WOODRUFF SAWYER

Commercial Lines Insurance Market Update

First Quarter 2024

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Introduction

Commercial insurance pricing trends in the first quarter of 2024 followed many of the same patterns as last year. Insurance buyers can still expect competitive premiums in D&O and Cyber despite several insurers publicly saying they are practicing "pricing discipline." Insurers continue to be concerned about excess casualty. Although premium increases aren't extreme, excess casualty buyers should expect them.

We've noticed positive signs in the property market—additional capacity is having a positive effect on premiums. However, severe weather events throughout the nation and the National Oceanic and Atmospheric Administration's (NOAA) prediction of an "above-normal" Atlantic hurricane season this year are on everyone's minds.

In this Q1 2024 Commercial Lines Insurance Market Update, we review insurance rates and pricing trends in the D&O, cyber, casualty, and property segments. Read on for details by line of coverage.

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Commercial Market Update Snapshot: Q1 2024

Expect continued competitive premiums in D&O and Cyber. Excess Casualty buyers should expect premium increases (albeit not extreme). The Property market shows positive signs, with additional capacity having a positive effect on premiums. However, severe weather events throughout the US and NOAA's prediction of an "above-normal" Atlantic hurricane season are on everyone's minds.

D&O

With an oversupply of insurance capacity and few IPOs, insurers are still competing for public D&O renewal business, driving rates and retentions down for most companies.

Property

Capacity is returning to the property market and rates are softening. Carriers remain disciplined with risk quality, valuation, and CAT exposure as focus areas. Wildfire risks are top of mind for carriers as summer approaches.

Casualty

The casualty market faces difficult conditions despite positive signs for certain coverage lines. Auto & lead umbrella markets remain challenging due to adverse loss trends. WC continues to see rate decreases, the pace of GL rate increases has slowed, and high limit excess remains competitive.

Cyber

Increased competition continues to drive lower premiums. However, cyber attacks are more frequent and more costly than ever.

D&O: Market Update

OUR POV

With an oversupply of insurance capacity and few IPOs, insurers are still competing for public D&O renewal business, driving rates and retentions down for most companies.

MARKET TRENDS

- Several market-leading carriers are seeking price discipline, but new capacity continues to put downward pressure on overall rates.
- A dormant IPO market in 2022-2023 resulted in a lack of demand for D&O insurance and contributed to the excess capacity currently in the market. An uptick in IPOs in Q1 2024 is an encouraging sign for an IPO pipeline of strong companies waiting to go public.
- From a macroeconomic perspective, inflation remains above the Fed's 2% target and future rate cuts may take longer than anticipated. While the labor market remains robust, geopolitical challenges (wars in Ukraine and the Middle East and pivotal upcoming elections) will loom large throughout the year.

CONTEXT FOR CURRENT TRENDS

- In 2023 the annual aggregate settlement dollar amount paid out was the highest it has been in 10 years. There were 93 settlements totaling \$3.4B in 2023, a 42% increase over 2022 settlement dollars. During Q1 2024 there were 18 settlements totaling \$1.1B, well above the \$682M total in Q1 2023.
- The likelihood of a public company being sued reached a record high of 5% in 2019 when 268 lawsuits were filed. The total number of suits fell each year from 2020-2022 but rose in 2023 when 189 cases were filed, a 12% YOY increase. 49 cases were filed in Q1 2024, on par with the Q1 2023 number.
- Litigation is being driven by new and increased exposures, including cyber (data breach), privacy oversight (GDPR), derivative, bankruptcy and regulatory concerns, ESG issues such as climate change, and COVID-19.
- Derivative actions are on the rise, with notable settlements (Paramount Global, Cardinal Health, PG&E, Renren, Boeing, First Energy, American Realty, etc.) tapping "A Side-only" insurance.

3.4%
Likelihood of Being Sued
(first increase since the 2019 all-time high)

498
Number of Open SCA Cases Pending

\$13M
2023 Median Settlement
(10-year average of \$9.5M)

\$37.1M
2023 Average Settlement
(10-year average \$29.6M)

Property: Market Update

OUR POV

Capacity is returning to the property market and rates are softening. Carriers remain disciplined with risk quality, valuation, and CAT exposure as focus areas. Severe convective storms and wildfire risks continue to be top of mind for carriers.

