Brown & Brown

QUARTER 2 | 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.

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Property

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After six years of rate increases and high loss ratios, 2023 was profitable for property insurers. Insurers are targeting 2024 growth in some sectors, creating welcome competition. Accurate property valuations remain vital in underwriting as inflation continues to impact replacement cost valuations.

Tropical Storm Risk analysts predict a very active hurricane season in 2024. The growing frequency and intensity of natural disasters remain a significant concern for the property insurance industry. These catastrophes often result in severe property damage and substantial financial losses for policyholders.

Convective storms remain a significant loss driver, especially in the Midwest. Loss-free accounts can expect anywhere from flat to modest rate increases, with percentage wind/hail deductibles becoming a standard practice. Capacity for poorly performing or protected risks continues shrinking, yielding double-digit rate increases.

Casualty

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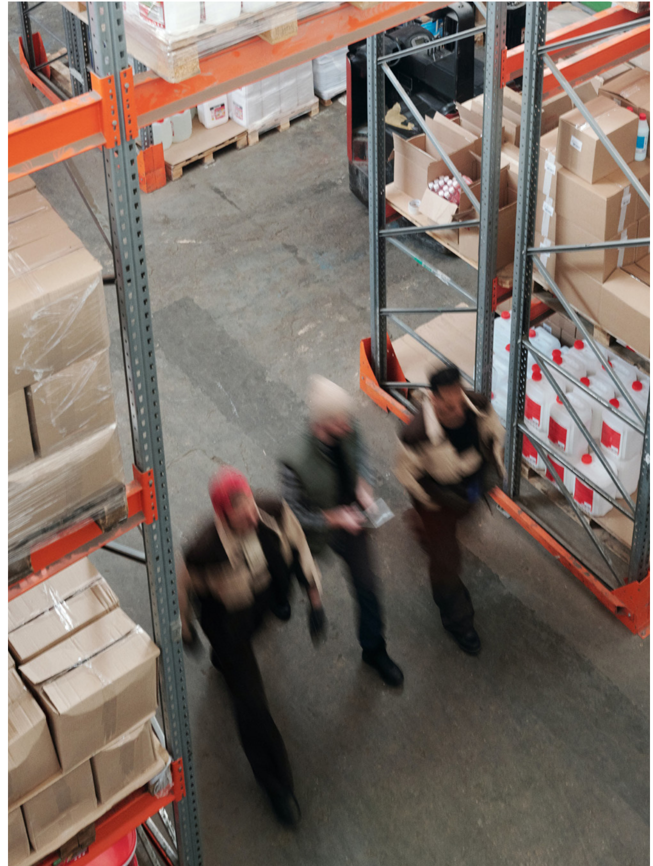
Liability



Carriers are seeing adverse developments from claims that occurred before COVID-19. This is causing a more restrictive appetite, even in business classes actively sought out one year ago. The market anticipates continuing firm rates, especially in residential construction, trucking and habitational risks.

Third-party litigation and social inflation continue to be significant concerns for the market. Loss-free accounts in stable classes of business can expect modest rate increases. Those in higher-risk industries can expect low double-digit increases. On a positive note, umbrella and excess markets have seen rate increases quarter after quarter, and stability may be on the horizon.

Commercial Auto

Auto remains a more complex line of coverage as quarterly rate increases are not yielding profitability. Excess markets are pushing for $2M attachment points more frequently as social inflation affects settlement values. Large fleets continue to have decreased capacity, mainly if the fleet consists of autos larger than private passenger vehicles. Profitable accounts can expect modest rate increases year-over-year. Those with adverse loss experiences or those in the auto industry may see double-digit rate increases.

Workers' Compensation

Workers' compensation remains the only line of coverage that achieves rate decreases quarter after quarter. Continued improvements in safety policies and procedures have driven favorable loss experience. Carriers continue to provide competitive rates, especially for new business. Many package carriers are leveraging workers' compensation to soften the increases in property and auto coverages. Those with favorable loss experience can expect to see rate decreases. For most, flat to minimal rate increases can be expected.

Executive Liability

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The second quarter of 2024 continues to demonstrate the movement among carriers toward private companies. The market has become increasingly more aggressive as competition heightens in this space. Because of this, carriers are focused on retaining renewals.

