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2023 State of the Insurance Market

What to expect at your next renewal

Q1 Edition

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2023 State of the Insurance Market

If insurance rates continue to rise, 2023 could be the seventh consecutive year of rate hikes MarketScout[1] says that the annualized composite rate increase for 2022 was 5.7%, marking the sixth year in a row of rate increases.

Certain lines, including commercial property, are experiencing steeper rate hikes and increasingly restrictive terms. Other lines, such as D&O and cyber, are seeing price moderation and increased capacity, although rates are still trending upward.

Businesses with upcoming renewals should be ready for higher rates and more difficult underwriting, especially in the more challenging lines. Securing suitable coverage may not be as easy as it once was. It's more important than ever for companies to demonstrate solid risk management practices and a good claims history.

This report will highlight key developing risks:

- Evolving Cyberattacks
- Surging Natural Disaster Costs
- ESG and Greenwashing
- The Return to the Office and DEI
- Inflation and Economic Uncertainty

This report will also focus on the impact of developing risks on the following lines of coverage:

- Commercial Property
- Business Interruption
- General Liability and Excess
- Commercial Auto
- Directors and Officers
- Professional Liability
- Employment Practices Liability
- Cyber Insurance
- Workers' Compensation

Emerging Liability Risks

Strong risk management practices can help you lower your insurance rates in two ways. First, you may succeed in reducing your claims, both in terms of frequency and severity. Insurance carriers will take your attractive claims history into account when calculating rates. Second, you can include information about your risk management strategies during the insurance application and renewal processes. Insurers will also consider this information.

Before you can take steps to protect yourself against emerging risks, you need to know what they are, so here's a look at some of today's most pressing risks.

Evolving Cyberattacks

Cyberattacks continue to be a top concern for risk managers, but the nature of cyberattacks continues to evolve.

Microsoft[2] reports that nation-state cyberattacks, such as those from Russia, Iran, North Korea and China, became more brazen in 2022. Many of these attacks targeted critical infrastructure.

Although ransomware continues to be a problem, phishing attacks and business email compromise (BEC) attacks have also proven to be very serious threats. A report from Interisle Consulting Group[3] found that phishing attacks increased by 61% in 2022. Meanwhile, although BEC schemes are usually employed to steal money via wire transfers, the FBI[4] has warned that criminals are now using BEC tactics to steal shipments of food products and ingredients.

Small and mid-sized businesses have also received attention from cybercriminals. According to the 2022 Cyber Claims Report: Mid-year Update from Coalition[5], businesses with under $25 million revenue saw an 85% surge in claims costs in the second half of 2021. Although claims severity dropped 15% in the first half of 2022, it still remained higher than it had been just a year earlier. Smaller businesses are especially vulnerable and may be forced out of business after a cyber incident.