MARKET TRENDS

- Carrier's growth goals are driving competition, leading to favorable renewals.
- Carriers are willing to expand coverage and limits, for well-managed risks.
- New/additional capacity continues to enter the non-admitted property market.
- Material and labor costs have stabilized.
- Capacity in Israel is challenged as conflict continues.
- Risk improvement remains a key aspect of differentiation.
- While notable events—earthquakes in Taiwan and Midwest tornados—were near misses for the market, analysts are forecasting 22 named storm events in the Atlantic.

CONTEXT FOR CURRENT TRENDS

- The market is in a period of transition following strong results in 2023. Increased supply continues to put downward pressure on pricing, unlocking opportunities to leverage competition among carriers.
- With El Niño of 2024 weakening, there is a growing chance that La Niña will develop, resulting in a particularly active hurricane season.
- Risk differentiation is crucial to achieve optimal outcomes, with a heightened focus on secondary CAT perils and exposure to severe convective storms.
- Carriers continue to emphasize relationships with buyers, longevity in the marketplace, and implementation of sustainable solutions.
- Global conflict continues to result in regional capacity restrictions. While the conflict in and around Israel has resulted in capacity being withdrawn from that market, capacity is available, albeit pricing is expensive.

Q2 2024 PROJECTED RATE CHANGES

0%–2.5% Non-CAT accounts with favorable loss history	**0%–5%** CAT accounts with favorable loss history
10%+ Non-CAT accounts with unfavorable loss history	**20%+** CAT accounts with unfavorable loss history

Cargo and Stock Throughput: Market Update

OUR POV

Strong market conditions continue into Q2 2024. Creative underwriting and an entrepreneurial attitude, combined with renewed competition, is resulting in positive outcomes for insureds.

MARKET TRENDS

- Markets are taking an aggressive stance on new and renewal business.
- At least three new entrants are expected to begin writing cargo business in 2024.
- MGA capacity continues to grow.
- Restrictive underwriting guidelines have been lifted and markets are now willing to consider challenging risks.
- While underwriting discipline prevails, clients are being afforded coverages previously denied during the hard market.
- The impact of the Baltimore Francis Scott Key Bridge collapse remains to be seen.

CONTEXT FOR CURRENT TRENDS

- New entrants and the continued desire of incumbents to grow market share is generating competition, which leads to more coverage at a better price.
- The collapse of the Baltimore Francis Scott Key Bridge will have severe financial implications for (re) insurers. Initial loss estimates are between $2 billion-$4 billion. Determining who will "foot the bill" will be an expensive and protracted process.
- With forecasters warning that the 2024 hurricane season will be extremely active, insurers continue to diligently analyze catastrophe exposures and insureds' building constructions and protection measures in place. Despite this additional focus, when strong information is provided, CAT rating remains stable.
- Houthi missiles targeting international shipping routes have triggered disorder to global trade, forced food prices to rise and there are now new threats to Yemeni livelihoods who use the waters to fish.
- Ukraine / Russia / Belarus / Israel / Gaza – despite these areas continuing to be in conflict, certain carriers are still offering coverage, at a price.
- Supply chain disruptions / re-routing cargos – due to the above worldwide events, requests for increased policy limits coupled with enhanced, client-tailored coverages during this time will remain vital.

Q2 2024 PROJECTED RATE CHANGES

0%–5%

Accounts with favorable loss history and a focus on risk management

10%–20%

Accounts with unfavorable loss history or those that do not meet rate adequacy for underwriters

Casualty: Market Update

OUR POV

The casualty market faces difficult conditions despite positive signs for certain coverage lines. Auto & lead umbrella markets remain challenging due to adverse loss trends. WC continues to see rate decreases, the pace of GL rate increases has slowed, and high limit excess remains competitive.

