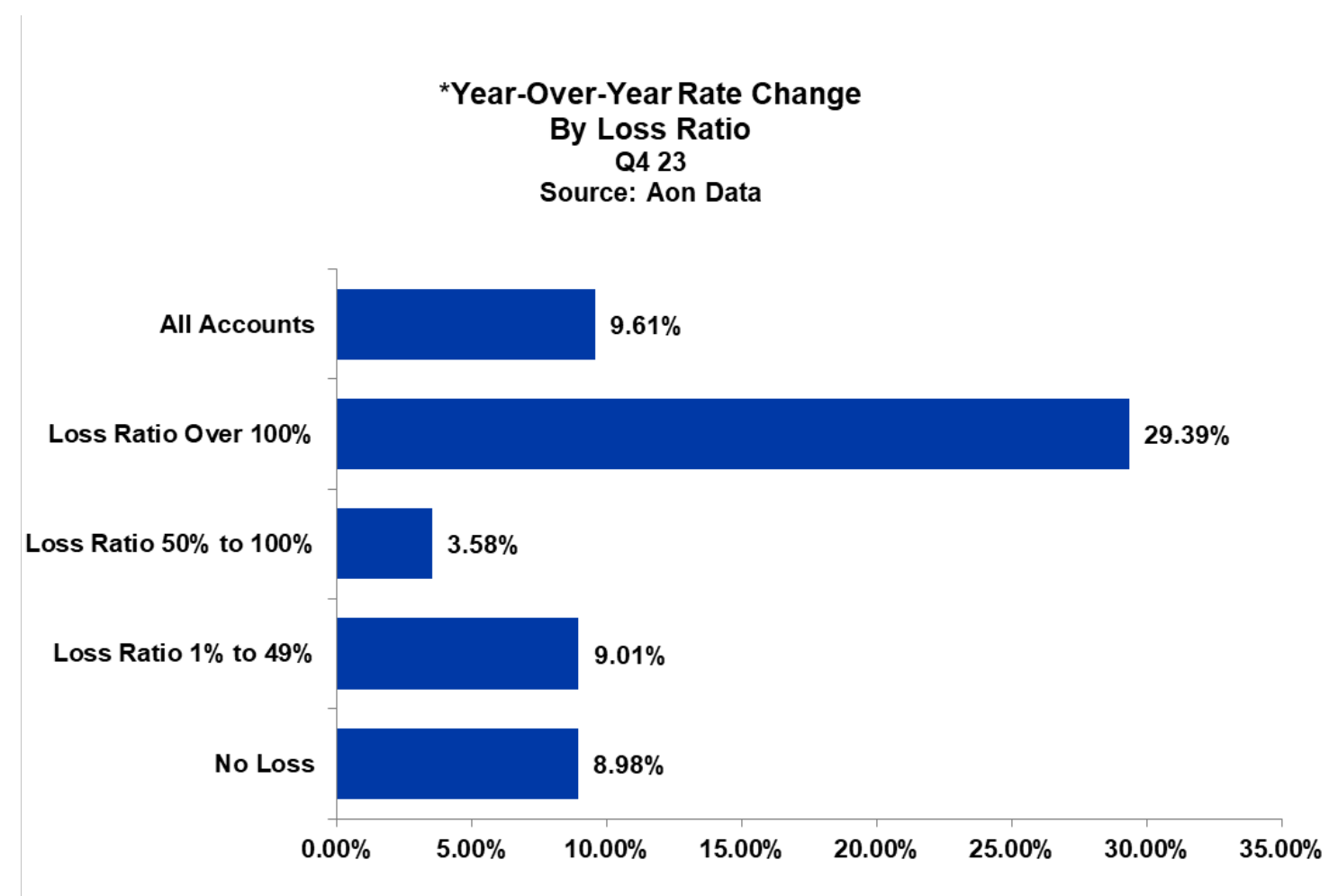
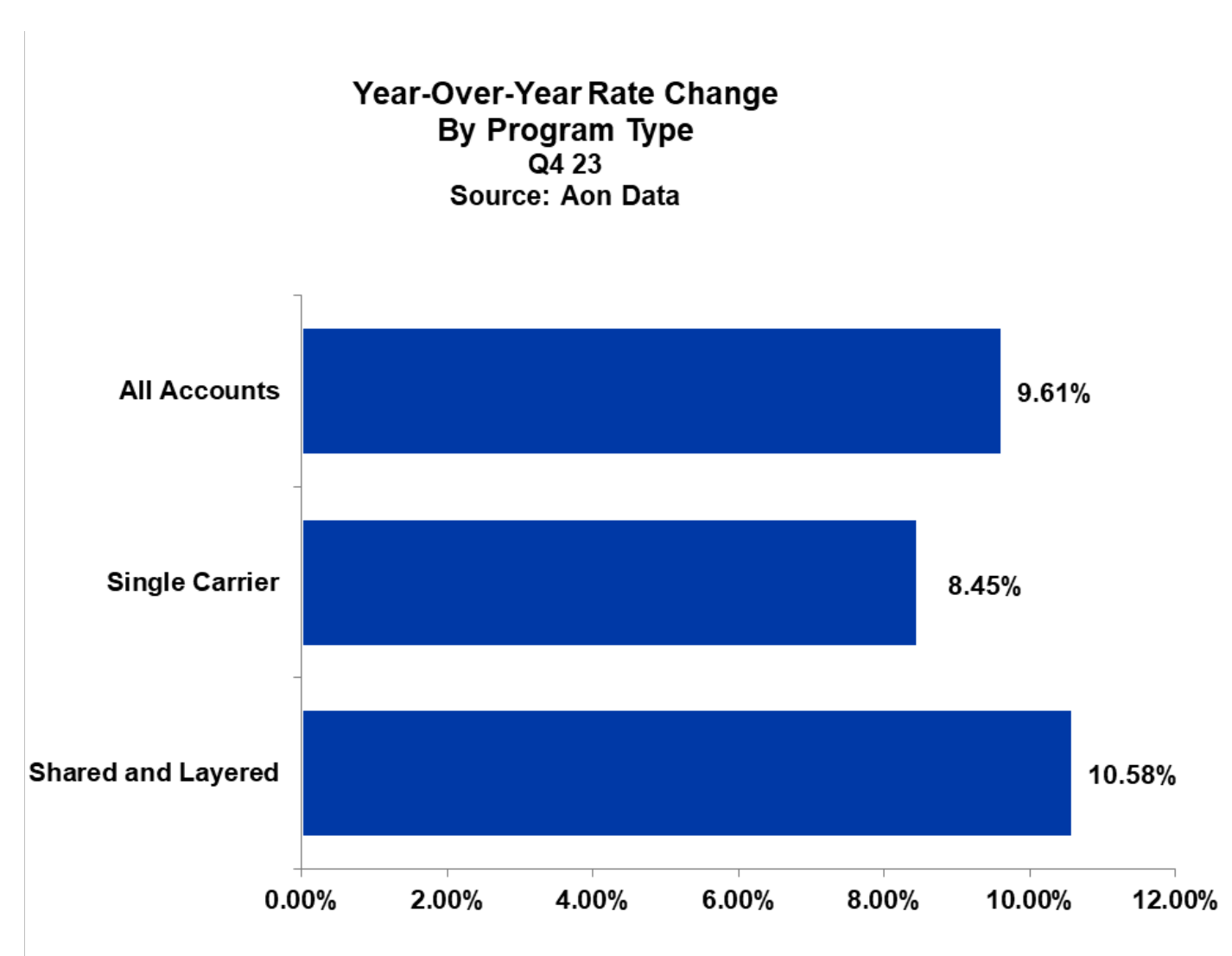
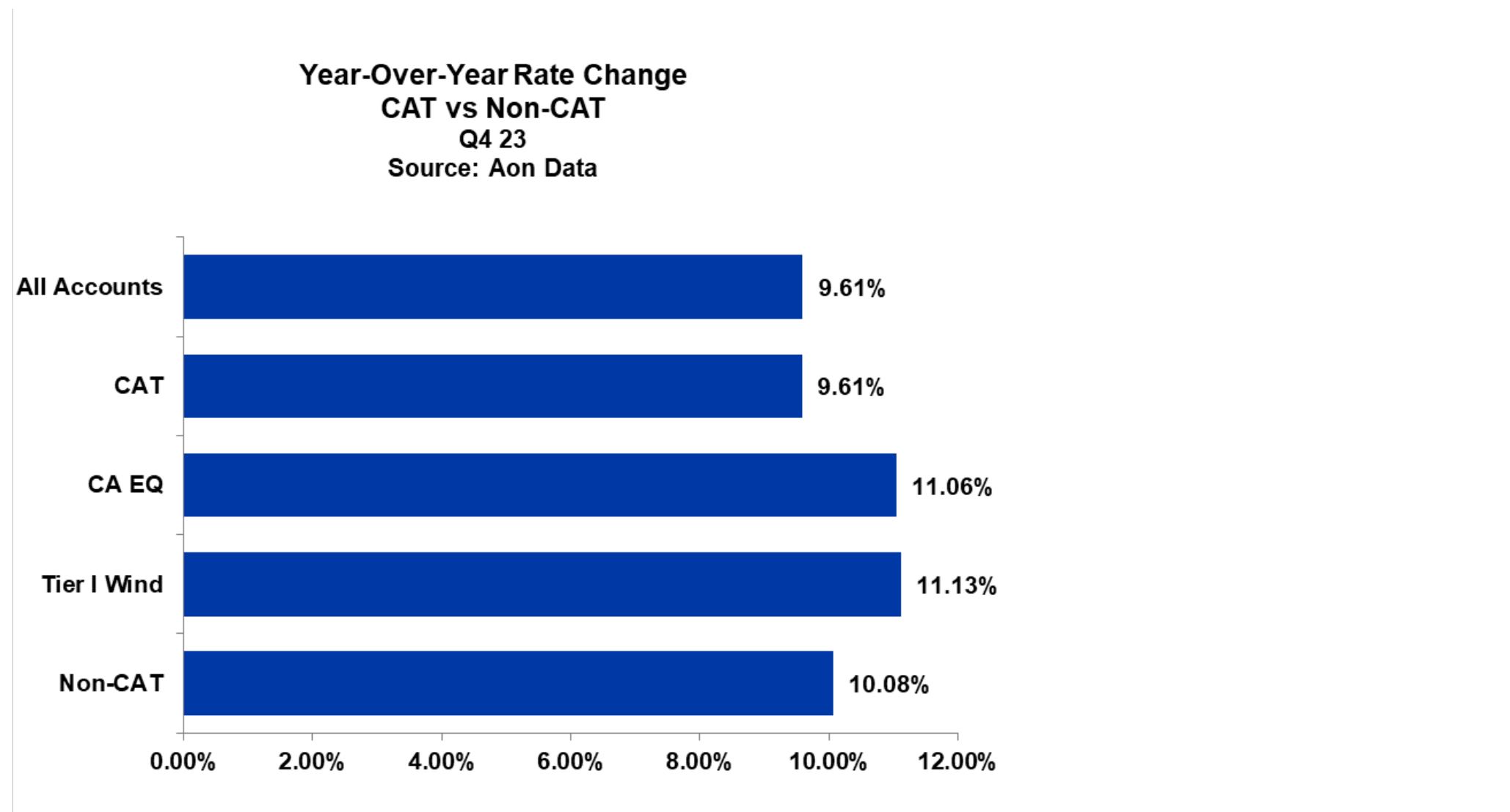


