

# Marketplace Update & Market Trends 2024

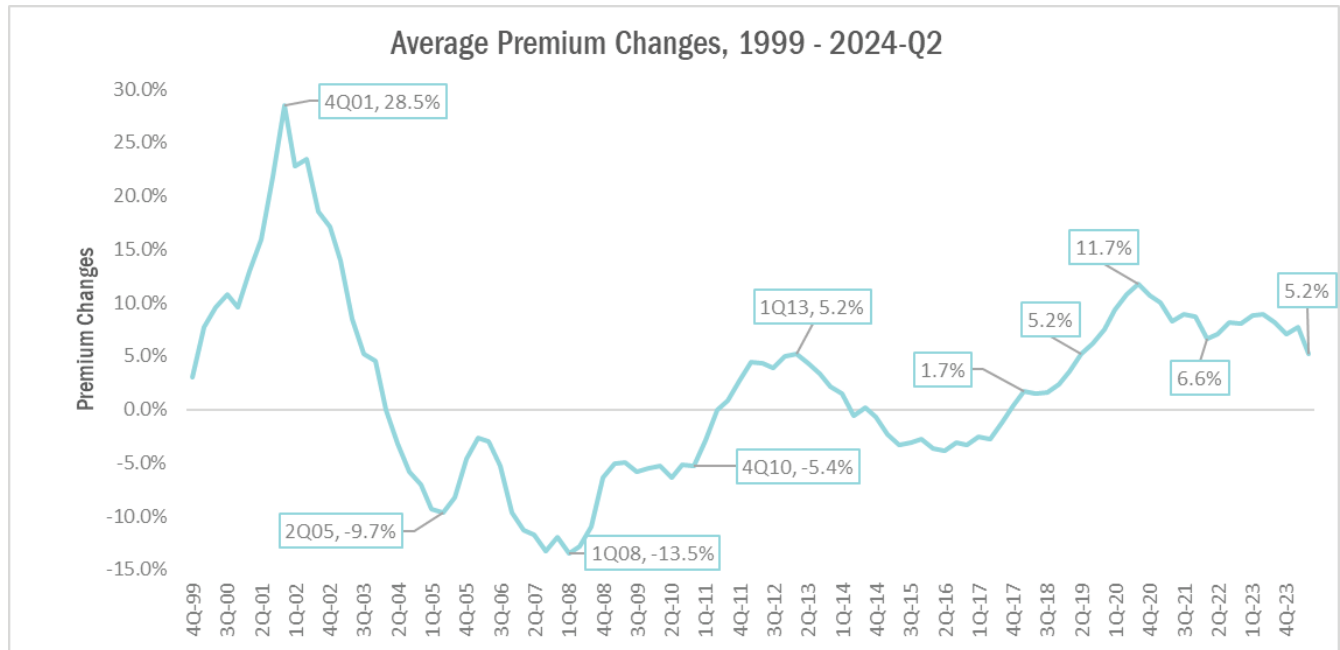
Q2 REPORT

Cottingham & Butler

## General Market Conditions

27 consecutive quarters of marketplace rate increases from 2018 to present, slight moderation over the past several quarters but still elevated.

Multiple factors contributing to sustained level of marketplace rate increases; expected to stay at elevated levels for the foreseeable future.



Pricing increases by market segment, rate increases had been hitting medium/large accounts harder than small accounts, but has changed recently.

### Average Commercial Pricing Increases

	By Account Size			AVERAGE
	SMALL	MEDIUM	LARGE	
Second Quarter 2024	5.0%	5.1%	5.4%	5.2%
First Quarter 2024	7.3%	8.5%	7.3%	7.7%
Fourth Quarter 2023	6.7%	8.2%	6.1%	7.0%
Third Quarter 2023	7.9%	8.9%	7.5%	8.1%
Second Quarter 2023	7.2%	9.8%	9.7%	8.9%
First Quarter 2023	6.2%	9.0%	11.4%	8.8%
Fourth Quarter 2022	6.5%	8.3%	9.1%	8.0%
Third Quarter 2022	6.5%	9.0%	8.8%	8.1%
Second Quarter 2022	6.4%	7.3%	7.5%	7.1%
First Quarter 2022	6.4%	7.3%	6.2%	6.6%

