Q4 2023

Insurance Market Report

MARCH 2024

Gallagher

Insurance | Risk Management | Consulting

Foreword

While challenges within the commercial property market continue, many clients will be relieved to find a more stable property marketplace at this year's renewal, but are likely to see continued rate increases.

A more "orderly" renewal took place on the reinsurance side of the business on January 1, according to Gallagher Re's 1st View report , and the constraints around capital and capacity have eased marginally year-on-year.

We are not out of the woods yet, and many of the challenges clients have faced in their renewals are likely to continue in the near future. Our brokers will continue to emphasize the importance of providing detailed risk submissions well ahead of renewal discussions.

It seems increasingly likely that inflation has peaked, but underwriters are continuing to factor construction costs into pricing, and up-to-date valuations remain essential. Demand for loss prevention surveys and risk engineering services remains high as clients respond with information that is more precise and granular.

Market participants are watching and hoping that new capacity will come into the market. That said, a number of incumbents have increased how much capital they are willing to dedicate to the sector, and, as a result, we are seeing an increase in capacity for non-challenged risks and the potential relief in rate increases for those risks.

Loss costs remain an issue across most lines

Extreme weather claims were the big story for 2023, with severe convective storms (SCS) a significant driver of insured loss,[2] and an El Niño cycle contributing to temperature extremes.

Not only was 2023 the warmest year since records began, but it was also the first to breach the 1.5 degrees C post-industrial warming limit.[3] This has implications for the frequency and severity of extreme weather moving forward.[4]

Insured losses from natural catastrophes once again exceeded $100 billion in 2023. As the insurance industry comes to terms with this new benchmark, it is likely carriers will continue to reevaluate their exposures to SCS, wildfire, and flood, among other perils.

Within the casualty market, there is capacity available to clients. As a result, the casualty market is currently stable. However, there are concerning claims trends with social inflation and nuclear verdicts that we all are monitoring, which could raise questions about carriers' reserve adequacy.

In this report

Umbrella/excess renewals are seeing mid- to high-single-digit rate increases. Social inflation and nuclear verdicts continue to challenge casualty insurers, with claims relating to per- and polyfluoroalkyl substances (PFAS)[5] and the Biometric Information Privacy Act (BIPA)[6] among the emerging trends.

Within commercial auto, the rising cost of repairs and liability payouts is raising questions about the adequacy of carriers' prior-year reserves, an issue that could play out in pricing and coverage trends moving forward.

Cyber-claims activity is picking up again, with malicious actors leveraging AI to carry out increasingly targeted and sophisticated attacks. Going forward, we anticipate rate adjustments as the market continues to gain comfort with the risk it is assuming.

Defying prevailing market trends, we see fewer constraints within the public D&O market as capacity and competition remain plentiful. With securities claims picking up and given the volatile nature of the class of business, the easing of rates may ultimately prove unsustainable.

This interim report is set against a backdrop of continuing macroeconomic and geopolitical uncertainty. That said, it is likely the US economy will avoid entering a recession in 2024, with inflation continuing to ease during the fourth quarter and into Q1 2024.

At a glance

Property: Property buyers are seeing continued increases, even after the severe constraints of the past two years. That said, creative solutions must be considered, as not all renewals will be straightforward, and double-digit rate increases are set to continue.

Casualty: A sensible market is emerging, with median rate increases largely stabilizing. Insurers are closely monitoring the impact of social inflation, nuclear verdicts, and rising medical costs. Against a backdrop of rising loss costs, commercial auto carriers are facing potential adverse prior-year reserve development.

Cyber: The cyber insurance market continues to mature as claims activity has increased in frequency and severity. Hackers are leveraging AI as they wage more sophisticated and targeted attacks.

D&O: Plentiful capacity continues to affect supply-demand dynamics within public D&O, but the market appears to have found a landing point for now. Settlement verdicts continue to grow in size, with directors facing a number of emerging exposures.