# Pricing

**Rate Change - Tier I Wind vs. Non-Tier I Wind**  
Last Four Quarters  
Source: Aon Data



# Pricing



\* Limited Loss Data for Losses over 50%

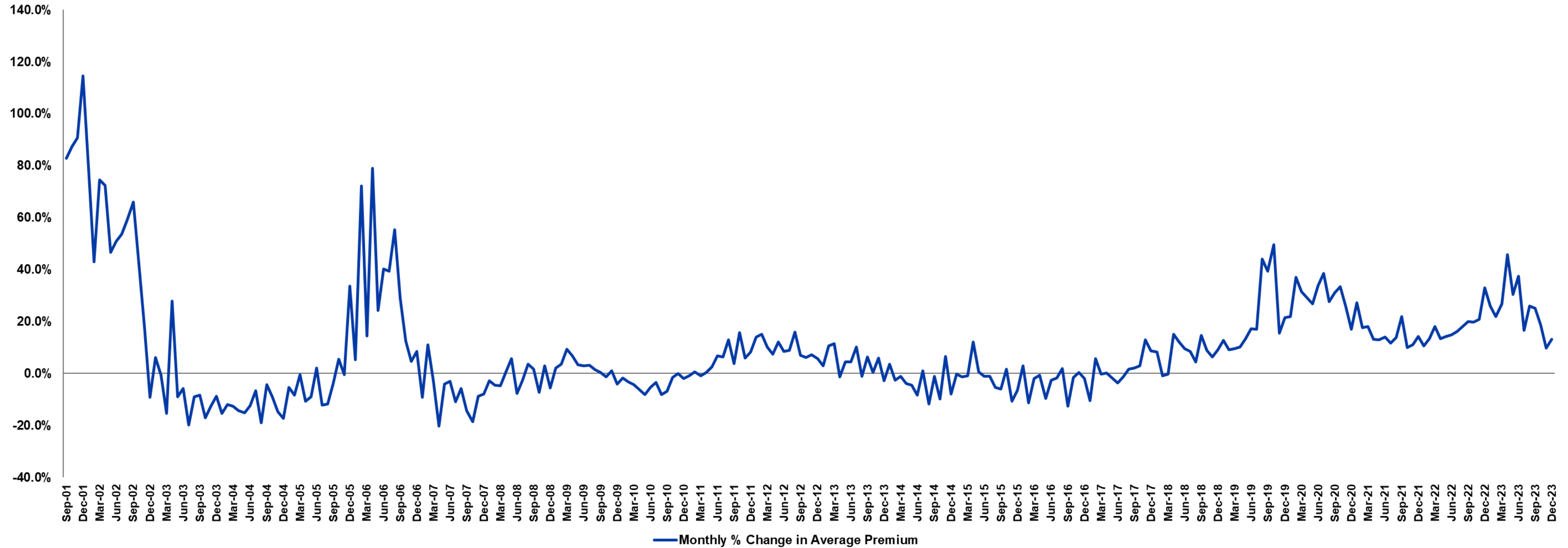


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# Property Market Trends

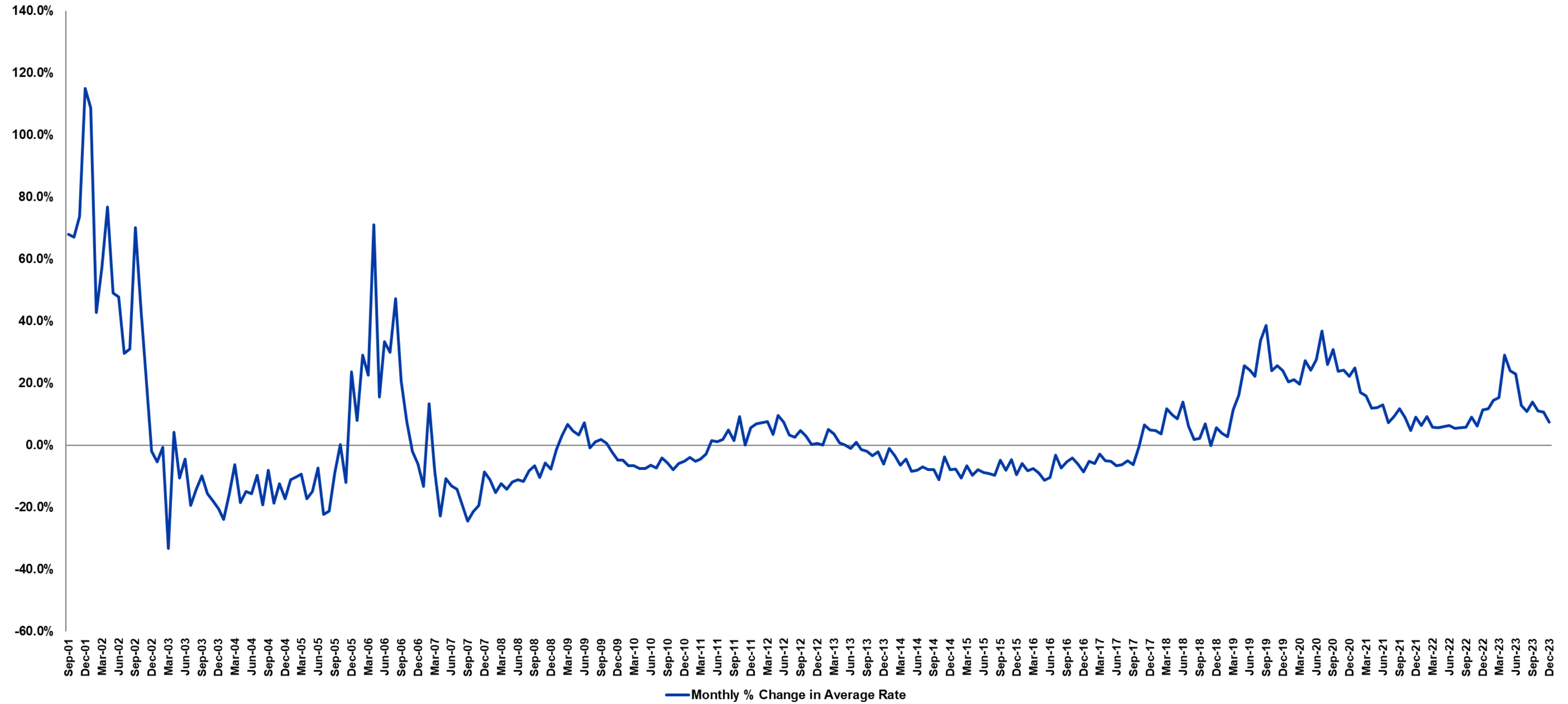
# General Program Parameters

Monthly Change in Average Premium  
September 2001 Through December 2023  
Source: Aon Data

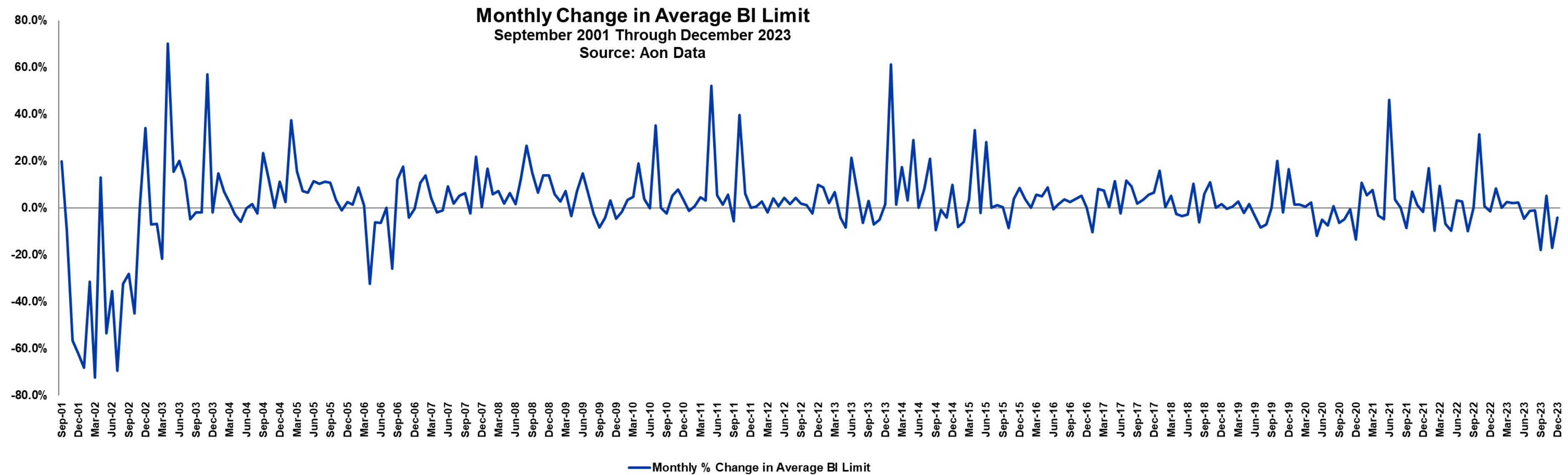
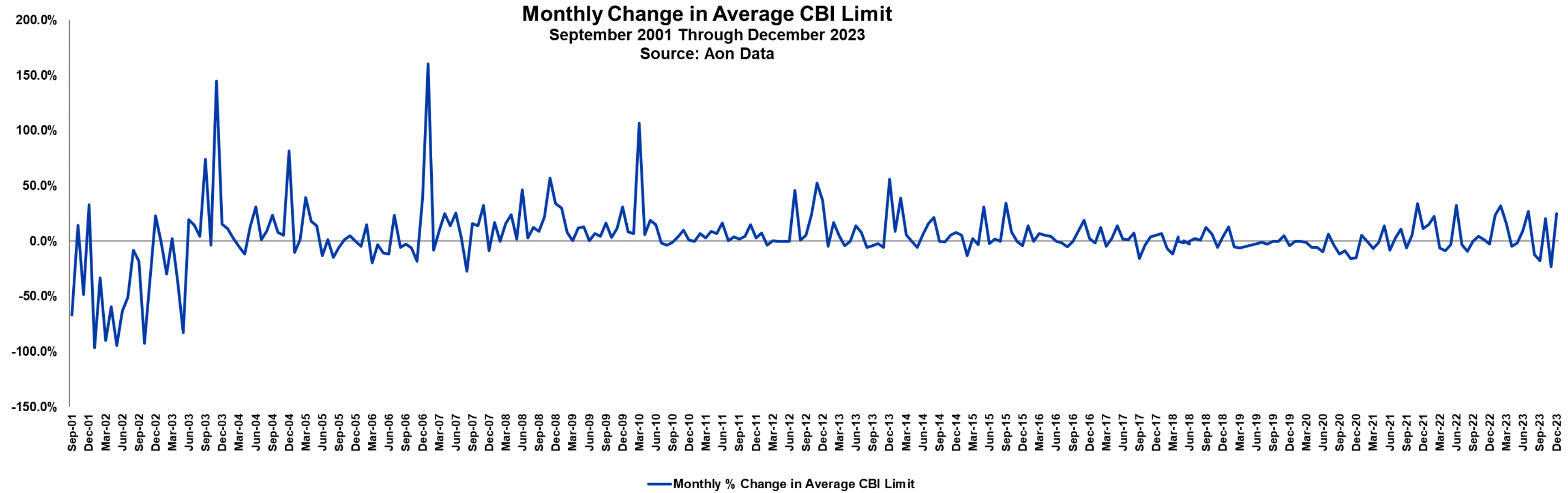