Source: The Council of Insurance Agents & Brokers (2024 Q2 Market Report)

## Main P&C Lines Rate Change over past 14 Quarters:

Property rate increases were significant throughout 2023; some tempering of this trend expected in 2024, but rate increases still higher than the 'core' lines of coverage; Auto and Umbrella rate increases persist

Line-by-Line 2021 Q1 - 2024 Q2 Rate Changes

	Comm'l Auto	Workers' Comp	Comm'l Property	Gen'l Liability	Umbrella
Second Quarter 2024	9.0%	-2.2%	8.9%	5.1%	7.2%
First Quarter 2024	9.8%	-1.8%	10.1%	4.1%	7.0%
Fourth Quarter 2023	7.3%	-1.8%	11.8%	3.8%	7.6%
Third Quarter 2023	8.8%	-2.0%	17.1%	4.2%	7.4%
Second Quarter 2023	10.4%	-0.7%	18.3%	5.2%	8.1%
First Quarter 2023	8.3%	-0.5%	20.4%	4.6%	8.5%
Fourth Quarter 2022	7.3%	-1.1%	16.0%	4.9%	9.6%
Third Quarter 2022	7.6%	-0.7%	11.2%	5.7%	11.3%
Second Quarter 2022	7.2%	-1.2%	8.3%	4.7%	11.3%
First Quarter 2022	5.9%	-5.0%	8.6%	3.9%	10.5%
Fourth Quarter 2021	8.0%	0.3%	10.5%	6.4%	15.0%
Third Quarter 2021	7.4%	-0.3%	10.3%	6.3%	16.9%
Second Quarter 2021	6.8%	0.3%	9.9%	6.0%	17.4%
First Quarter 2021	9.0%	1.0%	12.0%	6.2%	19.7%

Source: The Council of Insurance Agents & Brokers (2024 Q2 Market Report)

## General Market P&C Headlines

### BUSINESS INSURANCE

Risk Management

Auto, general liability drive insurance rate hikes in Q1

May 16, 2024

### INSURANCE JOURNAL

Despite Hard Market, P/C Combined Ratio Forecast Near 104 for 2023

November 6, 2023

### INSURANCE JOURNAL

Nuclear Verdicts Surge to \$14.5 Billion in 2023 – Report

By Ezra Amacher | May 10, 2024

### PROPERTYCASUALTY360

Will the P&C insurance market stabilize in 2024?

By Mark Englert | February 27, 2024

### BUSINESS INSURANCE

Risk Management

Property renewals see steep rate hikes, capacity crunch

Claire Wilkinson  
July 11, 2023

### INSURANCE JOURNAL

Rate Hikes Not Bringing Profit to US Auto Insurers: Fitch

By Susanne Sclafane | August 18, 2023

### BUSINESS INSURANCE

Risk Management

General liability rates keep rising

July 09, 2024

Increased loss frequency, higher court awards and a slightly tighter casualty reinsurance market drove the increases, they say.

General liability insurance rates continued to rise for many buyers during midyear renewals with commercial policyholders paying flat to mid-single-digit increases, experts say.