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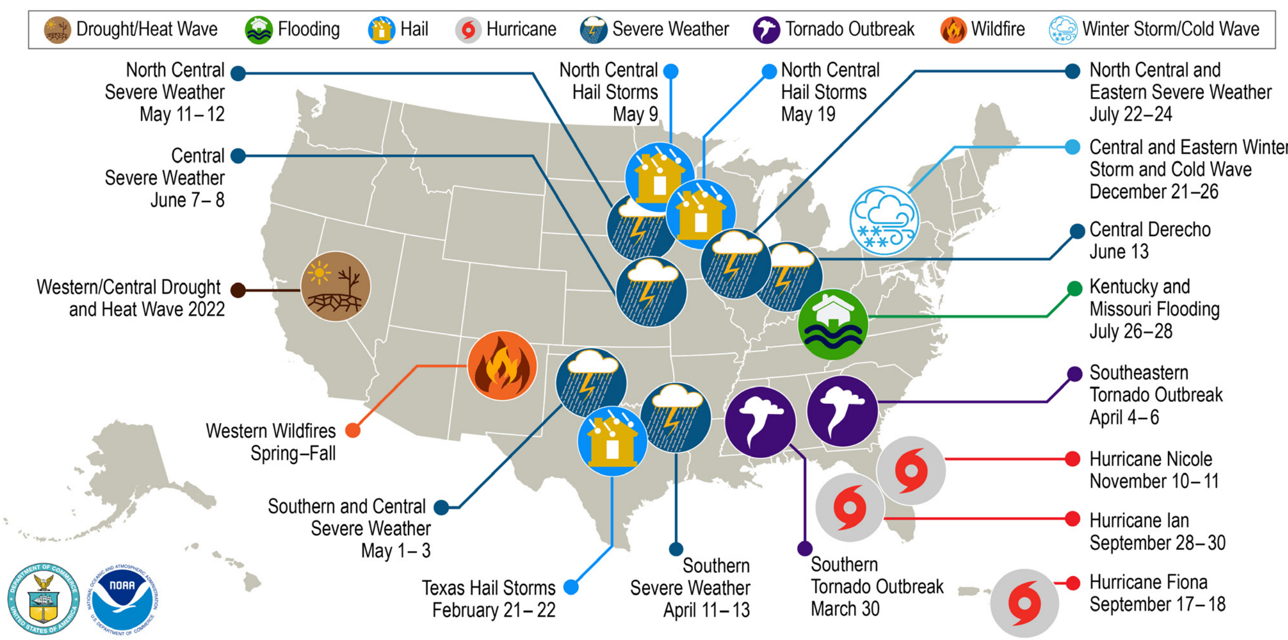
Surging Natural Disaster Costs

Natural disaster costs have surged in recent years. The National Oceanic and Atmospheric Administration[6] (NOAA) says that the U.S. experienced 18 separate weather and climate disasters with losses in excess of $1 billion in 2022, resulting in combined losses of $165 billion.

For comparison, the average total cost per year between 2010 and 2019 was only $93.6 billion. In the last five years, the average total annual cost has increased to $119.1 billion.

U.S. 2022 Billion-Dollar Weather and Climate Disasters



*This map denotes the approximate location for each of the **18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.***

Source: NOAA.[6]

ESG and Green Washing

Between the focus on environmental, social and governance (ESG) investing and the threat of pollution-related lawsuits, businesses are under pressure to embrace eco-friendly practices. However, claiming to be environmentally friendly without actually following through could do companies more harm than good.

Bloomberg[7] warns that companies that misrepresent their eco-friendliness or sustainability could be accused of greenwashing, and consumer activist groups have been filing lawsuits. Furthermore, new guidelines may be coming soon. In December 2022, the FTC[8] requested public comment on its Green Guides for the Use of Environmental Claims.

The Return to the Office and DEI

Companies have been under pressure to embrace diversity, equity and inclusion (DEI). Notably, Nasdaq[9] is rolling out a new board diversity rule that will require companies listed on Nasdaq to have diverse directors or explain why they do not. Increased expectations could lead to more lawsuits involving racism, sexism, ageism and ablism.

At the same time, efforts to hire a diverse staff could also result in litigation if companies do not comply with anti-discrimination laws in their hiring practices. In one example, Business Insurance[10] says a federal appeals court has reinstated discrimination and retaliation charges filed by a white assistant purchasing agent who claims she was denied a promotion due to her race.

Inflation and Economic Uncertainty

Consumer prices surged in 2022. The Bureau of Labor Statistics[11] says consumer prices were up 9.1% in the 12-month period ending in June 2022. Inflation rates have moderated since then, but price increases remain elevated. Consumers and businesses alike have also been dealing with supply chain issues, which can lead to even higher costs.

If economic forecasters are right, 2023 could bring a global recession. The World Bank[12] says that high inflation has prompted central banks to hike interest rates, and this could spark a recession.