# General Program Parameters

Monthly Change in Average Rate  
September 2001 Through December 2023  
Source: Aon Data



# Time Element



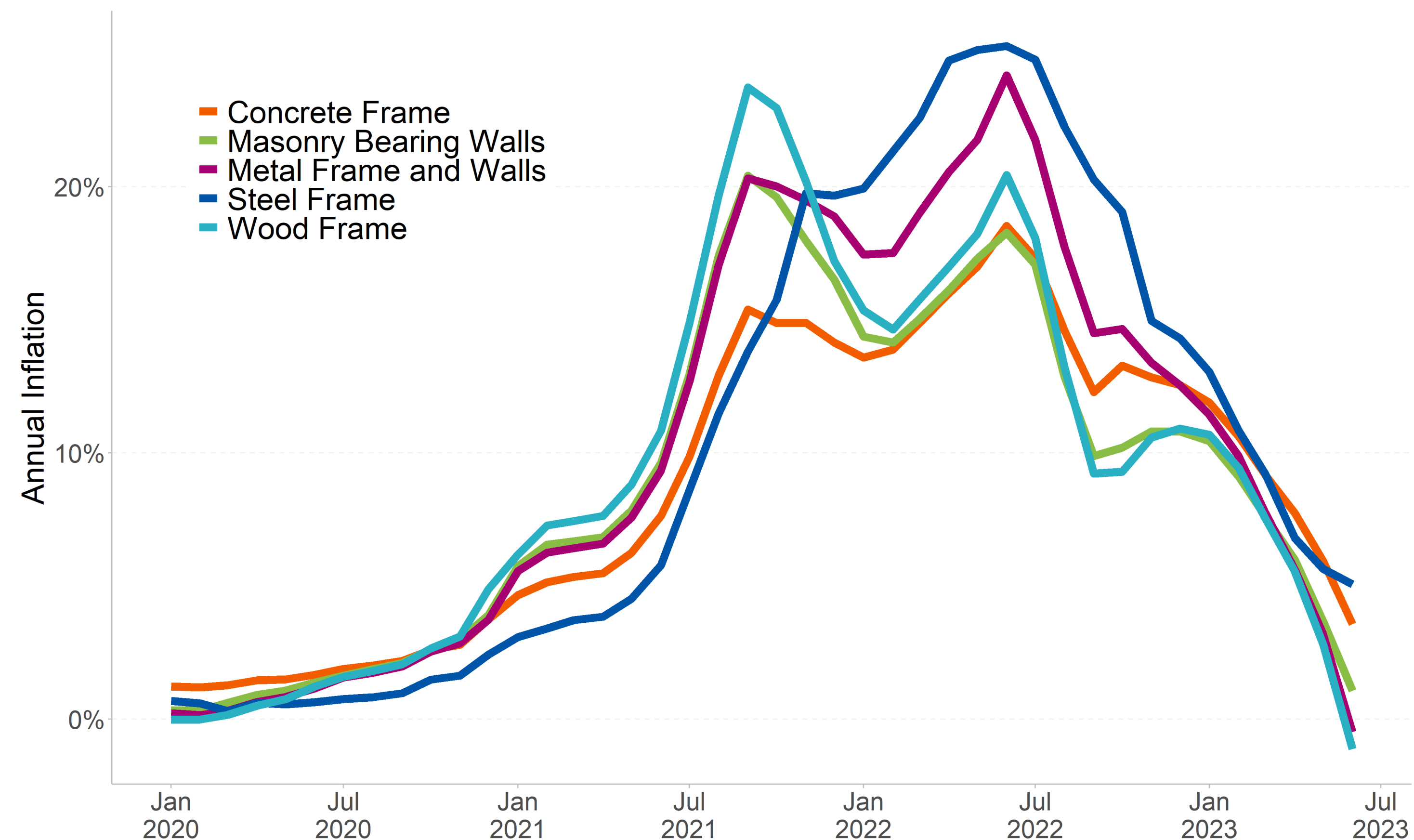
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Inflation

# Detailed cost of materials indices show cooling inflation

Building materials have shown significant deceleration in inflation lately

## Indices for Costs Trends by Building Type

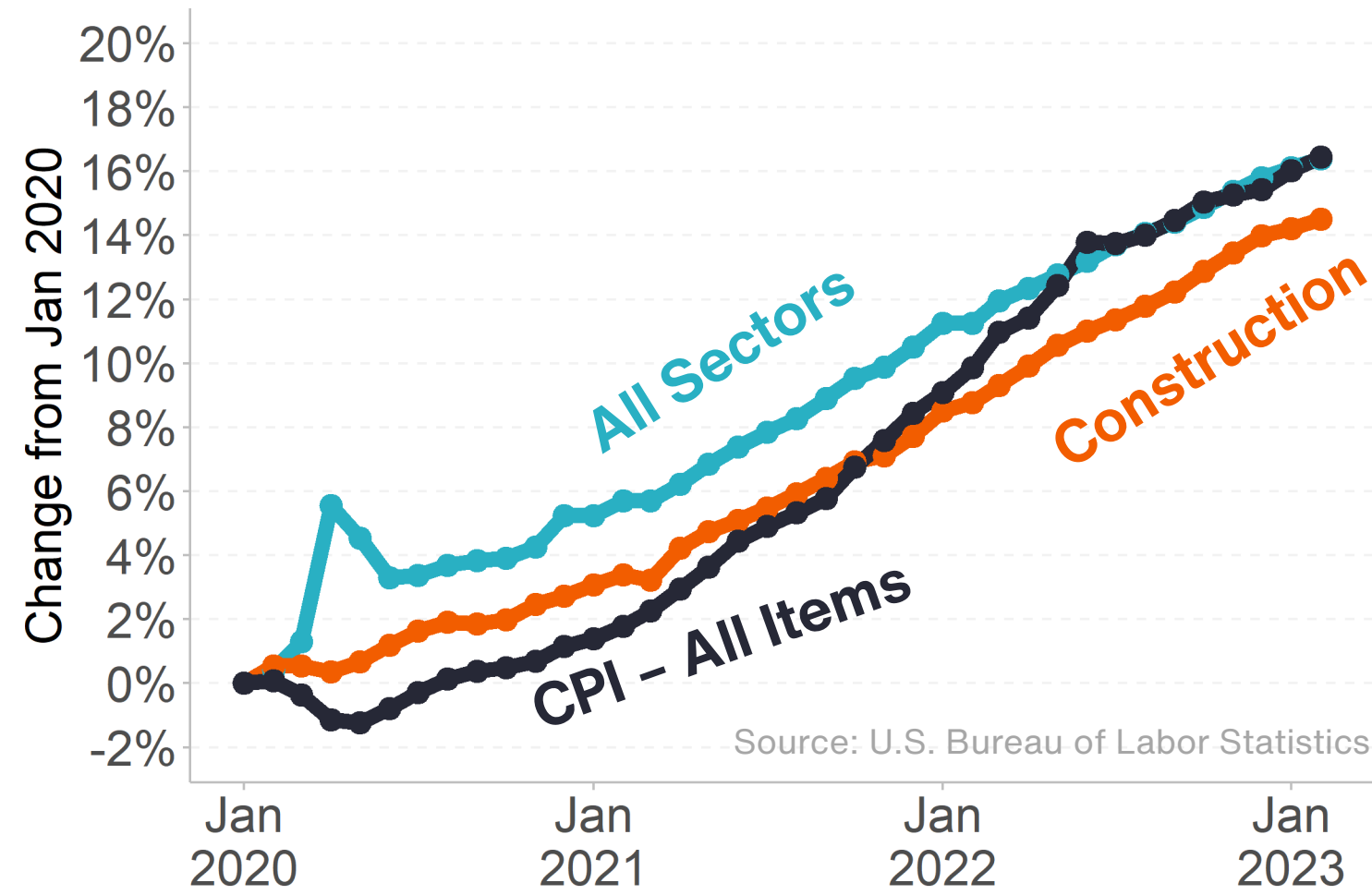


## Building costs trend data shows increases that have outpaced broader inflation measures

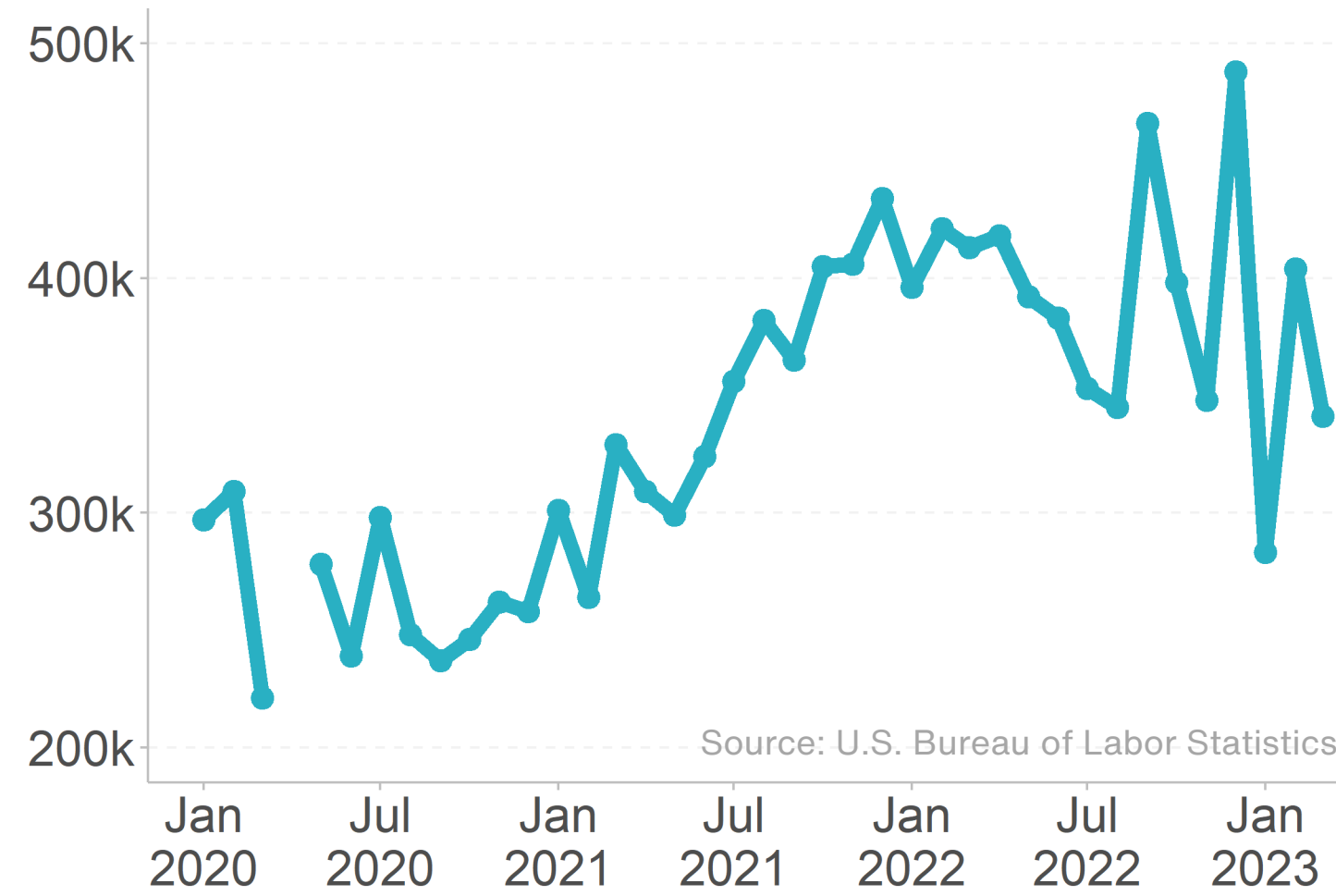
- Material costs and labor shortages have pushed trends up for all types of building
- The Marshall & Swift indices have grown over 10+% year-over-year for all types of materials and across US regions, though other indices show lower rates of inflation
- Property loss trends lag prices, and the entire effect of inflation on loss may not be reflected until later
- After a period of increases in recent months, all building types now show decreases in the most recent months
- Lumber prices have reduced to pre-pandemic levels

