QUARTER 3 | 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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Reinsurance capacity constraint trends persist in the property marketplace. Underwriting losses from catastrophic events and inflationary exposure adjustments continue to drive rates while rising interest rates provide moderate short-term relief. Higher interest rates allow investors to achieve more substantive returns with lower-risk securities.

High demand for reinsurance from primary insurance companies and declining supply have led to significant rate increases. High-performing insurance programs with CAT-exposed property renewing this quarter should anticipate 15-50% rate increases.

Conversely, poorly performing programs with CAT exposures should prepare for even higher rate increases, coupled with significant deductible changes and potential coverage restrictions.

Renewal Preparation in 2023

To better prepare, strategy discussions should begin three to six months before the renewal date. The integrity and depth of the information in submissions are key. Understanding the upcoming renewal strategy for incumbent carriers regarding capacity, deductibles and expectations of rate and value increases is vital for renewal strategy. Developing these insights early provides the time to improve the submission quality, communicate expectations and enhance the ability to compete in the market.

Casualty

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Liability Market

Underwriting appetite and pricing remain stable in the liability marketplace. For insurance programs with satisfactory loss experience, there are no anticipated significant pressures on coverage or rates. Programs with less favorable loss experience can expect rate correction, with underwriters disciplined to produce profitable results. The one exception on coverage is an exclusion for per- and poly-fluoroalkyl substances (referred to as PFAS or the “forever” chemical). Many markets are now taking a broad approach and attaching this exclusion for most, if not all, insureds.

Capacity for the umbrella/excess market remains readily available. This creates competition and positive movement for insurance buyers who fall into the underwriting appetite’s preferred classes.

Commercial Auto

Underwriters are continuing their ongoing pursuit of profitability in the auto liability insurance marketplace. While rate increases have moderated, many carriers are still seeking some level of a rate increase. Underwriting loss ratios have not crossed the positive threshold, even though rates have increased for 48 consecutive quarters. Ongoing supply chain issues increase costs and repair time for physical damage coverage.

Workers’ Compensation

Insurance companies continue to experience profitable workers’ compensation underwriting results overall. Top-performing workers’ compensation insurance programs backed by strong risk and claims management activities are desirable to underwriters, and competition between the insurance carriers continues to drive competitive pricing. While rates remain competitive, inflation and wage increases are driving up insurance costs and attracting the attention of rate adequacy measurements.

Executive Liability

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Public Company D&O

Public companies with significant transactions, such as an IPO, continue to experience substantial rate decreases of up to 50%, reduced retentions, increased limits and improved terms and conditions. Carriers are actively pursuing new business in this space, contributing to the increased capacity. This is partly attributed to the trend of Security Class Action (SCA) claims, which have remained favorable over the past three years and are expected to continue.

The market is softening for public companies that have yet to undergo significant transactions. Rates are flat or show a reduction of up to 10%. Favorable terms and conditions are prevalent in the market. Additionally, carriers offer increased capacity in areas where coverage was not offered or charged at higher premiums, such as entity investigation coverage.

Private Company D&O

Following a similar trend as public companies, private companies are experiencing a softening in the marketplace. Carriers are providing robust terms and conditions without charging higher premiums. Rates remain flat or improving in many cases. There continues to be an abundance of capacity.

Underwriting Scrutiny

There is increased underwriting scrutiny surrounding internal controls related to Fiduciary Liability, Commercial Crime and Employment Practice Liability (EPL). Carriers are asking direct questions regarding an organization's controls and may require supplemental applications.

EPL underwriters continue to focus on employee compensation and the geographic location of employees. They are paying close attention to where and why claims are being reported. Underwriters adjust the policy terms accordingly; for example, using separate retentions for high-wage earners or claims brought in California.

Excessive fee claims continue to drive how underwriters address Fiduciary Liability coverage. This doesn't always require premium increases but instead focuses on having the correct excessive fee retention.

Financial Institutions

While bank failure incidents could create a systemic issue impacting the market, the overall impact has been limited but continues to be monitored.

Regional and complex FI customers face increased scrutiny, but this does not necessarily lead to premium increases or unfavorable terms. There is ample capacity in the FI market, with numerous carriers offering coverage options. Carriers are placing more focus on the risk management controls in place.

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Cyber Risk

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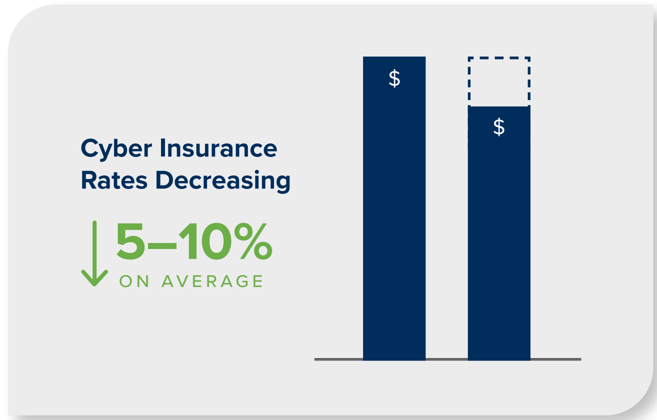
Rate Trends



Rates in the cyber insurance market are decreasing, currently averaging 5% - 10% on primary policies. Carriers are facing considerable pressure to grow their books of business, creating competition for customers with strong controls. To compete, carriers are more willing to offer broader coverage, lower retention and, in some cases, higher limits. With increased competition, the market is stabilizing and more predictable than in previous years.