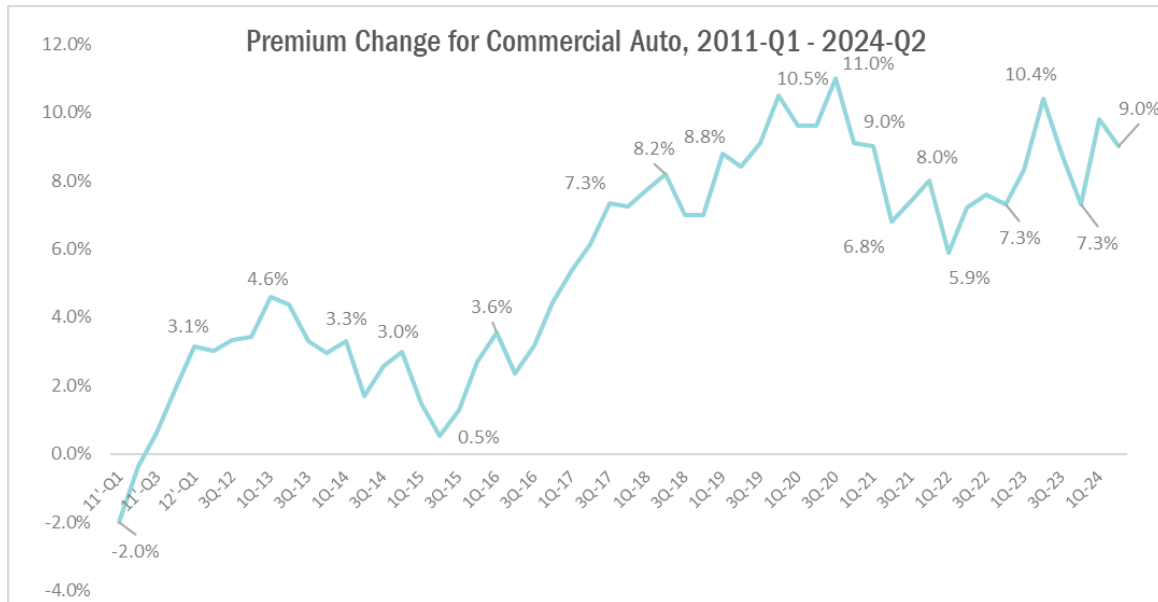


## Commercial Auto (Q2 2024)

52 consecutive quarters of rate increases (relentless)

Auto rate increases will continue with ongoing increasing claims cost trends

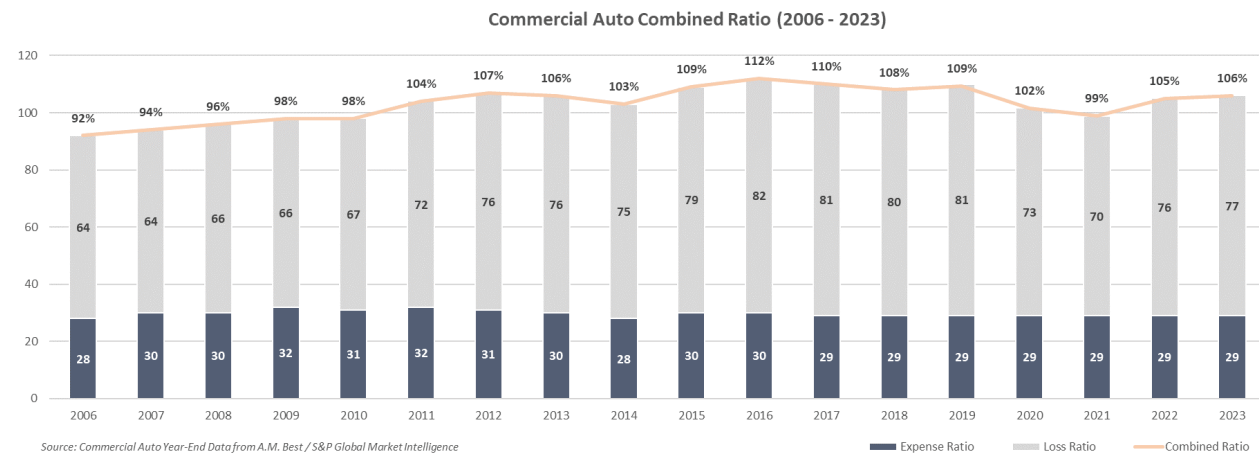
Contributing factors: increased liability severity (lawsuits, litigation financing); distracted driving; higher physical damage claims (technology & inflation); driver shortage = less qualified drivers; relentlessly increasing claims cost trends



## Commercial Auto – Carrier Profitability Issues

Carriers continue to be unprofitable (12 of past 13 years), even with double digit rate increases over multiple years, the improvement (covid related) in 2020-21 was short-lived, unprofitable trajectory continued in 2022 and 2023.