In the public company space, the Tesla/Delaware ruling has caused a shift in the historically favorable corporate law landscape.

Equal Employment Opportunity (EEOC) claims have decreased since 2023, and overall EPL claim activity has returned to pre-pandemic levels. Social inflation continues to influence the market, raising concerns about potential carrier turnover in the future. Defense costs are rising, impacting the severity of claims compared to previous years. Therefore, despite EEOC claims being down compared to last year, total losses paid out from carriers remain relatively the same as in previous years.

Fiduciary excessive fee-type claims remain a focal point of Fiduciary Liability coverage. These claims can arise from any benefit plan, such as healthcare or retirement plans, and relate to the fees associated with the plans. Companies with plan assets exceeding $500M remain the biggest target for these claims.

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

Biometric Privacy, Artificial Intelligence and Social Engineering

The issue of biometric privacy has gained prominence over the last year. The primary concern remains the collection of biometric data without consent. Many markets are actively working to mitigate their exposure to biometric privacy risks by adding biometric data exclusions to their executive risk offerings. In rare scenarios, a market may add biometric data sublimits rather than exclude them entirely to minimize exposure and offer a competitive option.

AI continues to be an evolving topic of interest, especially in its impact on social engineering. Notably, the first AI Securities suit has been filed, indicating a new frontier in litigation.

Social engineering fraud has seen a resurgence, driving further interest in controls. Property losses due to bad actors are emerging as a new category of claims, with carriers navigating the challenge of whether such losses fall under social engineering coverage.

Cyber Risk

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Rate Trends

There continues to be downward pressure on rates in the cyber insurance market, currently averaging flat to a reduction of 5%. However, individual results vary dramatically based on size, industry and controls. Carriers are charged with growing their books of business, and new carriers are entering or re-entering the market, both of which contribute to creating competition. Insurance companies are more willing to offer broader coverage, lower retentions and, in some cases, higher limits than in years past. Retentions and premiums are trending down, particularly for large risks, who previously faced the most significant increases.

> "There is concern that elevated claims activity may cause a broad market-wide rate increase and more challenging market conditions.

After several years of high competition from insure-techs, some traditional markets are revising pricing strategies to expand their footprint in the small and middle markets. Competition on layered programs is increasing, often resulting in a reduction in excess pricing, particularly for large towers. Price decreases will level out for higher layers in large towers as premiums reach a minimum price for capacity.

In the second half of 2024, some carriers hope to see lower competition as flat rates become more common. Elsewhere, there is concern that elevated claims activity may cause a broad market-wide rate increase and more challenging market conditions.

Carrier Appetite

On large accounts with sizable 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 more significant competition for buyers with a strong security posture. Additionally, 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.

Claims & Coverage Limitations

The frequency of cyber insurance claims is increasing, specifically in professional services, education and manufacturing sectors. Business email compromise, ransomware, cybercrime events and data breach litigation are expected to continue to drive claims activity throughout 2024. This increase in overall claims dollars creates some concern regarding rates. Carriers are concerned about privacy-related incidents, mainly resulting from violations of the Biometric Information Privacy Act (BIPA) and tracking technology non-compliance.

Carriers are closely monitoring privacy claims activity, underwriting the exposure more diligently and, in many cases, adding language to clarify intent or narrow their coverage. Additionally, carriers continue to raise questions about catastrophic losses, with many releasing new language limiting coverage for war or other catastrophic events. Lloyd's is offering less flexibility to syndicates regarding the war exclusion language. These changes are driven, in part, by reinsurance restrictions.

While the immediate effect of new SEC cyber guidance appears limited to directors' and officers' liability policies, the market is closely watching potential impacts on cyber policies. Some predict that the SEC requirement to report cyber incidents publicly will increase the frequency of class action lawsuits. Another area being closely monitored is the impact of artificial intelligence. The industry is watching the implications of AI and its potential effects on coverage and risk. A specific concern is how to protect sensitive data disclosed via chatbots.

Multinational

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Multinational Casualty

The multinational casualty market continues to experience flat to moderate rate decreases. These decreases are driven by favorable loss performance and enhanced market efficiencies, with reduced expense costs predominantly emanating from technology solutions. Rate reductions on a year-over-year basis are often furthered by increased exposure, which allows for economies of scale pricing methodology. Capacity continues to enter the marketplace as markets expand their global capabilities and seek to deploy capital within global networks.