MARKET TRENDS

- Primary casualty insurers continue to seek rate increases on GL/auto overall for the 26th consecutive quarter to keep up with loss trends.
- High interest rates and insurer investment income is keeping workers' compensation competitive and profitable. Wage and medical inflation, the 24/7 exposure of remote work, and an increase in claim frequency with a return to offices may impact rates over time.
- The high excess market remains stable and competitive, given healthy capacity. Lead umbrella insurers continue to achieve rate increases due to sustained large claim activity and limited competition.

CONTEXT FOR CURRENT TRENDS

- Large verdicts and liability settlements continue to impact the market as carriers experience adverse development on historical claims. Legal system abuse, litigation financing, and creative plaintiff tactics continue to put upward pressure on settlements as insurers rush larger payouts to avoid unpredictable juries.
- Organizations with large auto fleets, high-hazard products, or significant premises exposures are facing difficult umbrella renewals. Using buffer layers to increase attachments can help mitigate premium increases.
- Anchoring auto liability, which has experienced rate increases for over 50 straight quarters, to a profitable line of insurance like workers' compensation may improve results in a difficult market facing rising claims costs.
- Enhanced technology in vehicles coupled with supply chain issues is resulting in increased auto physical damage claims. Longer repair times are also affecting supplemental claim costs like rental car reimbursement.
- Carriers continue to refine coverage terms and conditions. Insurers seek to apply exclusions for biometric data privacy, abuse and molestation, assault and battery, and PFAS (forever chemicals) and sublimits for liquor liability.

By-Line Q1 2024 Rate Changes Ranged from -1.8% to +9.8%

	Auto	WC	GL	Umbrella
Q1 2024	9.8%	-1.8%	4.1%	7.0%
Q4 2023	7.3%	-1.8%	3.8%	7.6%
Q3 2023	8.8%	-2.0%	4.2%	7.4%
Q2 2023	10.4%	-0.7%	5.2%	8.1%
Q1 2023	8.3%	-0.5%	4.6%	8.5%

Source: CIAB Q1 2024 Rate Survey

Cyber: Market Update

OUR POV

Increased competition continues to drive lower premiums. However, cyber attacks are more frequent and more costly than ever.

MARKET TRENDS

- More carriers are competing for primary and low excess placements—driving lower premiums.
- The level of underwriting scrutiny can vary significantly across different insurers but remains high.
- Coverage restrictions remain for some:
  - Non-breach privacy (GDPR, CCPA, BIPA)
  - Dependent business interruption and system failure—largely sublimited
  - "Systemic risk" exclusions
- There is significant focus on the application of the war exclusion for nation-state-backed cyberattacks.

CONTEXT FOR CURRENT TRENDS

- Carriers have restricted wrongful collection coverage in response to claims activity.
  - There is increased attention on pixel tracking and similar data tracking technologies.
  - Insurance buyers must demonstrate proper controls around obtaining consent and providing adequate disclosure to obtain non-breach privacy coverage.
- Ransomware claims activity set record highs in 2023—with both frequency and severity increasing to record levels.
- Artificial intelligence (AI) risk is a hot topic among clients—but the use of AI has minimal impact on overall cyber risk. There are privacy considerations to keep in mind, and the use of AI can impact the severity of your loss, but underwriter questions on this topic remain infrequent.

CYBER LOSS STATISTICS

$1.1B

global ransoms paid in 2023; largest volume in history

Source: Chainalysis

33%

of breaches involved a ransom demand

Source: Verizon 2024 DVIR

38%

of incidents caused by exploitation of security vulnerability

Source: Mandiant Trends 2024

About Woodruff Sawyer

As one of the largest independent insurance brokerage and consulting firms in the US, Woodruff Sawyer protects the people and assets of more than 4,000 companies. We provide expert counsel and fierce advocacy to protect clients against their most critical risks in property and casualty, management liability, cyber liability, employee benefits, and personal wealth management. An active partner of Assurex Global and International Benefits Network, we provide expertise and customized solutions to insure innovation where clients need it, with headquarters in San Francisco, offices throughout the US, and global reach on six continents.

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