KEY TRENDS

Property: Slight easing of capacity constraints, but no time for complacency

- Property premium rates hardened by an average of 14.4% in the fourth quarter, showing a slight moderation after rates hardened by a median of 16.5% in Q3 and 17.8% in Q2 2023.
- Year-on-year, Q4 rate increases remain higher than the same period of the previous year (10.3%).
- Close to 80% of clients experienced an increase in their renewal price in the fourth quarter of 2023.
- While the market is plateauing at mid-teen rate increases, it is important to continue to explore all the options. There will be tough renewals ahead, and clients should prepare for potential double-digit increases in premium rates.
- Insurance buyers should not rely on lower valuations from last year. Carriers remain highly focused on insurance-to-value and inflation.
- The sophistication of risk management within the mid-market space continues to grow, with demand for more creative buying strategies. Among the options being used are captive solutions and parametric coverages.
- Some incumbent carriers are offering more capacity to support existing clients, and this increase can lead to restructuring options at renewal.
- Clients with long-standing placements that have not been able to secure competitive options remain at risk of nonrenewal or having to accept more unfavorable terms.
- A more "orderly" reinsurance renewal at January 1 may offer some respite to the underlying market.
- Carriers' year-end results have been robust, but it is still too early to determine the full impact of recent events.
- The Moody's RMS Version 23 modeling software may influence the market in the future, but for now, it is one to watch.

A lot of our clients may hear the message that the market is moderating and the pace of rate increases has decelerated. But the expectation that you may get the same renewal as everyone else shouldn't be there.

Carriers are viewing secondary perils differently, and clients with an exposure to a severe convective storm will be treated a little bit differently than others. There's still some push for changes in deductibles, especially with respect to hail or tornado, moving from a flat deductible to a percentage value.

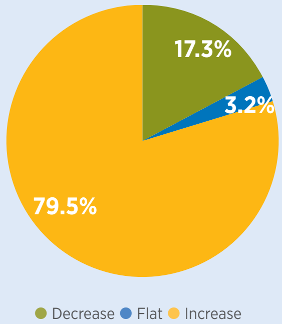
Some single carriers may feel they no longer want to insure 100% of that risk. So those clients may end up in a quota share or layered program, which would result in a different renewal than what we're projecting on an average basis.

There will be pockets where the market will continue to focus on changing terms, increasing rates, and changing deductibles. We have to be proactive and behave as if we're still in the same market as we were last year, and continue to look for multiple options. We're not just working with incumbent markets; we're starting early and focusing on data.

We need to continue to deploy those harder market strategies because there will be some tough renewals out there. Not everyone is going to have the same result, and there's still some displacement with carriers. Some property carriers are still continuing to re-underwrite their books.

MARTHA BANE
Executive Vice President, Managing Director
Property Practice
Gallagher

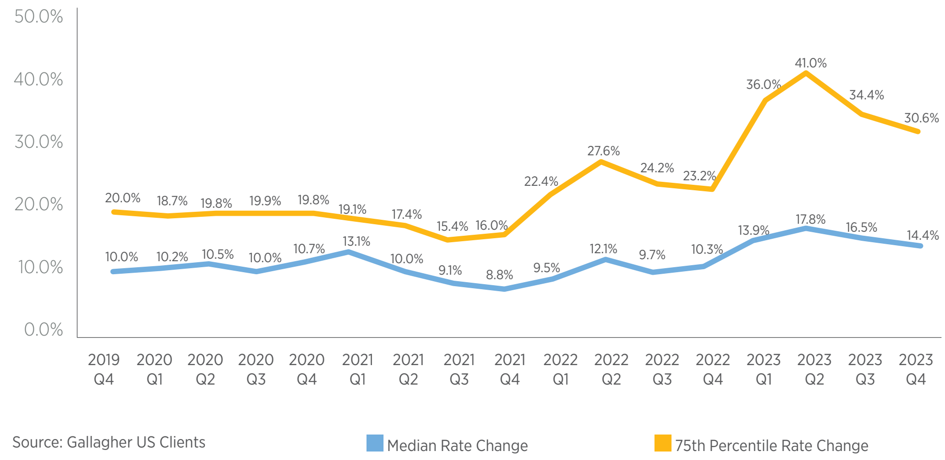
Q4 2023 Property Rate Changes
Gallagher — US Clients



14.4%

median rate change
in Q4 2023*

Property Rate Trends Q4 2019–Q4 2023



Source: Gallagher US Clients

Our methodology

Gallagher Drive is a premier data and analytics platform that uses both the change in premium and total insured values (TIVs) to calculate the rate change each month. The rate change is broken down by class of business and focused on renewals within the mid-market and large account spaces.

The approach and methodology give a representation of the actual rate change, not just the premium change.

Note that the data is calculated as one standard deviation for all renewals. The Gallagher Drive insights capture intermediated renewals and exclude rate change data from risk pools and captive insurers.