# Labor can make up 40-50+% of building costs

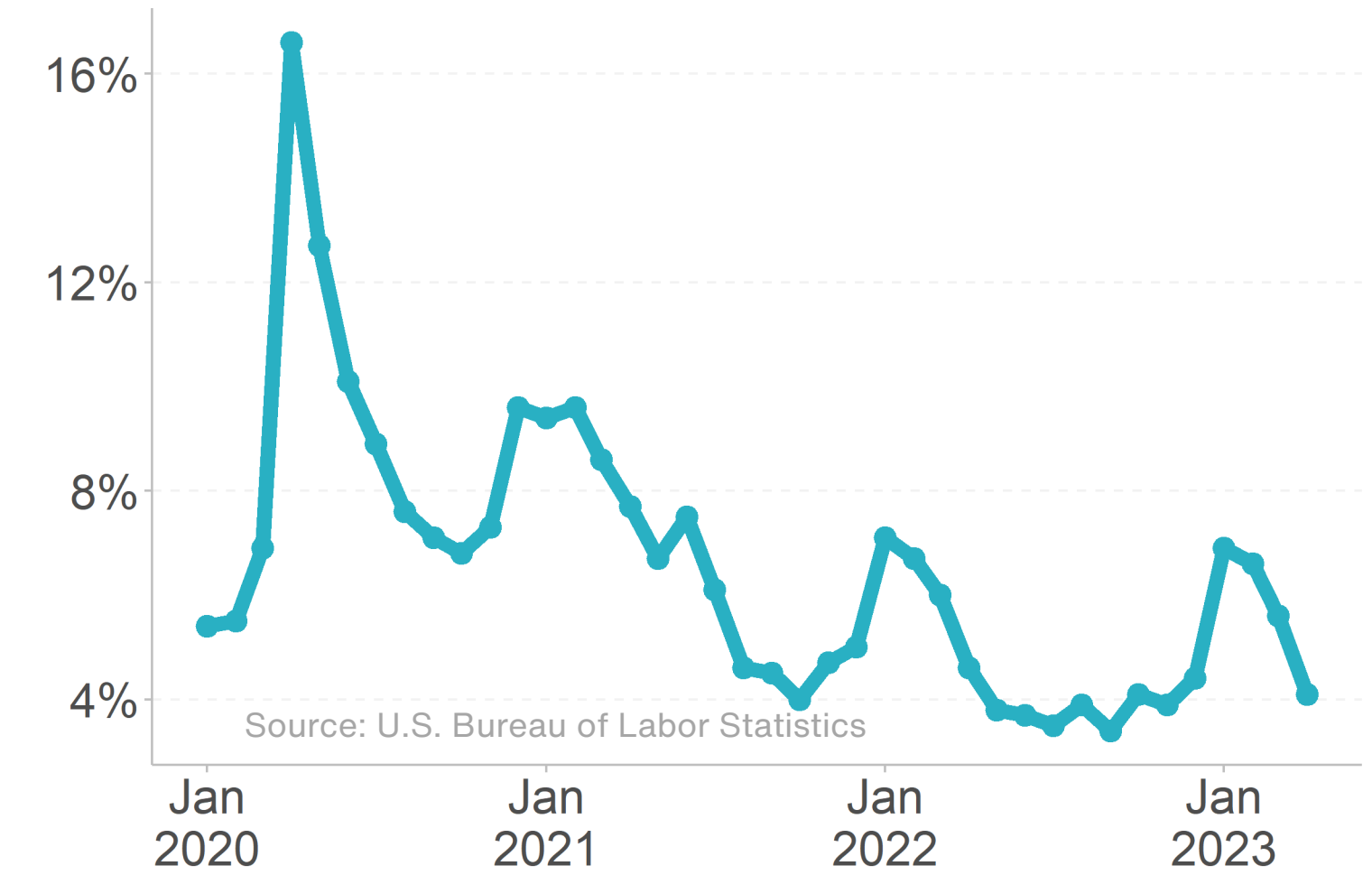
**Average Hourly Wages**



**Construction Industry Job Openings**



**Construction Industry Unemployment Rate**



## Construction wages lag all wages and (recently) CPI

General wage inflation across all sectors, especially food service

Businesses were competing with enhanced unemployment, stimulus checks, closed schools, and COVID hesitancy. Now there is exceptionally low unemployment

Construction wages increases have lagged overall CPI recently

## Construction labor market feels in flux

Job openings have dropped from their recent highs

Unemployment is recently trending down

Housing starts and other construction metrics have slowed recently which could mean the construction labor market will cool further

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# Casualty Market Update





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Casualty

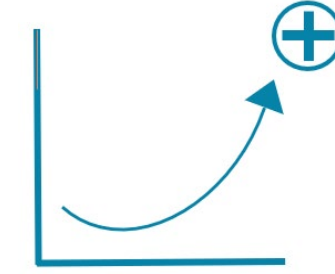
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# Primary Casualty Market Headlines Q4 2023



Introduction of **market competition** continues to yield **favorable renewal** results.



Most client exposures have increased, **but an economic slowdown could** have negative impact on rates if exposures begin to be impacted.



Workers' Compensation renewals averaged a **-1.1% rate reduction** as the favorable WC market landscape continued.



Carriers continue to evaluate **coverage grants, retention thresholds and attachment points** on more challenging risk profiles.



Markets have leveraged **other coverage lines to help retain or win** the primary casualty.



Exploration and utilization of **Buffer and Structured programs**, especially for risks with large fleets, has risen to help support increased attachment points of lead umbrella programs.



Clients continue to explore alternative forms of collateral. Creative solutions are paramount.



Current inflationary environment continues to **impact wages, medical costs and benefit levels** for WC.



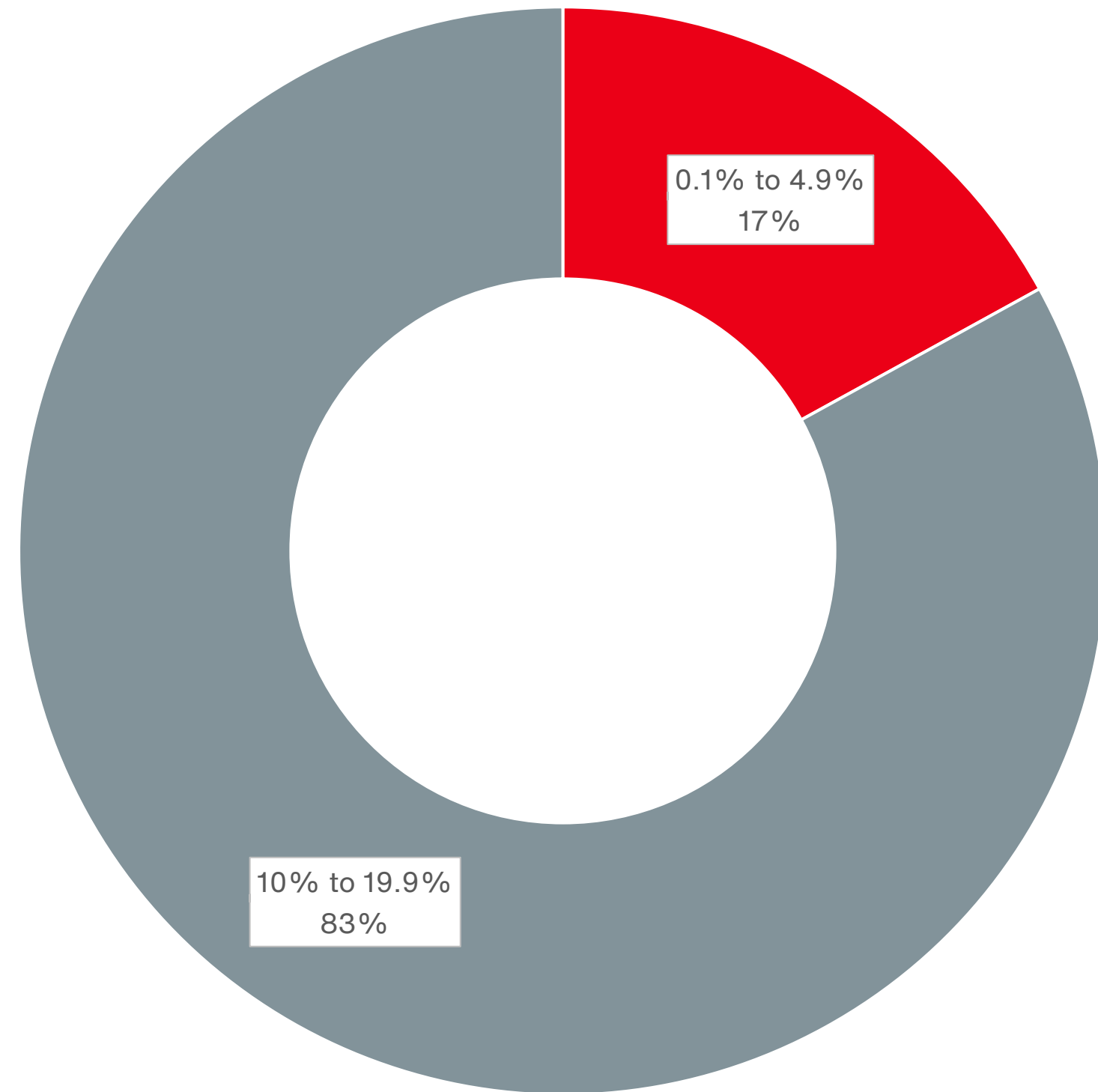
Inflation trends have led to even greater **monitoring of actuarial reserves** as well as clients increasingly exploring **Loss Portfolio Transfer** solutions.