Global improvements in data quality and collection have also facilitated the increased application of analytics. The benefits derived from benchmarking and deeper insights into program performance yield reduced risk and related costs when applied to action-oriented outcomes.

The market outlook remains favorable, with the best outcomes typically involving preparatory discussions with key stakeholders and collaboration in reviewing new risk considerations related to evolving global markets.

Emerging Risks

Artificial intelligence (AI) development and application continue to generate new considerations for all parties in analyzing and mitigating risks for multinational organizations. This evolves in tandem with new legislation designed to address concerns related to exposures that this new technology presents. As a result, there are impacts to market capacity and appetite for all multinational organizations, particularly the liability segments and multinationals in the technology sector and industries at the forefront of AI utilization.

Tax Considerations and Global Regulation

Tax implications related to insurance procurement and beyond are an ever-increasing consideration in the total cost of risk at a global and jurisdictional level. Applying adequate allocations in each jurisdiction as part of a global program is critical in maintaining a globally compliant program.

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Surety

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Healthcare

There has been substantial growth in virtual care, leading groups participating in Medicare Advantage and State-run Medicaid programs to look for larger credit capacity towards their commercial payor contracts. These virtual programs are particularly low-risk, focusing on family care and preventative medicine, allowing surety companies to take on new customers without needing a substantial balance sheet or cash position, which was necessary in the past.

Alternatively, with some significant losses realized by the commercial payor and healthcare insurance companies over 2023, these groups are expected to be less amenable to accepting surety versus the standard letter of credit.

Construction

Construction continues to flourish, following the Infrastructure Investment and Jobs Act and investments from private equity firms into middle-market contractors and subcontractors. The most significant change going into 2024 and beyond continues to be the rising costs of labor and materials. Compared to five or ten years ago, similar jobs today are 50% more costly because of increased costs, resulting in some contractors needing more surety credit, thus having fewer jobs on their backlog. The combination of private equity funding and increased costs may leave some contractors in a complicated position when looking for surety credit. Having a backup surety carrier is recommended in this environment.

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Basel III

June of 2025 is rapidly approaching, and the final Basel III reform transition period will begin. These reforms will only apply to larger banks with more than $100B in total consolidated assets, which means those customers who bank with the larger firms will find more stringent requirements around letters of credit. This new framework has seemingly positive long-term changes for the overall economy. Still, the immediate short-term will show those utilizing extensive credit facilities that additional credit support outside the banking industry may be necessary.

Insurance companies and their surety divisions are becoming prepared for the influx of credit-seeking companies anticipated next summer. It is encouraged to proactively find solutions to avoid getting caught up in the race for credit.

Aviation

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Positive trends are expected to continue across various segments in the aviation sector throughout the second quarter of 2024. Available capacity within the primary aviation insurance marketplace has increased as three additional insurers entered the market during the past 18 months. These entrants provide insurance at lower coverage limits but may increase available capacity and underwriting appetite. This increased capacity could continue to present competitive pressure within the marketplace.

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Premium increases are stabilizing after experiencing four years of a challenging aviation insurance market. These market conditions are defined by increased insurance premiums and underwriting requirements combined with coverage limit reduction or removal of coverage upon renewal. Many aviation insurers present renewal terms at single-digit increases or even as "expiring" to customers, which is viewed as a preferred risk with little change to exposures. Preferred risks are those having a favorable loss history, operating newer aircraft and being crewed by qualified pilots who completed annual training on their 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 significantly. Ongoing geopolitical events have significantly influenced market dynamics, especially in the aviation reinsurance marketplace. Primary aviation insurers experienced double-digit rate increases to their reinsurance premiums and increased retention levels they must absorb before collecting reinsurance. It is now common for these insurers to have additional requirements, exposing much 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.

The settlement of a $10B insurance claim by Aercap, related to Russia's refusal to return planes stranded after the invasion of Ukraine, has marked a consequential development. The Boeing 737 Max grounding has undergone an escalation in losses, increasing from $1.3B to $3B. 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.

Challenges and Opportunities

The second 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.

Despite these challenges, the aviation insurance market is witnessing new entrants and a recalibration of capacity that will continue to present competitive pressure. 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.

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.

Find Your Solution at BBrown.com

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