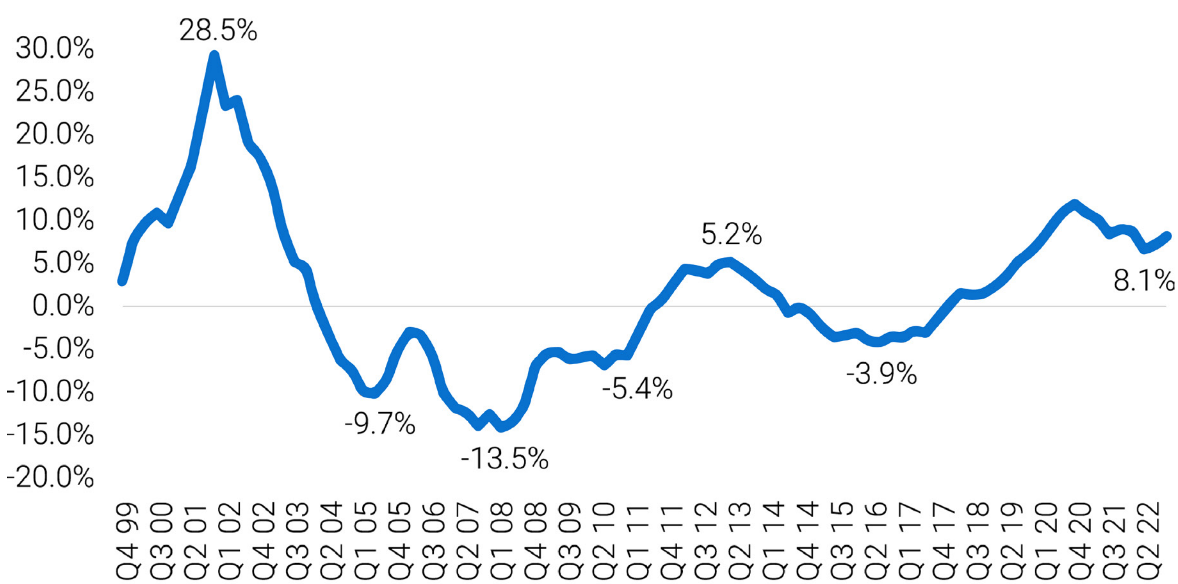
The Impact on Coverage Lines

All of these emerging risks are impacting commercial insurance lines. Rates have been rising since 2017. MarketScout shows that there has been some moderation, at least when looking at the average for all lines. In 2022, commercial rates were up 5.7%, while in 2021, commercial rates were up 6.6%. In the fourth quarter of 2022, rates were up 5.1%.

However, these are just average rate hikes. Some accounts are being hit with significantly larger price hikes, and some lines are seeing much steeper rates than others. CRC Group[13] says higher hazard risks will continue to see above-average rate increases in commercial lines, including wind-exposed CAT, heavy auto fleets and distressed healthcare accounts.

Property insurance is particularly challenging this year.

Average Premium Changes, 1999 - Q3 2022 - All Lines



Source: The Council of Insurance Agents & Brokers

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Commercial Property

MarketScout[1] says that commercial property rates were up 9.3% on average in the fourth quarter of 2022. That's noticeably higher than the 5.1% rate increase seen across all lines, but it's still reasonably manageable. However, MarketScout also notes that catastrophe-exposed commercial properties are seeing steeper rate hikes of up to 25% to 30%.

Rates Up
+9.3%

Some accounts are seeing even larger increases. According to the 2023 Commercial Property & Casualty Market Outlook from USI[14], catastrophe-exposed properties and properties with poor loss history or poor loss control are seeing the hikes of 25% to 150%.

If your property is located in a region with major natural catastrophe risks, your premiums could more than double. Even if your property isn't in a catastrophe-impacted area, if you're not controlling risks, your rates could skyrocket.

Reinsurance Insights

Gallagher Re's[15] 1st View: Market Turns report from January 2023 provides some insights into current pricing trends. According to the report, recent catastrophe losses, inflation, and rising interest rates are causing disruption in the U.S. market, and reinsurers are excluding natural perils on risk excess programs. Additionally, many reinsurers refused to quote before Thanksgiving 2022, which caused firm order terms to be delayed until mid-December.