This marketplace is continuing to stabilize. January 2024 casualty reinsurance treaty renewals were more favorable than originally anticipated. Carriers have benefited from moderate rate increases, for the most part, and high single-digit rate increases on auto umbrella excess business. The combination of a moderate rate increase and exposure increases makes for a healthier marketplace, where premiums are still up near double-digits.

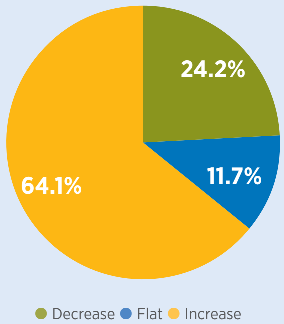
Broadly speaking, during the fourth quarter, we saw casualty carriers reacting in a steadier and less dramatic fashion, particularly in comparison to the market dynamics over the last few years. It remains the case that distressed risks with severity experience will continue to be individually underwritten and will likely see some combination of higher rates, reductions in capacity, and/or a push for higher attachment points on their lead umbrella.

BILL BAKER
VP of Strategic Growth, Gallagher

Casualty: Single-digit rate increases for now; exposures still up

- We continue to see single-digit increases within most casualty classes, with general liability rates up by a median average of 4.5% and by 8.1% for umbrella businesses, and 8.3% for commercial auto in Q4 2023.
- Workers' compensation remains a profitable and stable class of business, and here rate trends are less pronounced. Just under half of clients experienced marginal rate rises at renewal. This reflects the supply-demand dynamics and reduced claims frequency, but belies the rising cost of medical expenses.
- Within the commercial auto business, median rates increased by 8.3% in the final quarter of the year, but by 18.7% for the top quartile. This last quarter marked the 52nd consecutive quarter of premium increases, according to CIAB.[7]
- Inflation continues to drive up the cost of auto repair and liability claims, and the rating agencies continue to voice concern over the potential for adverse reserve development within auto liability books of business.[8]
- Social inflation and nuclear verdicts continue to influence casualty claims more broadly, and this should drive further rate increases going forward.
- That said, there continues to be a greater choice of markets at renewal, and some capacity is returning to mid-excess layers.
- Carriers are closely monitoring legal settlements relating to emerging risks, including those involving PFAS "forever chemicals" and biometric (BIPA) privacy breaches.

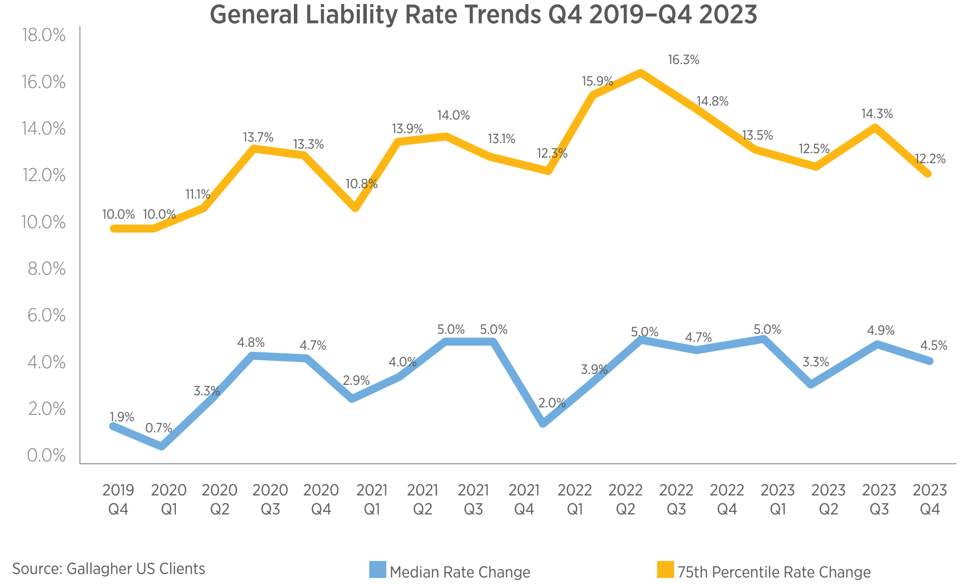
Q4 2023 General Liability Rate Changes
Gallagher — US Clients