Layered programs are also gaining competition, with resulting reductions in excess pricing, particularly for larger towers. The increase in competition is driven by additional capacity from new entrants and markets re-entering the market after exiting due to poor underwriting results. Much of this new capacity is focused on excess layers, contributing to the softening of the excess cyber market. However, price decreases will tail out for large towers as premiums reach a minimum price for capacity in the high layers.

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Retentions are trending down, particularly for large risks, who faced the most significant increases in prior years.

Changing Capacity/Limit Management

The market continues to see an increase in capacity, further accelerating the softening of pricing. This capacity increase gives buyers more options from a wider group of carriers. However, many carriers remain conservative, with some exceptions for significant risks.

Several external factors are impacting carrier appetite and capacity in the cyber market. Specific industries are facing 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.

Claims

The frequency of cyber insurance claims is increasing. While ransomware claims have decreased in the last year, a slight uptick in the previous quarter has caused concern among carriers. Carriers are also concerned about privacy-related incidents, particularly resulting from violations of the Biometric Information Privacy Act (BIPA) and pixel tracking. Carriers are closely monitoring claims activity, underwriting the exposure more diligently and, in some cases, narrowing their offerings.

Coverage Limitations

Carriers continue to raise concerns about catastrophic losses, with many carriers releasing new language limiting coverage for war or other catastrophic events. These changes are driven, in part, by reinsurance restrictions.

Another area of close monitoring is the impact of artificial intelligence. The industry is watching the implications of AI and its potential effects on coverage and risk.

Multinational

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Multinational Casualty

The multinational casualty marketplace continues to experience a recurrence of 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.

The U.S. multinational casualty portfolio should be evaluated annually for alternative program structures based on loss experience and exposures. Evaluating the total cost of risk helps to determine if the guaranteed cost option continues to reflect an equitable solution for global insureds or if alternative structures should be considered.

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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(s) and carrier. This creates a reliance upon effective technology and tools driving global program transparency and efficacy.

Technology-focused resources allow multinational programs to operate without interruption while planning for future global growth. Historically, technology platforms offered have been underutilized. Now, they are a prerequisite for managing a dynamic global program.

PFAS (Perfluoroalkyl and Polyfluoroalkyl Substances) Exposures and Exclusions

Like the U.S., multinational carriers are taking a closer look at PFAS exposures as industry experts predict that PFAS is on the brink of substantial unfavorable developments, including class action lawsuits and broad global litigation. Several industry experts predict that PFAS exposures will rival asbestos. As researchers better understand the potential harmfulness of PFAS, litigation has followed.

While insurers have historically argued for the lack of liability resulting from “forever chemicals” pollution, businesses have pushed back. Coverage is becoming increasingly scarce as underwriting efforts are more deeply scrutinized. The current and expectant increase in global litigation and related PFAS claims requires customers and carriers to evaluate PFAS exposures proactively and thoroughly to prepare for renewal discussions.

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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While surety offers a traditional unsecured credit facility, economic pressures continue to impact the ability of surety brokers to resolve cost of capital problems for their insureds. Although inflation is gradually declining, and the federal government does not anticipate rate cuts this year, this results in continued higher borrowing rates for businesses.

Middle-market businesses utilizing letter of credit facilities may see higher rates and fees, ultimately resulting in increased cost of capital. These issues are more pertinent for commercial businesses outside the construction industry. Contractors are encouraged to continue conversations around new bonding solutions. Surety bonding has been known to reduce contractor pricing, lower project costs and lower the rate of project default.

Subcontractors looking to grow in the second half of 2023 are urged to develop a surety relationship, as many owners and general contractors, for both public and private work, steadily require surety bond prequalifications. All industries can 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.

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Aviation

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At the beginning of 2023, the aviation insurance market improved across all segments, resulting in a more favorable aviation underwriting environment. Despite this positive start, an anticipated hardening of the market has begun as we enter the second half of the year.

The market is proposing double-digit rate increases in aviation general liability placements and other loss-leading areas. The immediate focus of domestic aviation insurers is capturing single-digit rate increases at renewal for desirable businesses (professional flown industrial aid risks, small airports and aerospace product manufacturers).

One soft sector of the aviation market is workers' compensation, despite two markets continuing their run-off: QBE and AIG Aerospace. Sufficient capacity remains to drive competition on aviation workers' compensation placements.

The aviation reinsurance marketplace continues to present double-digit premium rate increases to aviation insurers. Two of the world's largest markets are set to renew their reinsurance placements during July 2023. The ongoing Russia/Ukraine conflict is contributing to the profitability challenge. Over 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 as a result.

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 the largest claim in the history of the aviation market, having exceeded the $2.5 billion claim following 9/11.

To add another factor, Tokio Marine has told cedants that it will discontinue its aviation retroactive book as the impacts of the Boeing loss continue to ripple through the market. Retroactive insurance provides coverage for losses that have already occurred but have not been reported. Losses may go unreported because they were forgotten or not recognized, or the paperwork was not filed within the appropriate timeframe.

The 2023 Sudan Crisis has also contributed to significant losses. A new, privately-owned Airbus A330 and several Boeing airline aircraft were declared a total loss, resulting in over $300 million to the Global Aviation market. This will continue to affect aviation carriers in the domestic United States and globally throughout the rest of 2023.

Preparing for Renewals

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

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