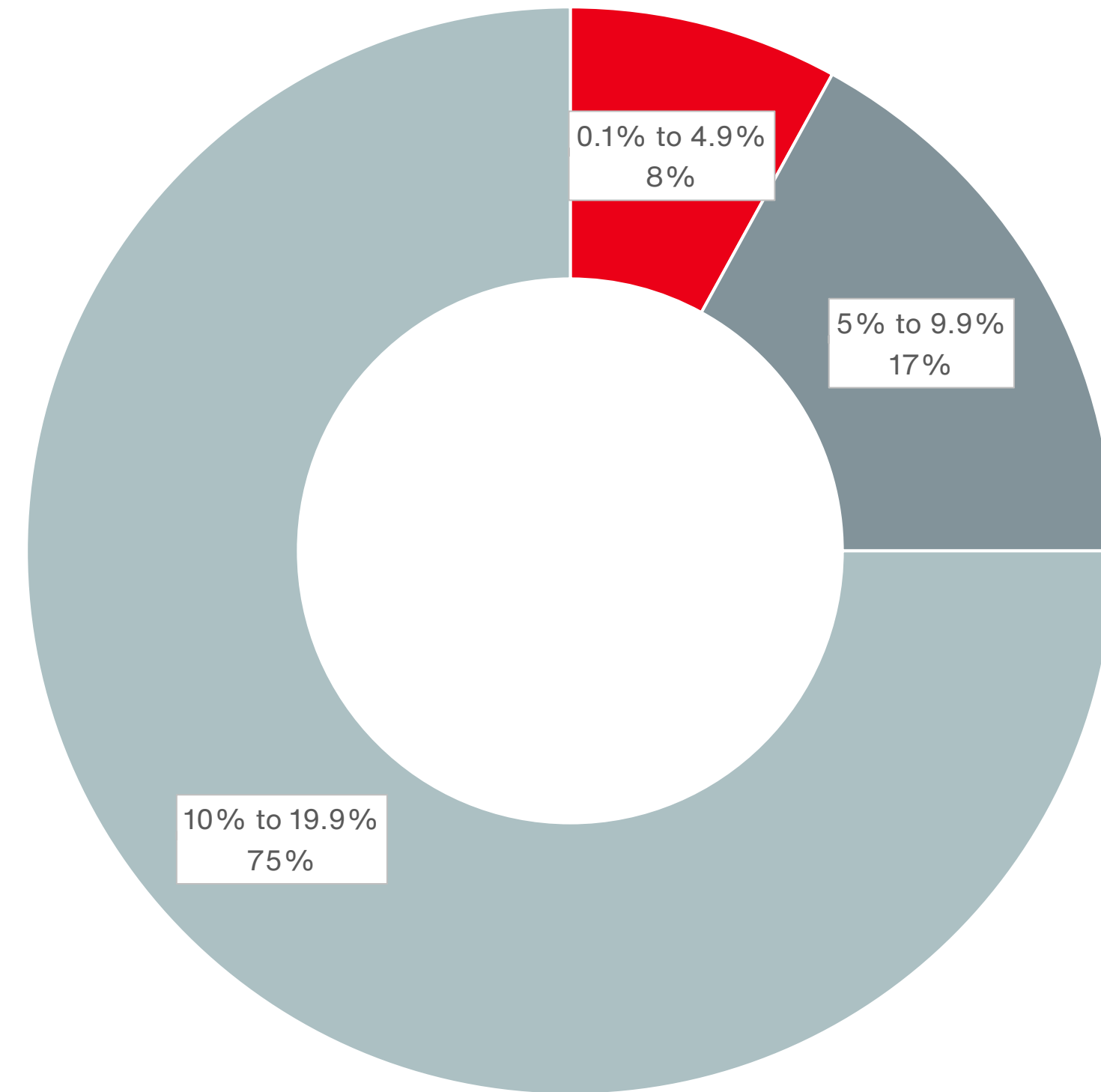
**Well-funded and highly organized Plaintiffs Bar** continues to negatively impact verdicts and settlements.