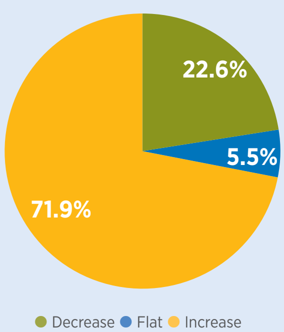
4.5%

median rate change in Q4 2023*

General Liability Rate Trends Q4 2019–Q4 2023



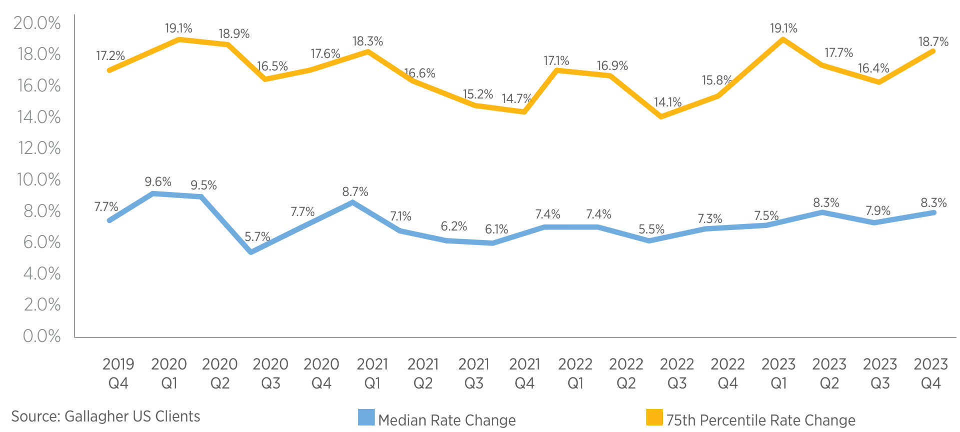
Q4 2023 Commercial Auto Rate Changes
Gallagher — US Clients



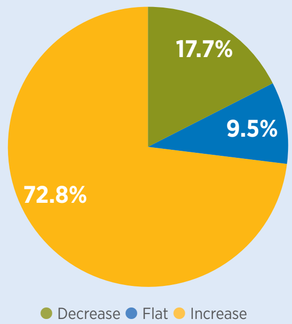
8.3%

median rate change in Q4 2023*

Commercial Auto Rate Trends Q4 2019–Q4 2023



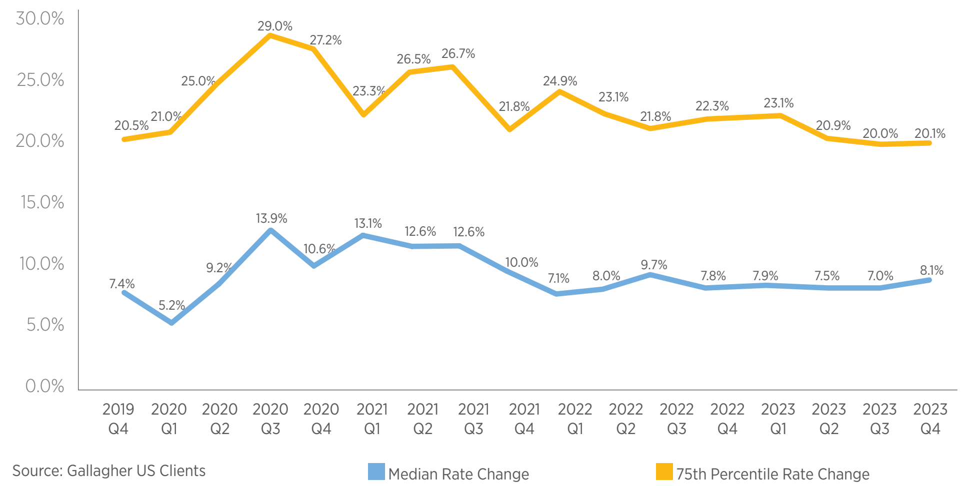
Q4 2023 Umbrella Rate Changes
Gallagher — US Clients