U.S. Property Rate Movements

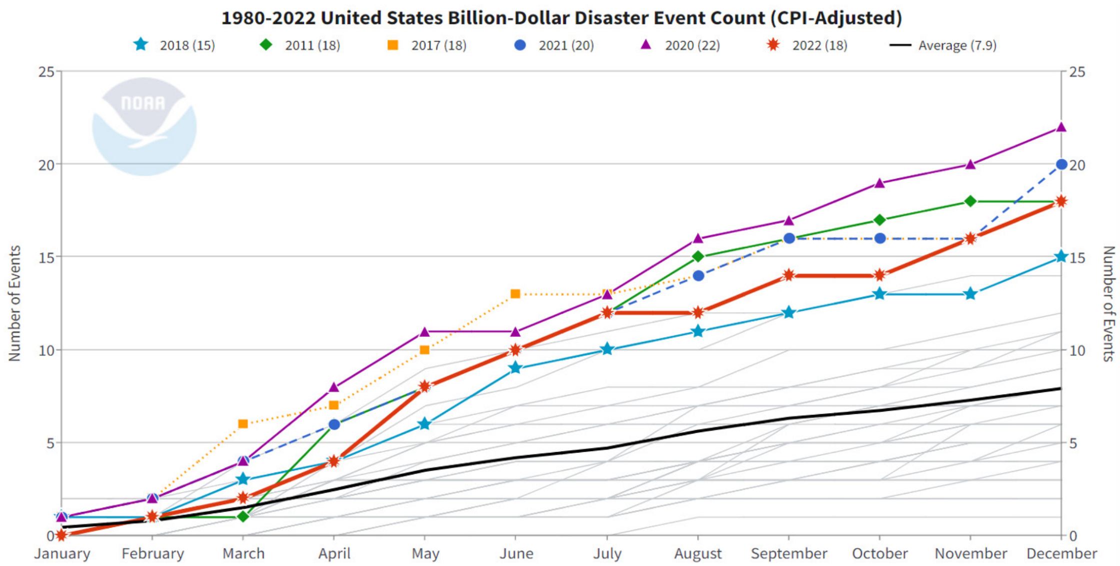
- Risk Loss-Free: +15% to +25%
- Risk Loss-Hit: 35% to 150%
- Catastrophe Loss-Free: +25% to +50%
- Catastrophe Loss-Hit: +45 to +100%

Source: Gallagher Re[15]

Natural Disasters

Costly natural disasters have put pressure on the property insurance industry. According to Munich Re[16], natural disasters caused approximately $270 billion in overall losses and $120 billion in insured losses in 2022. Climate change and the La Niña weather pattern appear to be significant factors driving the high losses.

In the U.S., Hurricane Ian was especially destructive. Swiss Re[17] says the insured losses from the hurricane came to around $50 to $65 billion, pushing the total natural catastrophe insured losses for the U.S. to around $115 billion as of early December. The ten-year average is only $81 billion.



Crime and Civil Unrest

In addition to natural disasters, property insurers and property owners have also had to contend with crime and civil unrest.

According to the Council on Criminal Justice[18], robberies increased by 19% in the first half of 2022 compared to the first half of 2021, and nonresidential burglaries increased by 8%.

Businesses in some urban areas have dealt with repeated break-ins, robberies and vandalism, as well as protests and riots that sometimes involve fires, broken glass and other forms of property damage. According to KGW8[19], data from the Portland Police Bureau shows that burglaries in Portland, Oregon increased by more than 20% in 2022.

Between the first quarters of 2021 and 2021, property crime increased in **62** out of 100 cities.

Source: Value Penguin[20] analysis of FBI data

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Rising Inflation and Interest Rates

Inflation rates surged in 2022, and this triggered higher interest rates. These increases impact insurers as well as consumers.