# Rate Changes – Auto Liability

Auto Q4 2023 Results

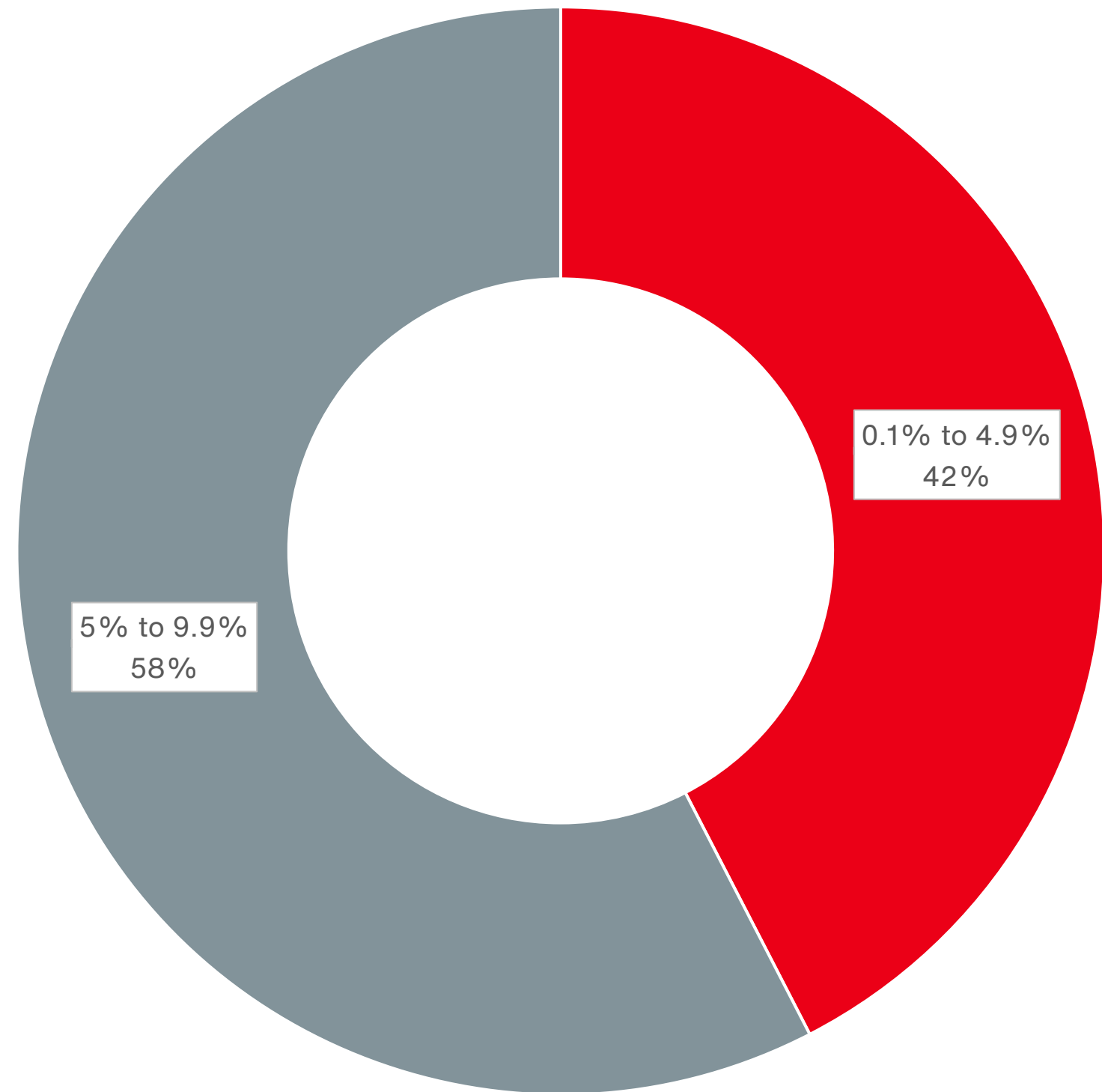


Auto Q1 2024 Trends

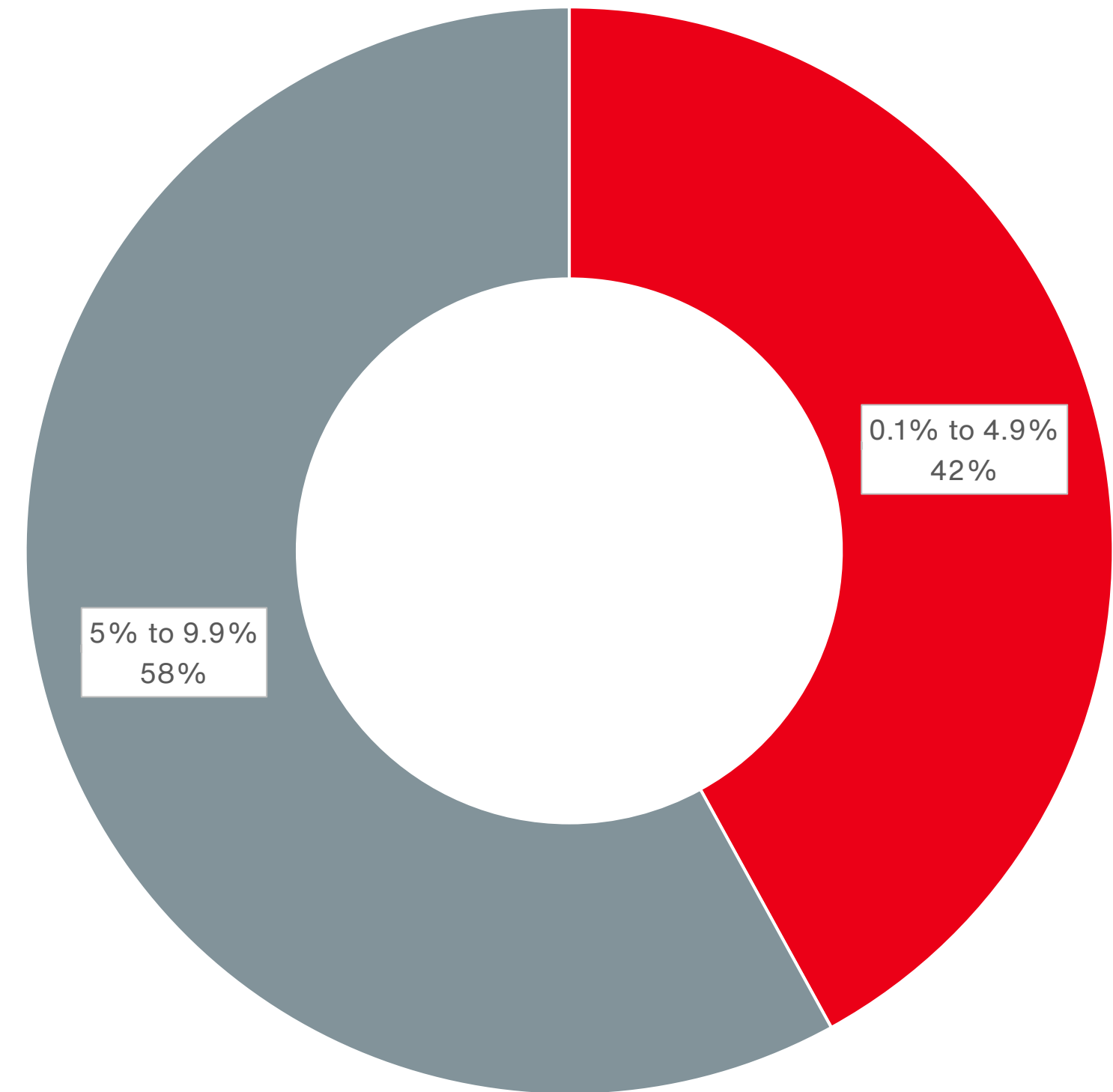


# Rate Changes – General Liability

General Liability Q4 2023 Results

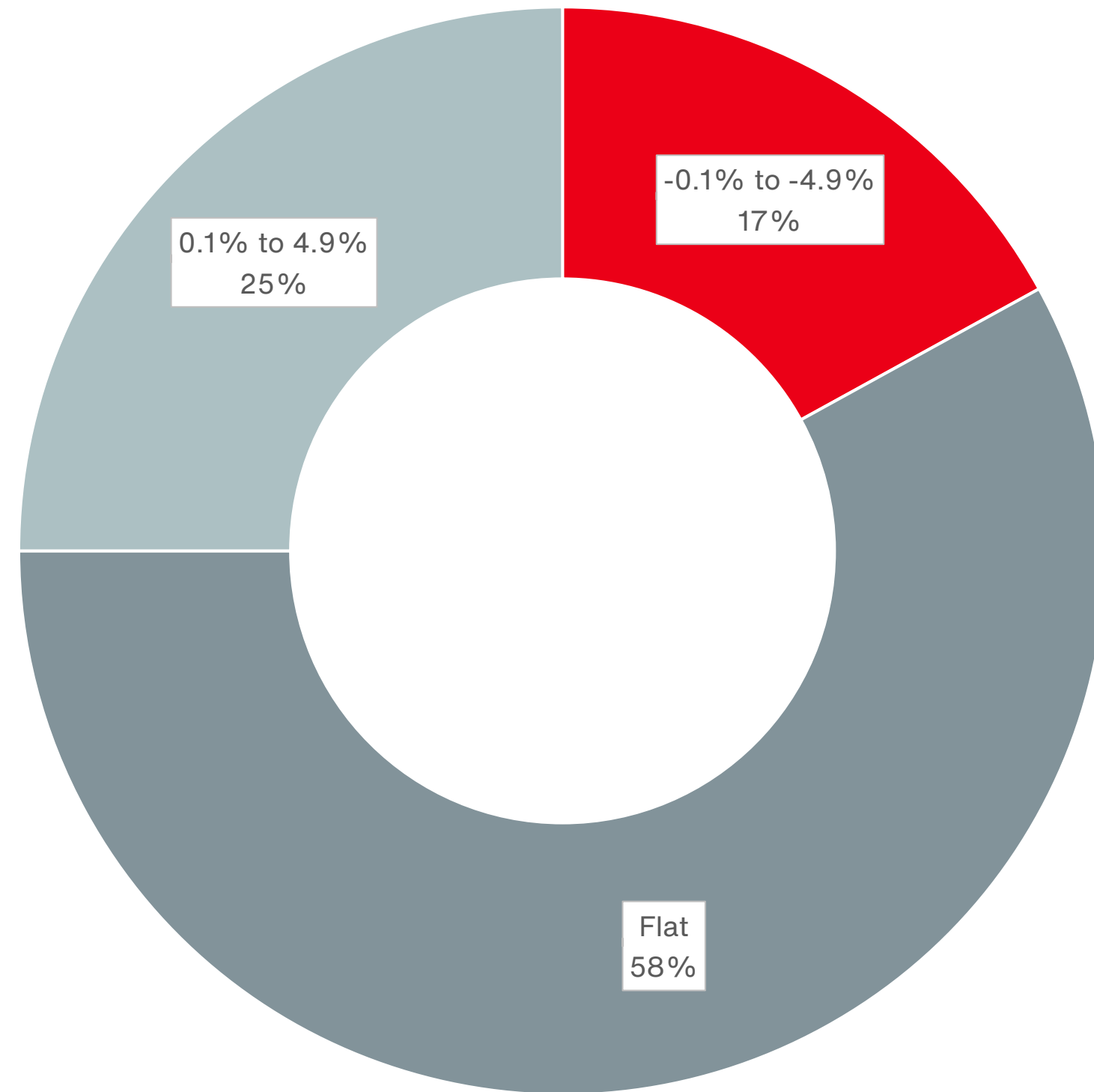


General Liability Q1 2024 Trends

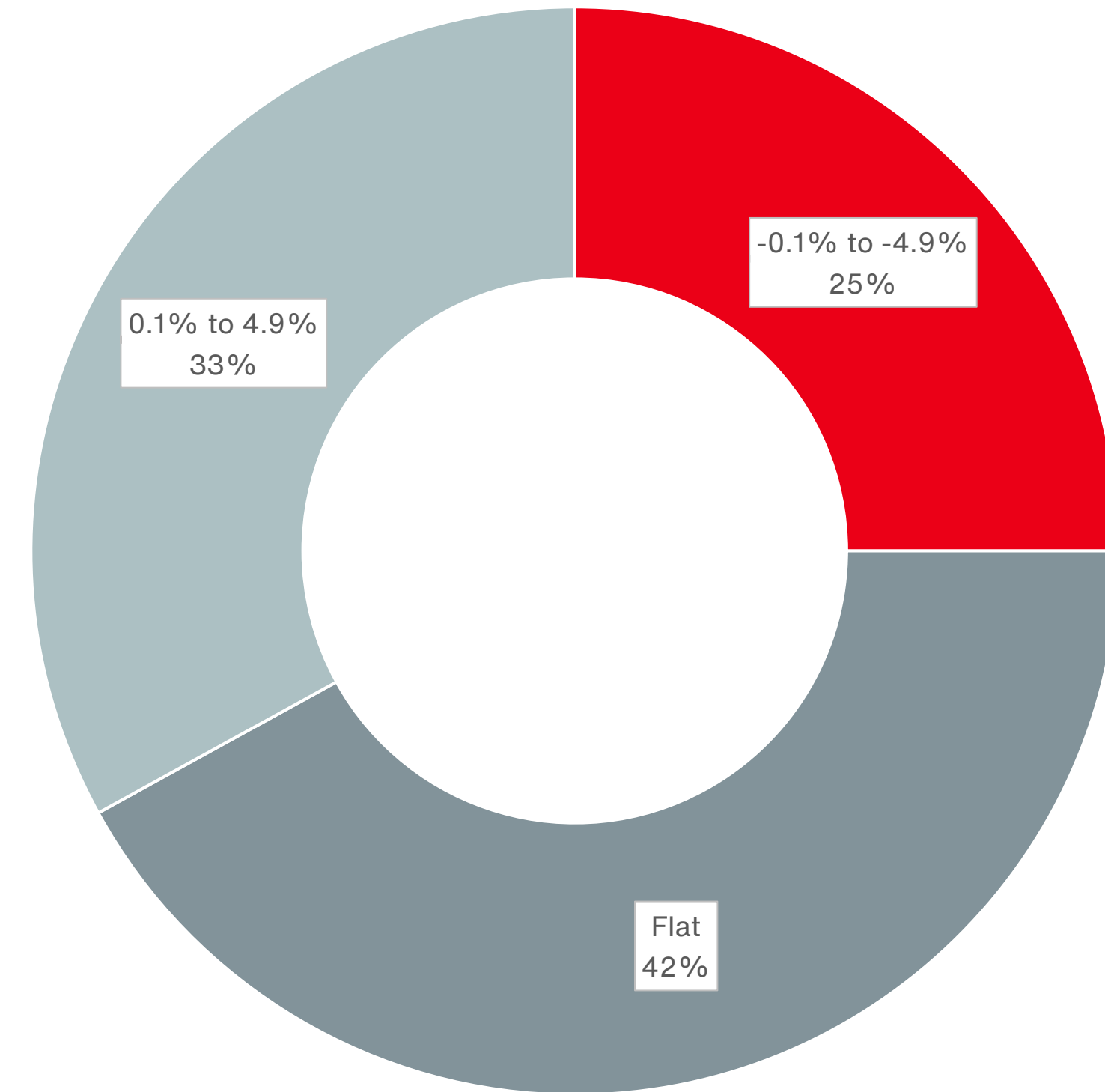


# Rate Changes – Workers Compensation

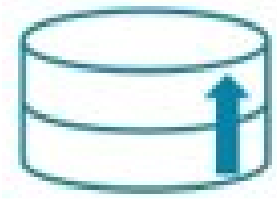
Workers' Compensation Q4 2023 Results



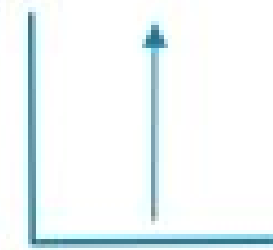
Workers Compensation Q1 2024 Trends



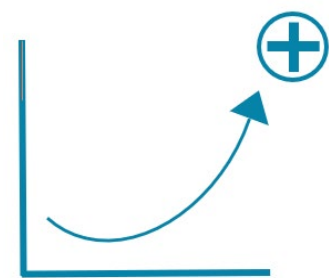
# Umbrella / Excess Liability Casualty Market Headlines Q4 2023



The Umbrella / Excess market remained relatively stable. However, we have mounting concerns of market deterioration as upward rate pressure momentum continued in Q4 2023 as renewals experienced an average rate increase for the fourth consecutive quarter.



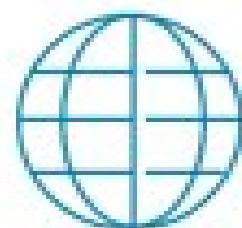
Median Top 50 U.S. Verdicts have rebounded and approaching pre-covid levels. 2022's median value was \$48.7MM as compared to 2019's \$49.65MM.



60% of Lead Umbrella and 64% of Total Umbrella / Excess Liability renewals experienced a renewal rate increase in Q4 2023.



Automobile Liability wrongful death claim averages continue to increase - average in 2023 was \$30MM compared with \$23MM in 2016 - thus putting continued pressure on structure, attachment points and pricing.



Carriers continue to monitor capacity deployment.

While we have experienced carriers reduce previously deployed capacity, we have also successfully secured increased capacity - often on a ventilated basis as carriers try to reduce overall exposure to a single loss.



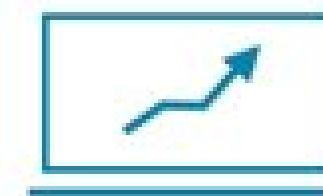
Increased exploration and utilization of structured, buffer and other ART & captive solutions, especially for risks with large fleets and 3<sup>rd</sup> party Hired & Non-owned exposure, to help support increased attachment points of lead umbrella programs.



Litigation Finance continues to rise thus increasing potential exposure to larger / nuclear awards.



Carriers continue to focus on several critical and emerging risks including biometric privacy, forever chemicals (e.g., PFAS), Microplastics, wildfire, Traumatic Brain Injury (TBI), etc.