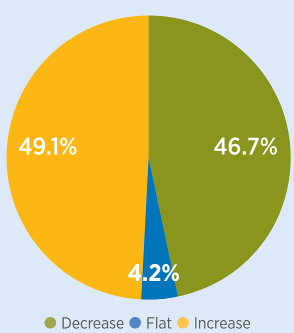
8.1%

median rate change
in Q4 2023*

Umbrella Rate Trends Q4 2019–Q4 2023



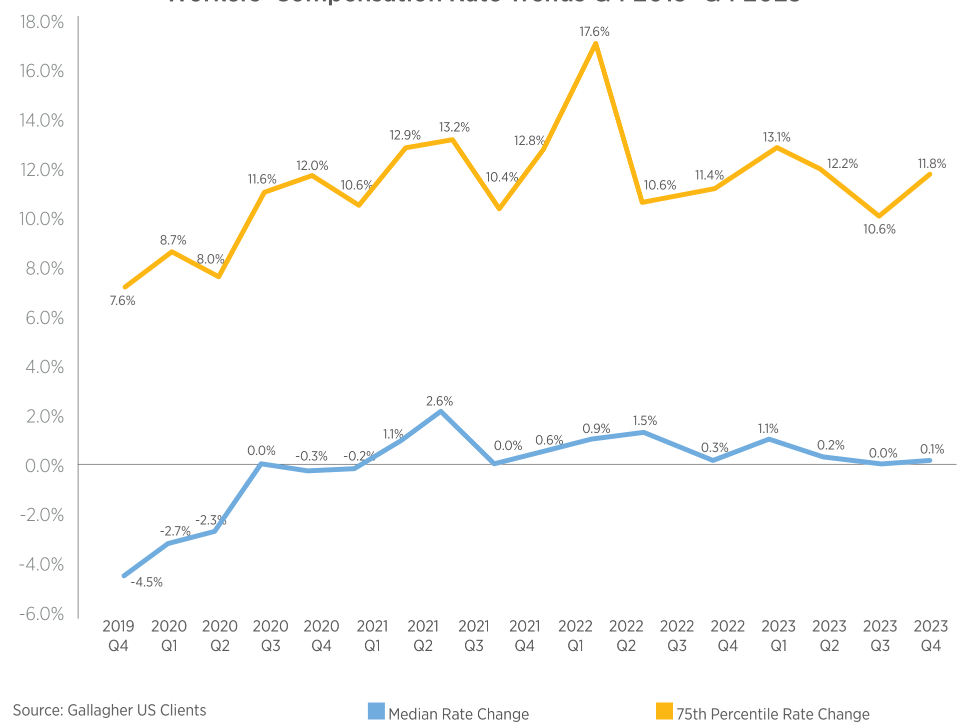
Q4 2023 WC Rate Changes
Gallagher — US Clients



0.1%

median rate change
in Q4 2023*

Workers' Compensation Rate Trends Q4 2019–Q4 2023



With the SEC's cybersecurity disclosure rules now in place, there is going to be a lot more onus on listed companies to disclose to the public if they have had a breach.

While it is early days, AI is introducing new exposures for D&Os. Evolving regulation in this space places more responsibility on senior managers to ensure they have appropriate control frameworks in place and governance structures around the use of generative AI in the workplace.

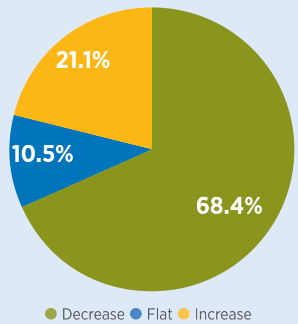
For both private company D&O, the market has stabilized a bit, but the majority of public D&O clients continue to enjoy rate reductions. The issue is that we just have so much capacity competing for the business despite the ongoing potential for severity losses.

JENNIFER SHARKEY
Managing Director, Executive and Financial Risk Practice
Gallagher