The NAIC[21] says that higher interest rates generally benefit insurers. However, the effect is not immediate, and rising interest rates can decrease the value of existing lower-earning bonds.

High inflation rates are definitely a problem for loss ratios. As prices rise, it becomes more expensive to repair or replace property. For example, replacing a stolen car or computer costs more because prices have risen, and repairing a damaged building costs more because labor and supplies are more expensive. As a result, the average claims cost increases along with inflation.

12-Month CPI Change

- January 2022: +7.5%
- February 2022: +7.9%
- March 2022: +8.5%
- April 2022: +8.3%
- May 2022: +8.6%
- June 2022: +9.1%
- July 2022: +8.5%
- August 2022: +8.3%
- September 2022: +8.2%
- October 2022: +7.7%
- November 2022: +7.1%
- December 2022: +6.5%

Source: BLS[22]

Tips for Managing Your Property Insurance

- Prepare for rate surges. If you are in an area with high natural disaster risk or you've had significant claims recently, you may see very large rate hikes.
- Work with your broker. This is a particularly challenging market, so you and your broker may need to get creative about your insurance strategies. Reach out to your broker well ahead of your property insurance renewal.
- Control your risks. Take steps to reduce your property risks whenever possible. This could include adding additional security to deter crime or upgrading your property to reduce fire risks.
- Adjust for inflation. Due to the recent and sudden price surges, we're seeing replacement cost values that have been as much as 50% higher than the replacement cost estimator software values provided by carriers. Materials and labor cost more, so if your limits haven't increased, you may not have enough coverage.

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General and Excess Liability

MarketScout says general liability rates were up 6.7% and excess rates were up 7.7% in the fourth quarter of 2022, while USI shows general and product liability rate increases of 10% to 15% in 2022.

In a short period of time, nuclear verdicts and social inflation have caused lawsuits to become much more expensive. According to Travelers Institute[23], between 2015 and 2019, the average verdict in the National Law Journal's Top 100 Verdicts went from $64 million to $214 million.

Rates Up +6.7% to 7.7%

Commercial Auto

MarketScout says commercial auto rates were up 7% in the fourth quarter of 2022. However, USI says fleets with less than 200 vehicles and a poor loss history are seeing rate hikes of 20% to 30%.

Carriers have been dealing with nuclear verdicts as well as an unexpected increase is fatal crashes. Traffic fatalities surged during the pandemic, apparently due to an increase in risky driving. The NHTSA says that traffic fatalities continued to increase in early 2022, but this trend started to reverse between April and June.

Rates Up +7%

Directors and Officers

MarketScout says D&O rates increased 6% in the fourth quarter of 2022. Indeed, USI says that some types of D&O accounts saw price decreases of up to 20% in 2022.

As new carriers entered the D&O market and existing carriers attempted to retain their market share, prices decline, underwriting became more flexible and broad coverage became available. However, underwriters do still have concerns, especially regarding excess derivative demand investigations and the discovery period. Nevertheless, this is an excellent time to reassess your D&O policy and determine whether you have the best coverage for your needs.

Rates Up +6%

According to Cornerstone Research[24], overall securities class action filing declined from 218 in 2021 to 208 in 2022. However, core filings increased, and the Maximum Dollar Loss rose 138%.

Professional Liability

MarketScout says professional liability rates increased 5.3% in the fourth quarter of 2022, while USI shows rate increases from 5% to 30% in 2022. Risk & Insurance[25] says nuclear verdicts and social inflation have also impacted the professional liability market, and law, architecture, accounting and engineering firms in particular have seen court verdicts that are 50% higher than the verdicts seen just five years ago.

Rates Up
+5.3%

Employment Practices Liability

MarketScout says employment practices liability rates were up 6.3% in the fourth quarter of 2022. Fortune[26] warns that EEOC lawsuits could climb as workers are forced to return to the office, and Benefits Pro[27] says that caregiver discrimination lawsuits are also on the rise. Instances of caregiver discrimination could run afoul of Title VII of the Civil Rights Acts, the Family and Medical Leave Act and the Americans with Disabilities Act.