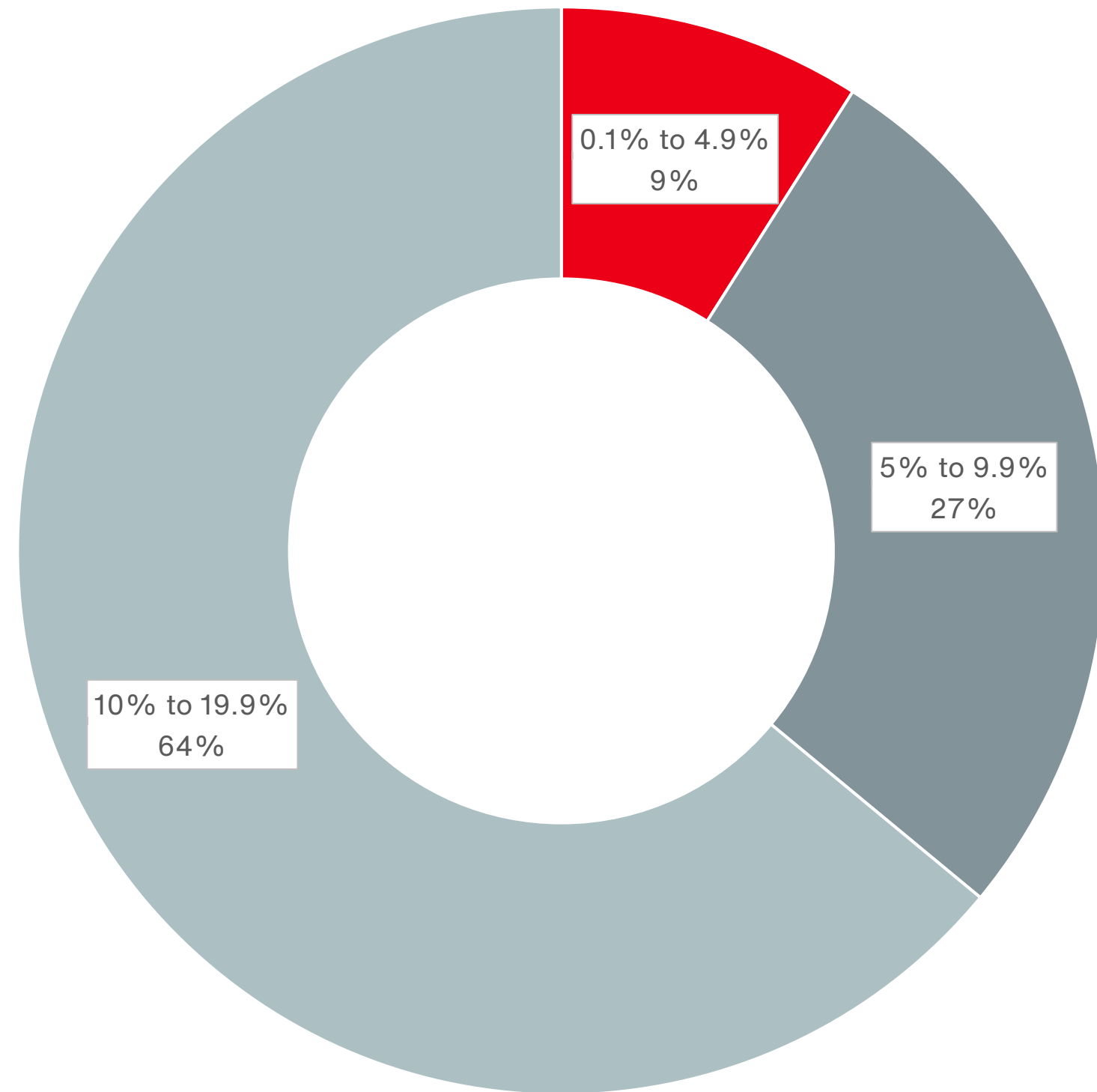
Carriers are closely monitoring annual excess claim trends of 8-10%. Assuming a 9% trend, the same claim that settled in 2010 for \$20MM would be valued at \$61.3MM in 2023.



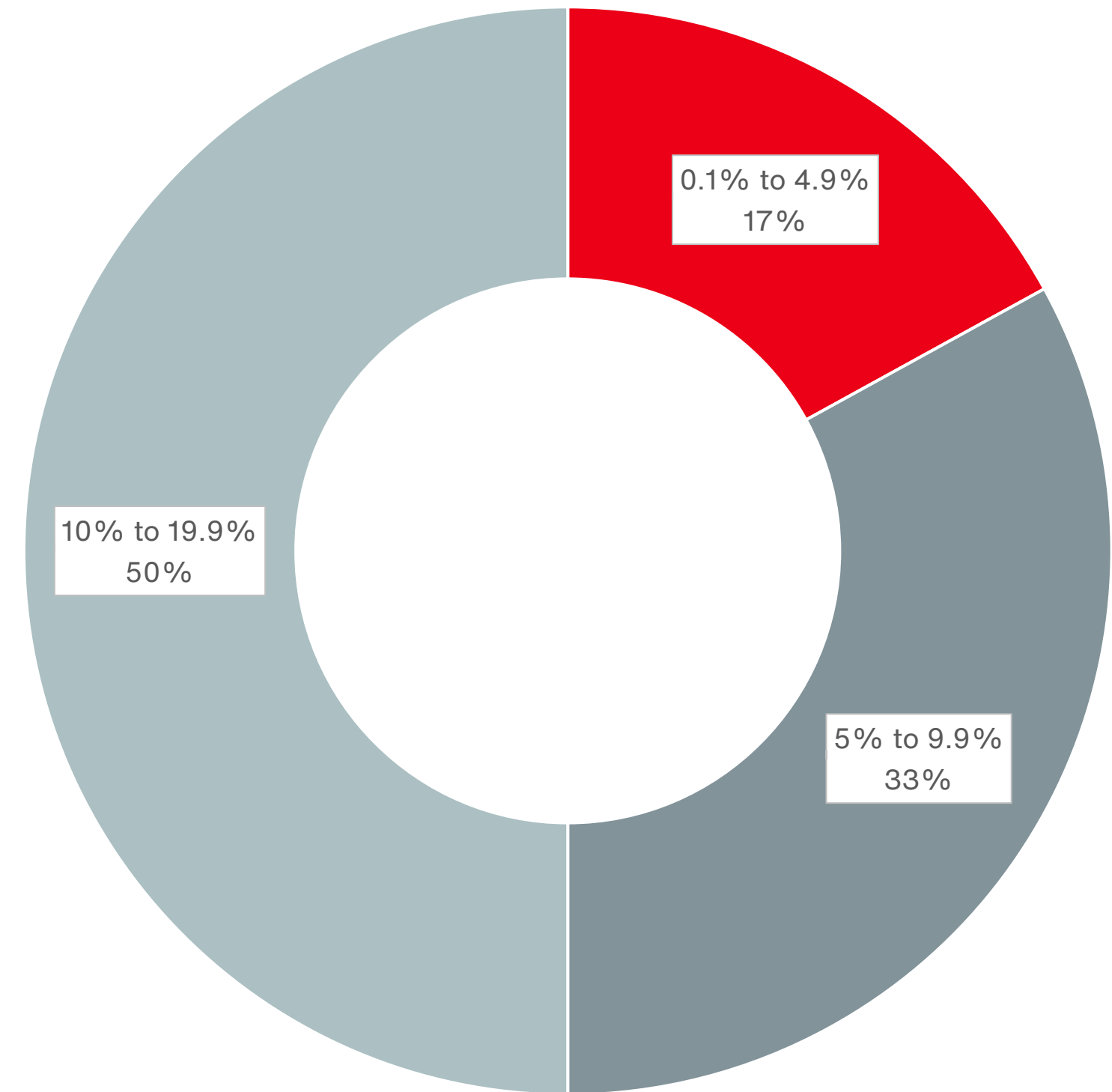
Average verdict size for lawsuits above \$1MM involving a truck crash has increased nearly 1,000% from 2010 to 2018, rising from \$2.3MM to \$22.3MM.

# Rate Changes – Umbrella Liability

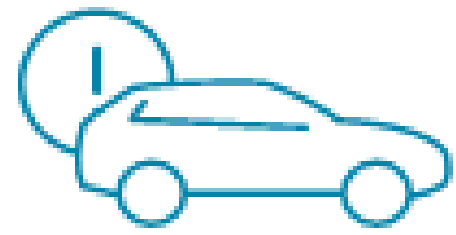
Umbrella Liability Q4 2023 Results



Umbrella Liability Q1 2024 Trends



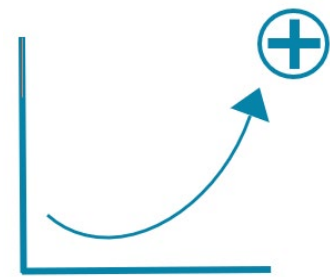
# Examples of Large Casualty Loss Verdicts



Tractor-trailer struck by van resulting in fatality. Trucking company found liable as a result of inadequate driver training. **\$247MM** in damages.



Customer assaulted on premises resulting in severe injuries and **traumatic brain injury**. **\$91MM** in damages awarded.



Army veterans awarded **\$110MM** due to defective ear plugs. **\$30MM** in compensatory damages and **\$80MM** in **punitive damages**.



Employee assaulted customer resulting in fatality. Employer liable for damages in the amount of **\$337.5MM** as a result of faulty hiring practices.



Company agreed to pay **\$55MM** in penalties prior to facing criminal prosecution as a result of causing two **wildfires**.



Cancer survivor successful in suit against chemical company for continuous exposure to **PFAS**. **\$40MM** in damages awarded.



School district liable for **sexual abuse & molestation** claim resulting in damages of **\$102.5MM** amongst 2 plaintiffs.



Driver of rear vehicle failed drug test following rear-end collision. Trucking company found liable for faulty hiring policies. **\$101MM** in damages.



# 2

## Casualty Insurer Perspectives



# Underwriter Areas of Concern Market

- **Commercial Auto**
  - Fleet Safety – DOT & Non-DOT
  - Hired & Non-Owned Exposure
  - 3rd Party Transportation Contracts
  - Fleet Composition – Physical Damage
- **Commercial General Liability**
  - Contractual Risk Transfer
  - Biometrics
  - PFAS
  - Abuse & Molestation
  - Wildfire
  - Exposure Inflation
- **Workers' Compensation**
  - Ergonomics
  - Industrial Hygiene
  - States of Operation

# Underwriter Areas of Concern

## Individual Risks

- Adverse Loss Experience (Insured)
- Adverse Loss Experience (Industry)
- Umbrella Attachment Points

# Optimizing Outcomes

- Proactive Risk Profile Analysis
- Start Renewal Process Early
- Complete & Accurate Underwriting Submission
- Evaluate Alternative Primary & Umbrella Excess Structures & Attachment Points
- Aggressive Claim Closure
- Develop Relationships with Underwriters

# 3

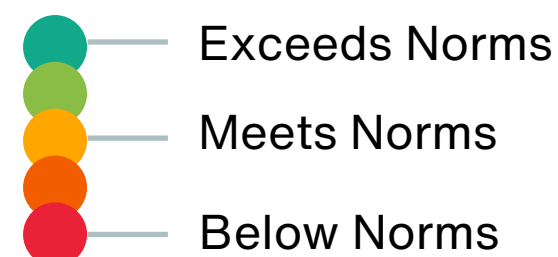
Cyber

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# Cyber Liability Q1 2024 Market Dynamics

<b>Pricing</b> Primary: (Consistent) Excess: (Consistent to Decreasing)	●
<b>Capacity/Limit</b> (Improving)	●
<b>Underwriting / Process</b> (Rigorous / Consistent)	●
<b>Retentions</b> (Consistent)	●
<b>Coverages</b> (Consistent to Restricting)	●
<b>Claims &amp; Loss</b> (Increased Frequency)	●



**Overall**

Buyer friendly market conditions was the theme of the cyber market in 2023. Greater competition and more capacity drove incumbent insurers to maintain their renewals and potentially expand their participation. As pricing continued to decelerate for excess layers, more insureds have opted to purchase additional limits, using data and analytics to support their decision.