Directors and Officers: Supply for public D&O continues to outstrip demand

- The trend of softening rates within public D&O continued to moderate in the fourth quarter of the year as more normalized levels of claims activity resumed. That said, 68.4% of clients continue to see a lower rate on their renewal, and rates may have bottomed out for mature public companies.
- For private D&O, rates remained flat during Q4, spelling an end (for now) to the lowering level of increases over the past three years. Issues around crossover claims and cyber exclusions continue to be hot topics for private D&O clients.
- The entry of over 30-plus new markets into the sector over the past three years remains the chief factor impacting rate softening, with growing competition between carriers in the fight to retain existing business at a time when IPO activity has been muted.
- As of December 2023, total securities class actions for the year were well below the 10-year peak of 268 cases in 2019, but year-on-year, the total number increased by 10%. At the same time, there has been a steady rise in books and records demands for both securities and derivatives actions, a bellwether for heightened legal activity ahead.
- While the frequency of class action settlements has been trending downwards settlement verdicts are growing in size, and we expect this to continue through 2024.
- There is an expectation that deal-making will pick up during 2024 for both traditional M&A and DeSPAC transactions (reverse initial public offerings).[9] The risks associated with mergers, alongside increased scrutiny around SPAC and DeSPAC transactions, could drive trends around securities action moving forward.
- Settlement verdicts continue to grow in size, with directors facing emerging exposures, including liabilities involved in generative AI and event-driven litigation, such as ESG-related claims.
- Meanwhile, the SEC has approved new rules requiring publicly listed companies to disclose a cyber attack within four days of the company determining the breach was material to investors. This has clear implications for senior managers. Other new pending rules, including mandatory climate disclosures, could also prove an issue for D&Os moving forward.

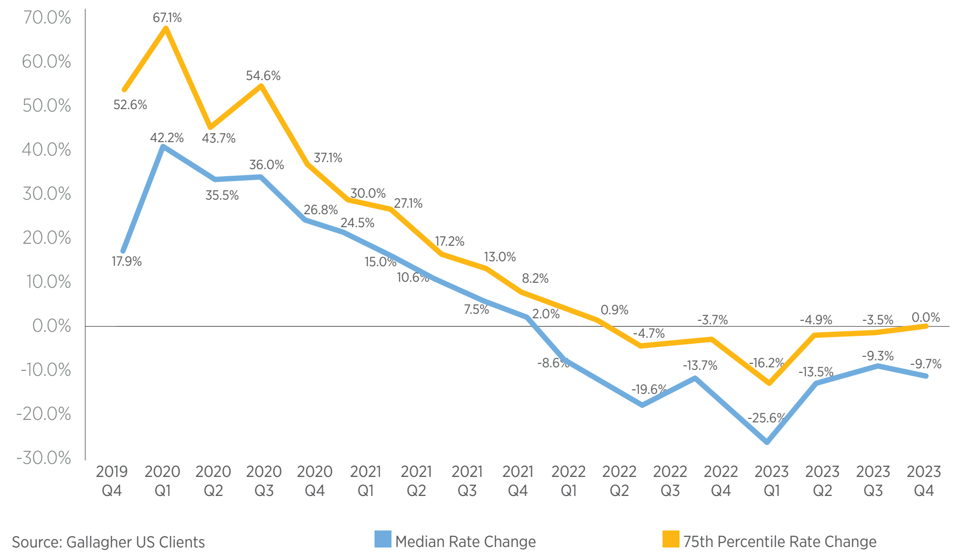
Q4 2023 D&O Public Company Rate Changes
Gallagher — US Clients



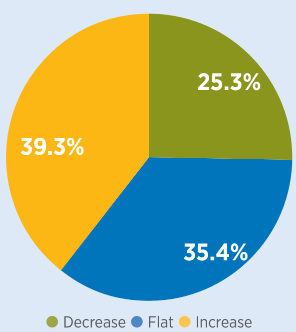
-9.7%

median rate change in Q4 2023*

D&O Public Company Rate Trends Q4 2019–Q4 2023



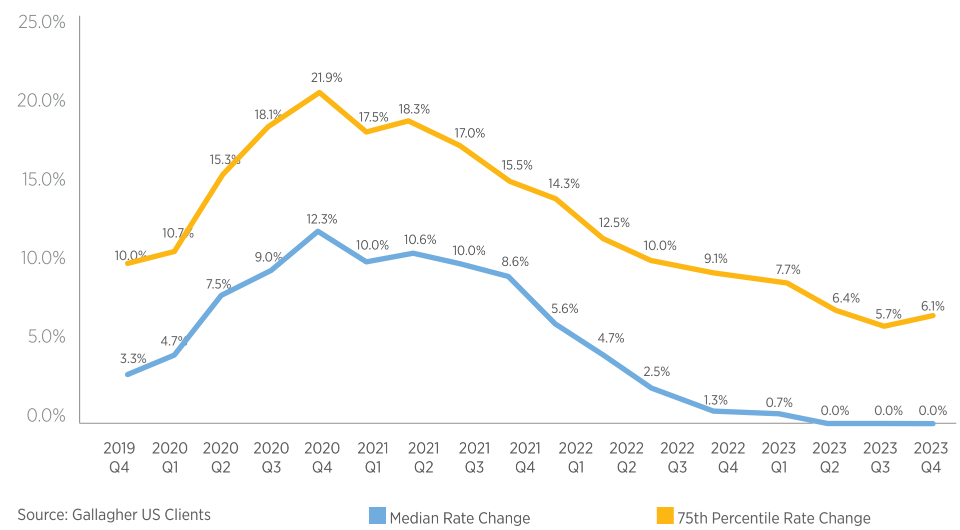
Q4 2023 D&O Private Company Rate Changes
Gallagher — US Clients