2023 Commercial Auto Combined Ratio of 106%; with no improvement expected in 2024, even after relentless rate increases.

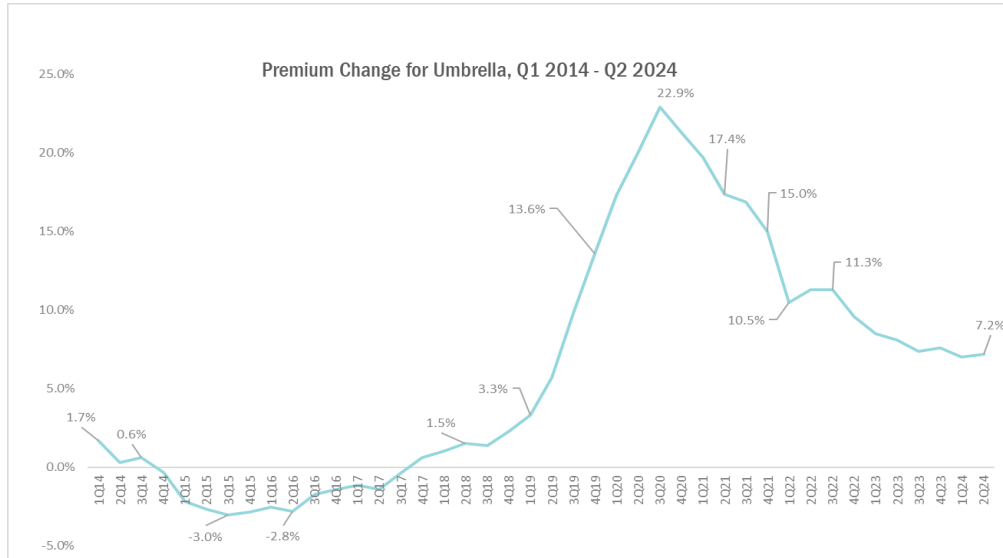


## Umbrella (Q2 2024)

Dramatic firming from late 2019 through 2022 driven by Auto severity claims (rate increases may have plateaued, rate volatility is still present)

Limited appetite for carriers willing to put up \$10M or \$25M capacity layers

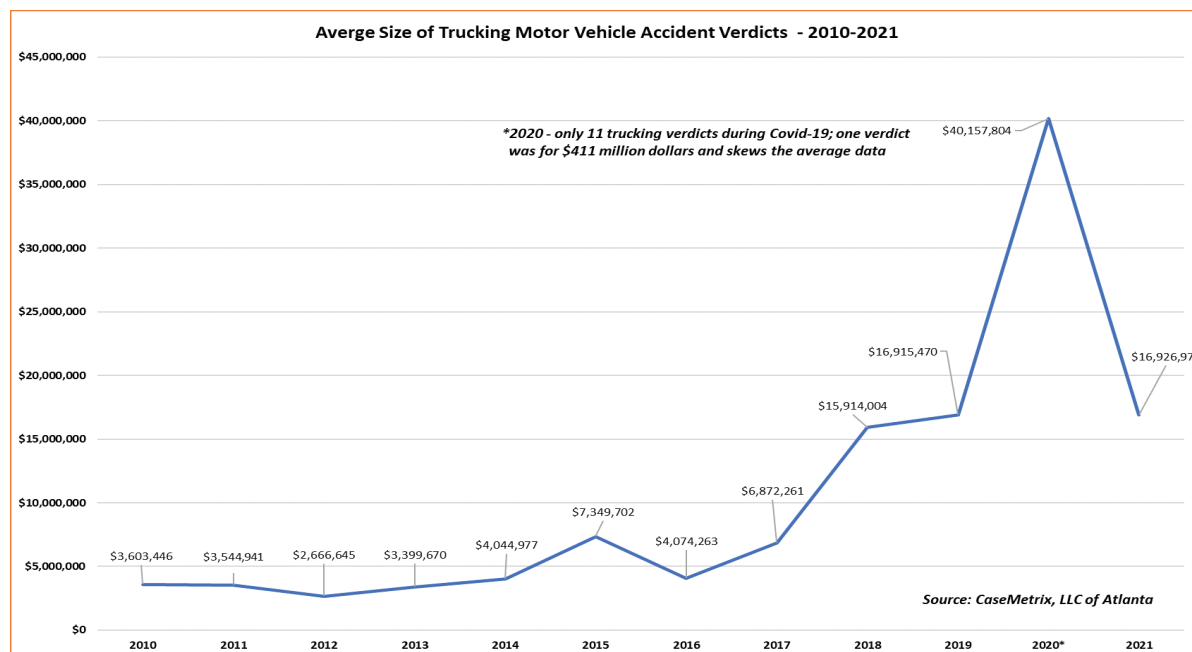
Increases can still be materially higher for larger fleet-exposed accounts