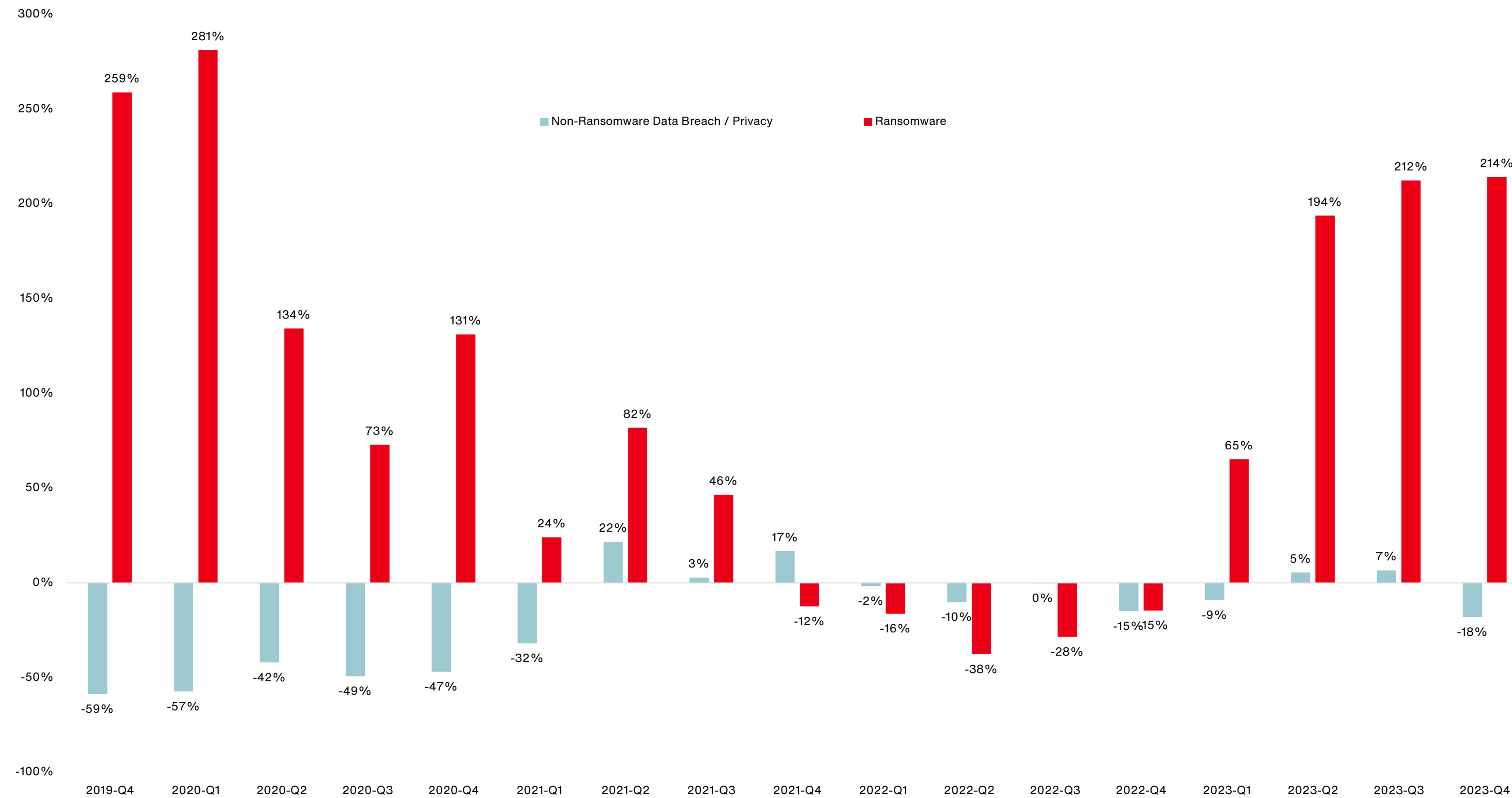
Risk differentiation will remain important to insurers, and insurers will price for that differentiation accordingly. Insurers still seek a significant amount of underwriting data and best-in-class network security controls, but underwriters now also focus on understanding and ensuring best-in-class privacy controls.

- Looking ahead – depending on the class of business, year-over-year improvement of controls, and previous market corrections – **Q1 2024 should yield further buyer-friendly market results**, with the majority of the savings coming from the high excess layers.
- As we look forward to what may be a volatile market over the next 3-5 years, **identifying the right long-term insurer who understands your risk, has a proven track record of paying claims and is willing to customize policy wording to address your exposures and incident response strategies is critical.**

**A Look Ahead**

- Pricing for large market companies will stabilize in Q1 of 2024.** Competition and new capacity in the primary middle market segment as well as the national account excess layers segment continue to drive pricing down.
- Systemic risk** is a top concern for insurers. They continue to evaluate, scrutinize, and in some instances restrict coverage offered for critical infrastructure, systemic and/or correlated events, and war. Certain insurers restrict coverage on either a generalized or event specific basis.
- Privacy related losses are mounting, and they are severe.** Insurers are increasing underwriting scrutiny related to privacy exposures and data collection (including biometric information, pixel tracking and new privacy/consumer protection regulations).

# Year-over-Year Cyber Incident Frequency Change by Quarter



## Key Observations:

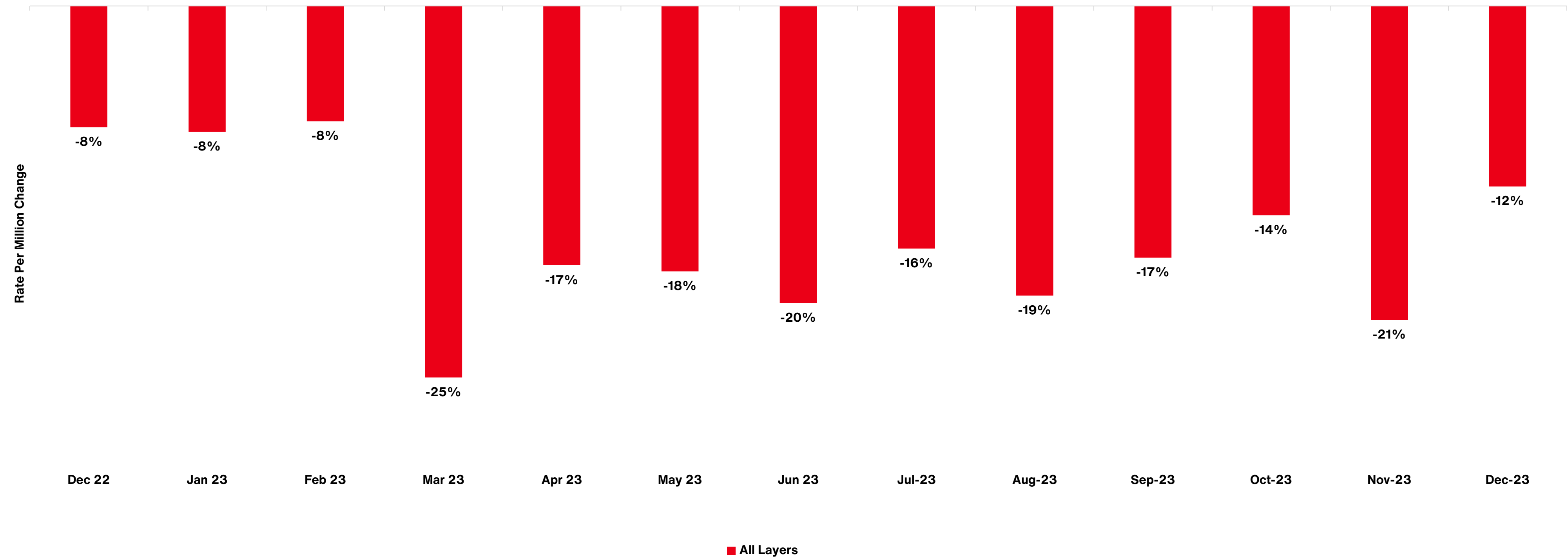
- Ransomware events continued in an upward trajectory throughout 2023
- Non-Ransomware Data Breach / Privacy Events remained mostly flat throughout 2023 compared with 2022
- NCC Group reported a 98% increase in ransomware attacks in Sept. – Nov. 2023 compared to the same period in 2022

Source: Risk Based Security, analysis by Aon. Data as of 1/1/2024; Claim count development may cause these percentages to change over time

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# Cyber Monthly Pricing All Layers


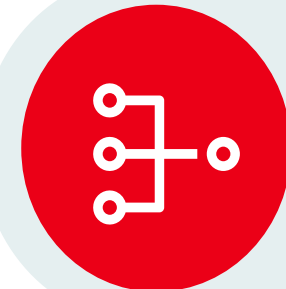










## Average Year-over-Year Change (Same Clients)





# Cyber Key Controls

## Marketplace Minimum Expectations

-  Multi-Factor Authentication (MFA)
-  Endpoint Detection and Response (EDR)
-  Phishing Exercise/ Cyber Awareness Training
-  Vulnerability Scanning & Patch Management
-  Secure RDP/VPN
-  Incident Response Plan/ Ransomware Exercise
-  Access Control/ Service Accounts
-  Disaster Recovery/Backups
-  Email Filtering & Security (DMARC / DKIM)
-  Zero Day Vulnerabilities and Supply Chain Risks
-  Network Segmentation/ Network Monitoring
-  M&A DD and Integration

# 4

## Management Liability



# Private and Nonprofit Management Liability

## Market Update

Exposures	Capacity	Coverage	Retentions	Pricing
<ul style="list-style-type: none"> <li>• Return to work procedures, retaliation, accommodations, and privacy</li> <li>• Insurers continue to monitor loss trends and may ask underwriting questions related to past COVID-19 vaccine mandates.</li> <li>• #MeToo Movement, Diversity, Equity &amp; Inclusion/Social Justice Response</li> <li>• AI Hiring Tools/Website Accessibility</li> <li>• Bankruptcy concerns / Financial distress</li> <li>• Antitrust litigation</li> <li>• Cyber as D&amp;O Exposure</li> <li>• Social Engineering</li> <li>• Excessive Fee Fiduciary Liability litigation.</li> <li>• Escalating Defense Costs</li> </ul>	<ul style="list-style-type: none"> <li>• Insurers continue to evaluate available capacity amid uncertain economic times.</li> <li>• Primary limits are typically limited to \$5M and financially distressed risks may see further reductions in capacity.</li> <li>• Clients are impacted by RIFs/layoffs, financially distressed clients, or those with significant headcount in CA may see a reduction in primary limits.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced coverage remains available for most clients through Aon's Private &amp; Nonprofit panel of Insurers.</li> <li>• EPL coverage limitations relating to the capture of confidential employee information and statutes are common.</li> </ul>	<ul style="list-style-type: none"> <li>• Retentions are generally stable, except for companies or organizations in higher risk industries (i.e., healthcare, higher education, life sciences and technology), those with adverse loss history, or clients experiencing financial distress.</li> <li>• Virtually all Insurers are now mandating higher retentions for Excessive Fee or all forms of Mass/Class Claims.</li> <li>• Higher EPL retentions may apply to clients with employees in CA, those undergoing RIFs/layoffs, and to high-wage earners in some industries.</li> </ul>	<ul style="list-style-type: none"> <li>• Price increases range on primary from low single-digit increases to single-digit decreases. Clients with positive risk stories, in favorable industries, and no major exposure increases see more advantageous pricing.</li> <li>• Clients with significant growth, M&amp;A activity, employees in CA or adverse loss experience will likely see higher-than-average price increases.</li> </ul>

# Thank you!

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