0.0%

median rate change in Q4 2023*

D&O Private Company Rate Trends Q4 2019–Q4 2023

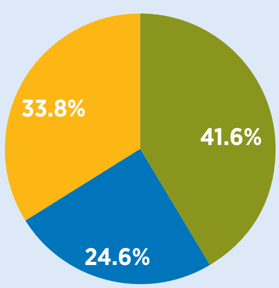


Another factor that could exacerbate cyber claims frequency and severity involves heightened regulatory risk. Many states have enacted comprehensive privacy laws and we expect more to follow as we move through 2024. We note the most significant claims activity is being driven via wrongful data collection allegations, around both website tracking technologies as well as biometric data.

At the federal level, the SEC has led the way by imposing new mandatory reporting requirements for publicly traded companies around cyber incidents and overall cyber risk management practices. The new mandates require these organizations to report "material" cyber incidents to the SEC within four business days and require annual reports to detail efforts made around cyber risk management.

JOHN FARLEY
Managing Director, Cyber Practice
Gallagher

Q4 2023 Cyber Rate Changes
Gallagher — US Clients



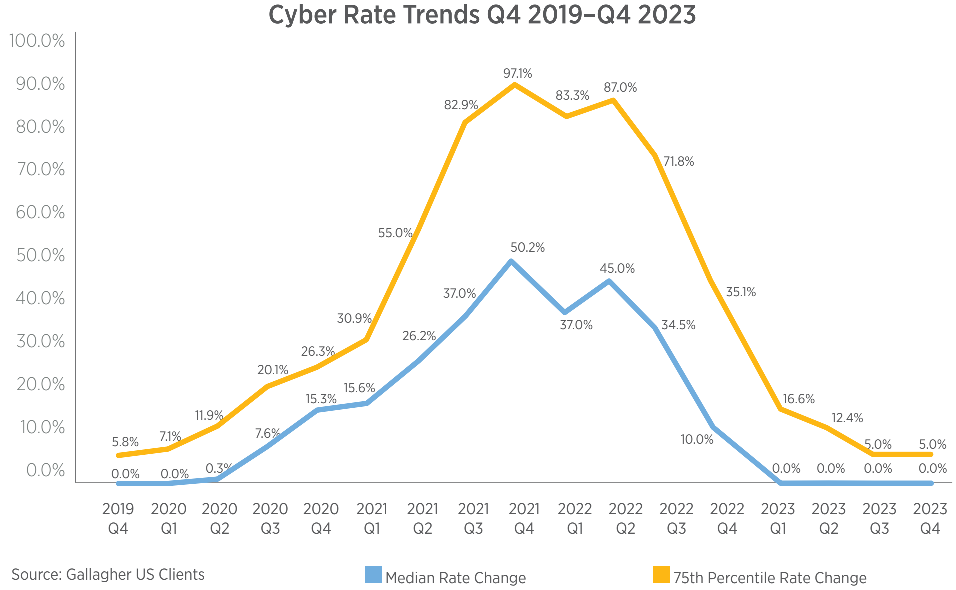
0.0%

median rate change in Q4 2023*

Cyber: Still a volatile class

- Median cyber insurance rates remained largely flat through 2023 after declines during 2022, reflecting an uptick in claims and underwriters' evolving risk appetite.
- As a somewhat unpredictable class of business, the pricing cycle within cyber is more volatile than what we see in some more established classes of business.
- Cyber attacks continue to grow in sophistication, with hackers targeting supply chains and increasingly leveraging AI to carry out ransomware, malware, and phishing attacks.
- Companies face a new generation of social engineering, where deepfakes are used to perpetrate scams such as CEO fraud and business email compromise.[10]
- In the context of regulation, data breach remains a key exposure, with supervisors and the plaintiff's bar paying more attention to rules (such as BIPA), which dictate how biometric data should and shouldn't be used.
- The market is likely to see rate corrections moving forward if there is a high frequency and severity of claims activity through 2024, with geopolitical turbulence increasing the potential for state-sponsored attacks.
- Clients must continue to invest in cybersecurity and risk management capabilities to reduce their exposure and show up well in the market.
- Insurance buyers with a sophisticated approach to cybersecurity will benefit from greater resilience, as well as access to more capacity and better terms and conditions.