## Marketplace Update

The average commercial motor vehicle accident verdict has increased from \$3.6M in 2010 to \$16.9M in 2021 (2022-2023 average verdicts approaching \$20M!!)

The average cost to settle a commercial auto fatality has increased from \$1.9M in the mid 2000's to now over \$4.0M.

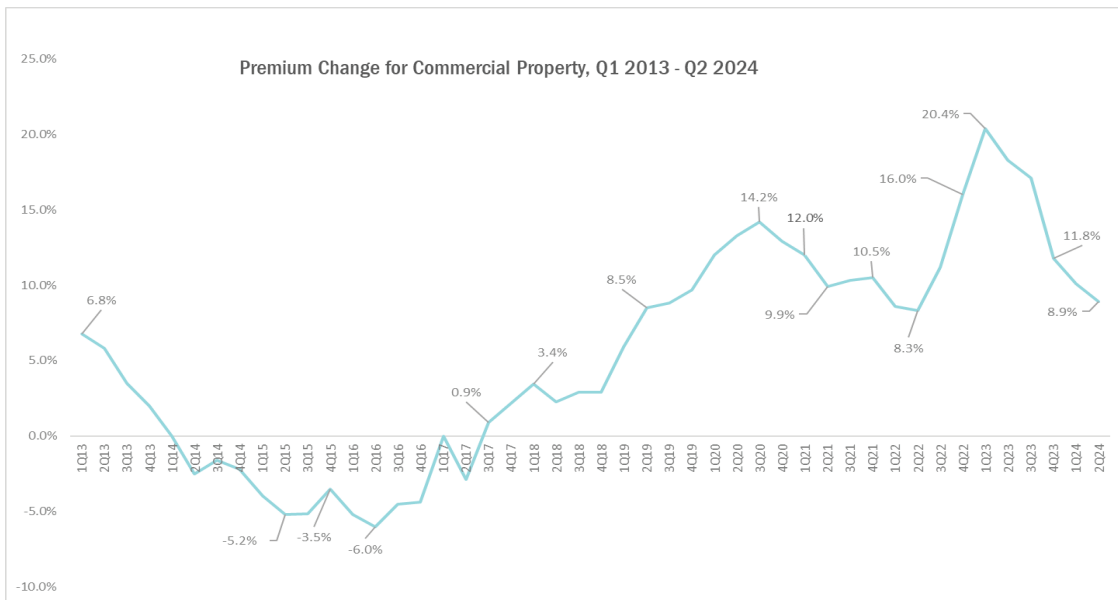


## Property (Q2 2024)

Property rate increases accelerated in 2022 and into 2023; starting to temper in 2024

Years of historically poor industry loss years (17', 20', 21', 22' and again in 2023)

Restriction in appetite, capacity, non-renewal activity in challenging classes of business or poor performing accounts; catastrophe exposed capacity restrictions (flood/storm surge and wind/hail hazard zones). **Ongoing inflation pressure on losses**