Rates Up
+6.3%

Cyber Insurance

MarketScout says cyber insurance rates were up 20% in the fourth quarter of 2022.

Rates Up
+20%

Compared to recent hikes, this doesn't look too bad. Coalition says claims frequency and severity both decreased slightly in the first half of 2022, and the Council of Insurance Agents & Brokers[28] (CIAB) says that cyber rates are moderating. Prices are still increasing, but at a slower pace than what was seen 18 months ago. For comparison, in the fourth quarter of 2021, CIAB says cyber rates were up 34.3%.

Despite the slight reprieve, cyber prices and threats remain high. Phishing in particular has stood out as a major risk. Coalition says phishing accounted for 58% of claims in the first half of 2022, a 32% increase compared to the second half of 2021. During the same period, ransomware incidents and ransom sizes decreased. More and more people are refusing to pay ransoms, and cybercriminals are finding other tactics. Strong cybersecurity practices, including multifactor authentication, are still a must.

Workers' Compensation

MarketScout says workers' compensation rates were flat in the fourth quarter of 2022.

Rates Up
0%

NCII[29] says 18 states established COVID-19 presumptions during 2020 and 2021. These rules made it easier for workers to file workers' compensation claims for COVID. While most of these presumptions have since expired, some states are considering legislation that would go beyond the COVID-19 pandemic and could cover other infectious diseases. These states include California, Massachusetts and Rhode Island.

Despite these rules, Risk & Insurance[30] says that a report based on data from the National Academy of Social Insurance shows that medical benefits decreased by 11.7% between 2019 and 2020, likely because fewer people were working.

Business Interruption

MarketScout says business interruption rates were up 3.7% in the fourth quarter of 2022.

Rates Up
+3.7%

The legal battle over whether or not businesses have coverage for COVID-related business interruption losses continues. Reuters[31] says federal appellate courts have ruled there is no coverage under commercial all-risk property insurance policies, but the issue is now going to state supreme courts. Meanwhile, many insurance companies have introduced policy terms that specifically exclude COVID-19 and other viruses.

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What We're Seeing

While the numbers shared on the previous pages represent national averages, here are the forecasts of what we're seeing with renewals. Accounts with lower than average losses and lower hazard classes see increases on the low range, while accounts with higher than average losses and in higher risk classes see increases on the high range.

Line Of Coverage	Price Forcast
Commercial Property	+20-50% (non-CAT exposed) +40-100% (CAT-exposed & earthquake) +100-200% (CAT-exposed with poor loss history)
General Liability	+5-20%
Excess and Umbrella Liability	+30-60% possibly higher for those in the transportation industry and/or higher risk classes
Commercial Auto	+10-30%
Workers' Compensation	+0-5%
Cyber Liability	+20-100% or more
Directors and Officers Liability	+10-70%
Employment Practices Liability	+10-30%

These numbers are average estimates based on what we're seeing in the market today and are not intended to predict your actual experience. Your company's insurance rates and renewal experience may be much different than these average estimates.

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Key Takeaways for Policyholders

1. **Brace for rate increases.** Rates are going up across the board, but certain lines – such as commercial property, excess liability and cyber – are seeing especially steep increases. Build this into your budget.

2. **Start preparing early.** Don't wait until your renewal is up. Start working with your broker in advance so you can shop around for the best coverage and rates.

3. **Strengthen your risk management practices.** Look to industry best practices to ensure you're doing enough to reduce your cyber, auto, employee practices liability and other risks.

4. **Close claims.** Open claims can impact your insurance application. RiskPoint can help you accelerate claim closure.

5. **Don't skimp on the coverage you need.** Insurance costs are rising, but uncovered litigation can be significantly more expensive. Make sure you have the coverage terms and limits you need to protect your company.

RiskPoint can help you navigate the challenging insurance market. Contact Us!

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