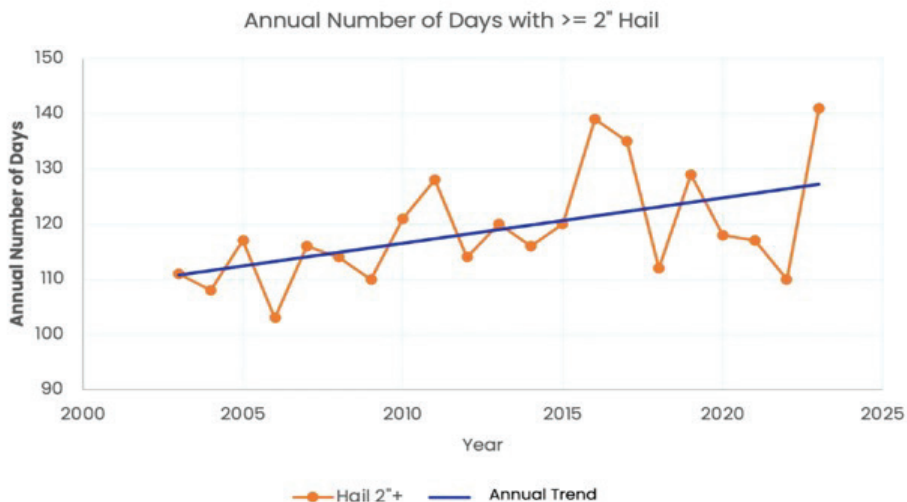


## Property – Wind/Hail Trends

Frequency and Severity of Hail loss events are growing, resulting in carriers driving % wind/hail deductibles (1-3% of values at time/place of loss)

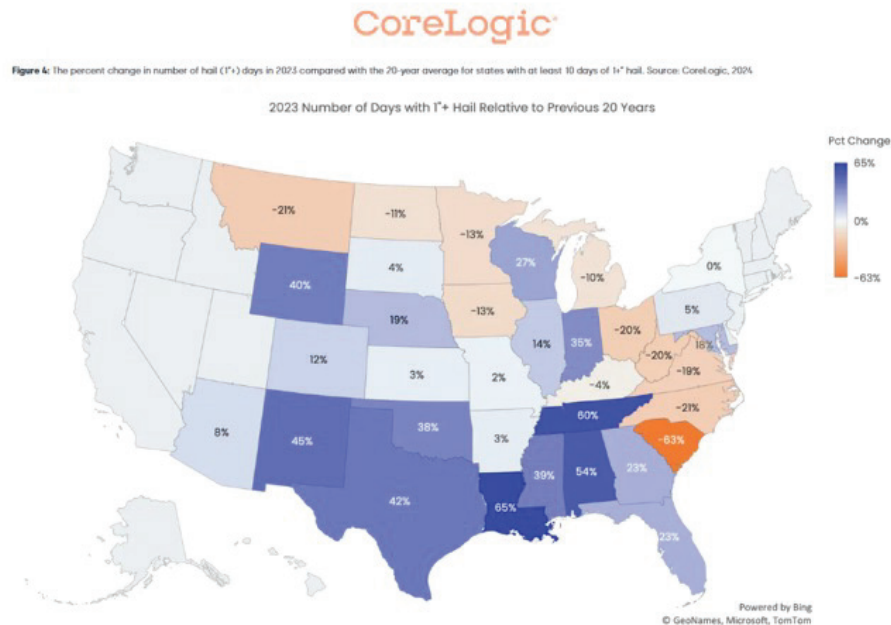


Figure 3: The number of days each year with  $\geq 2"$  hail. Source: CoreLogic, 2024



## Property – Wind/Hail Trends

Frequency and Severity of Hail loss events are growing, 2023% change relative to previous 20 years



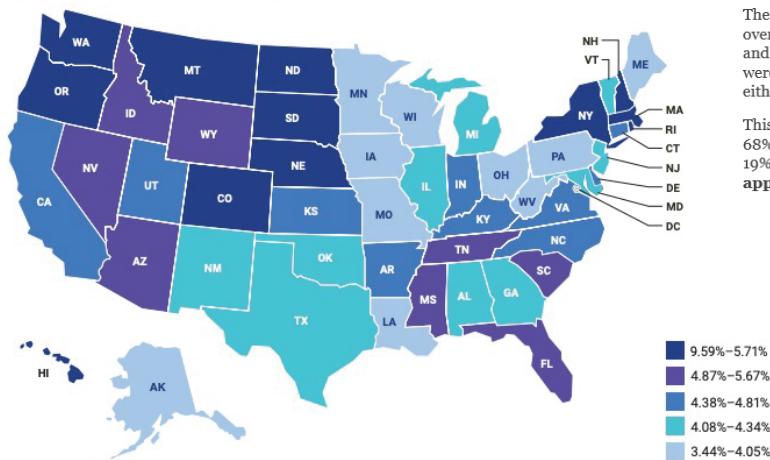
## Property – Inflation / Valuation Concerns



**Verisk: US Reconstruction Costs Rose 5.2% from July 2023 to July 2024**  
August 19, 2024

That's a large increase from the cost growth from July 2022 to July 2023 (4.0%) and over the cost growth in the second quarter (1.6%), which Verisk released in its [360Value Quarterly Reconstruction Analysis for Q3](#), which provides reconstruction cost trends at the national and state levels. The total reconstruction costs include materials and retail labor.

Changes in residential reconstruction costs by state



States are grouped in quintiles; each range/color in the legend includes ten states. (Source: Verisk data)



**Underinsured Properties Are Crushing Reinsurers. Why Proper Valuations Will Be a Focus for Years to Come**

By: Alex Wright | March 8, 2023

Topics: Insurance Industry | Jan./Feb. 2023 Issue | Property | Reinsurance

The U.S. property insurance market is facing one of the most difficult times in its history. Rates have continued to skyrocket over the past five years, accelerating to a 16% increase in the fourth quarter of last year — the 21<sup>st</sup> consecutive quarter of rises — according to Marsh. Insureds continue to be hit hard by increasing costs in this economically tough period.

The problem runs far deeper, however, with 40-year record high inflation taking hold over the past 18 months; widespread supply chain disruption; rising materials costs and labor shortages; and significant loss experience, where adjusted loss amounts were vastly higher than reported values. As a result, many businesses find themselves either underinsured or with large gaps in their property insurance programs.

This is evidenced in a recent study of property appraisals by Kroll, which revealed that 68% of buildings valued from 2020 to 2021 were underinsured by 25% or more, and 19% were underinsured by 100%. **In total, close to 90% of the buildings appraised were undervalued.**



# Property – Reinsurance Pressures on Rate/Pricing Grow



## January Renewals See Hardest Property Catastrophe Reinsurance Rates in Generation

By L.S. Howard | January 4, 2023

A convergence of global events has led to the hardest property-catastrophe reinsurance market in a generation and a "complex," "grueling" and "late" January renewal season, which went down to the wire, according to reports issued by brokers.

The geopolitical and macroeconomic shocks that occurred during 2022 included the war in Ukraine, fractured energy markets, 40-year high inflation, interest rate hikes, depleted capital and Hurricane Ian, the second most expensive natural disaster. The result, said reinsurance broker Howden, was the introduction of "significant volatility into the market" as well as massive reinsurance rate increases at the Jan 1, 2023 renewals, which it described in a press release as the "hardest property-catastrophe reinsurance market in a generation." (50-55% of catastrophe reinsurance is renewed in January each year).

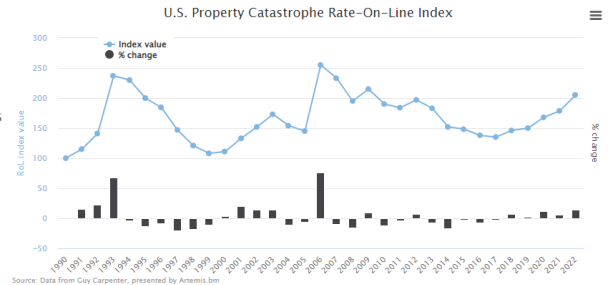
Howden said average global rate increases recorded at the renewals were 37% for global property catastrophe (the biggest year-on-year increase at 1/1 since 1992); 45% for direct and facultative business (a cumulative increase of 160% since 2017); 50%-plus for retrocessional cover (a cumulative increase of 165% since 2017) and 5%-plus for London market casualty reinsurance excess-of-loss rates (which reinsurers blamed on rising inflation and the prospect of higher claims severity).

## BUSINESS INSURANCE

### Underwriters must hike property cat rates by 50% to restore profitability

December 16, 2022

Ernst & Young Global Ltd. said property catastrophe reinsurance rates should rise 50% during the 2023 January renewals, if insurers and reinsurers want to offset the rising claims costs and restore profitability, Artemis reported. This suggested rate hike comes as underwriters are increasingly exposed to climate change-related risks and inflationary pressure.



### US property cat reinsurance rates at highest level since 2009: Guy Carpenter

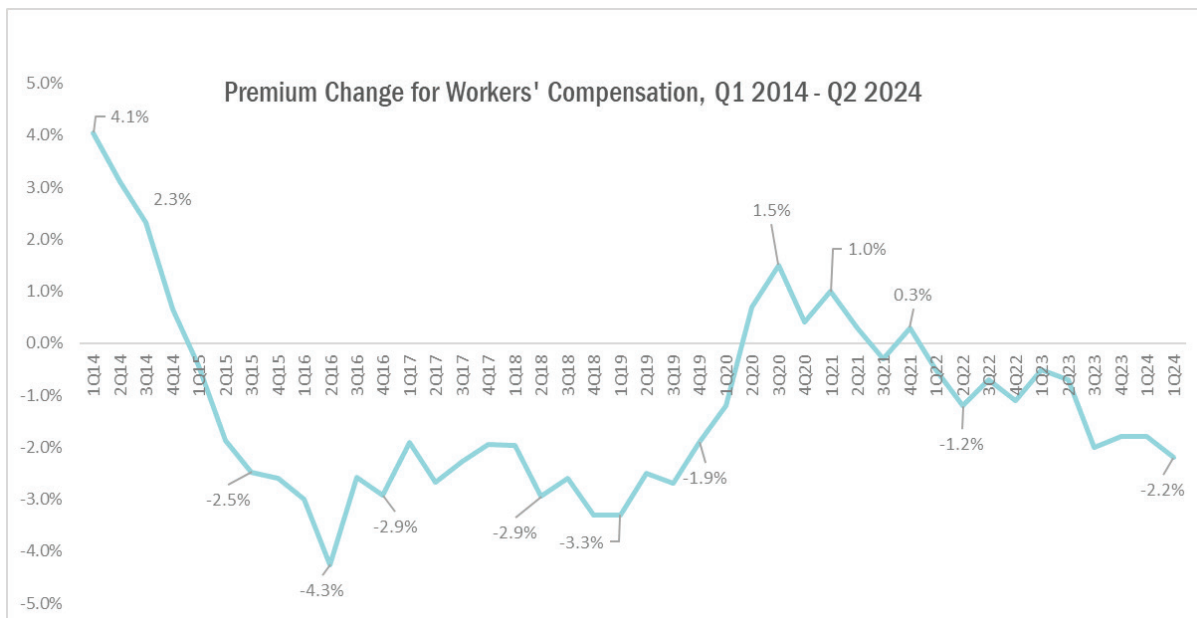
[artemis.bm/news/us-property-catastrophe-reinsurance-rates-guy-carpenter/](https://artemis.bm/news/us-property-catastrophe-reinsurance-rates-guy-carpenter/)

25 July 2022

## Workers' Compensation (Q2 2024)

Loss severity trends are improving (increased safety / better management of claims); but improvements are tempered by rising medical costs (medical portion of WC claims now exceeds 60%) & rising wages (indemnity payments)

Medical Cost inflation is ongoing, eventually will apply pressure to rates.





## Directors & Officers / EPLI (Q1 2024)

Ongoing claims frequency and severity; ongoing wage & hour litigation and social inflation impact on claims and overall elevated litigation environment.

Meaningful drop in rate increase from Q1-2021 to 2024, signs of stabilization



## Cyber (Q2 2024)

Cyber claims continue; driven primarily by Ransomware attacks. Insureds have responded with improved IT protocols, resulting in marketplace/pricing improvement, however likely short-lived as claims trends are still concerning.