Cyber Rate Trends Q4 2019–Q4 2023



Source: Gallagher US Clients

Conclusion: Demand continues for creative buying strategies

The latest market update offers a snapshot of ongoing challenges across the P&C commercial space.

The primary pinch points are most acute within the property market — where median rate increases continue to be in the double-digits for many clients. The market is less constrained than it was this time a year ago, but it is likely to be another tough renewal season in 2024. This is particularly likely for clients who have not had a significant restructuring of their property program.

Against this backdrop, Gallagher will continue to bring multiple solutions to empower our clients. This includes how we structure placements, with a shift towards multi-carrier placements and layered programs where necessary. It is essential to show up well in the current market and to tell your property story convincingly, including use of COPE [construction, occupancy, protection, and exposure] data, probabilistic modeling, and digital submissions. Outside the commercial market, consideration will continue to grow for alternative risk transfer mechanisms, including captive insurance and parametric covers.

Clients, brokers, and carriers are working collaboratively to find creative solutions where there are capacity constraints, and we can expect this approach to continue.

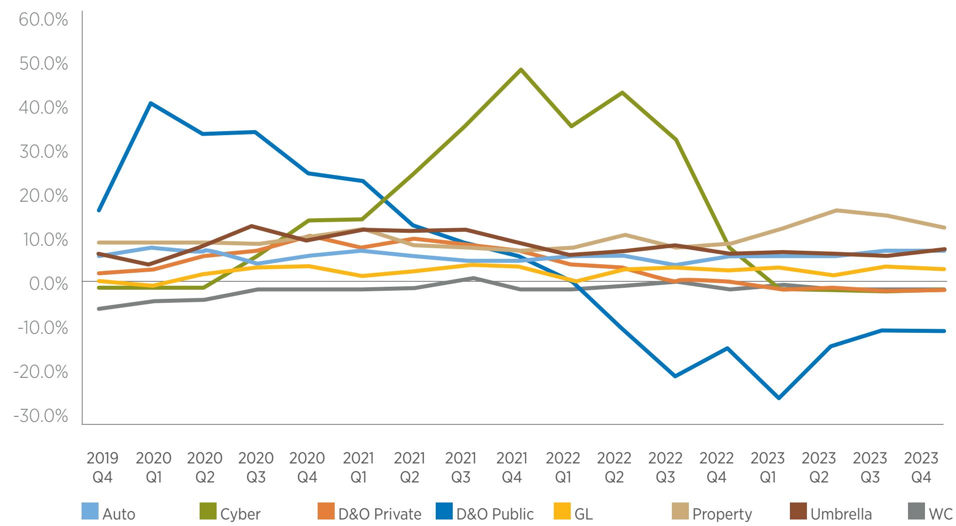
Outside of property, carriers are responding in a measured way to a number of significant challenges, including some of the more uncertain elements of cyber risk. Across other classes, clients are generally seeing rates firming by mid-single-digit increments or, at best, remaining flat. For now, the softening trend in public D&O appears to have found a landing point.

The advice, as always, is to reach out to your insurance adviser early to discuss renewal strategies. Clients with a sophisticated approach to risk management, up-to-date property valuations, and continued investment in cybersecurity continue to standout in the market.

Linton B. Puckett
Vice President
Market Relations Leader

Mark Stachura
Regional Vice President
Market Relations & Placement

Median Rate by Line of Coverage Q4 2019–Q4 2023



Source: Gallagher US Clients

[1]"Gallagher Re 1st View: What a Difference a Year Makes," *Gallagher Re*, 2 January 2024.

[2]"2023 Natural Catastrophe and Climate Report," *Gallagher Re*.

[3]Poynting Mark. "World's First Year-Long Breach of Key 1.5C Warming Limit," *BBC News*.

[4]"Q3 2023 Gallagher Re Natural Catastrophe Report," *Gallagher Re*, 18 October 2023.

[5]"Forever Chemicals: Bigger Than Big Tobacco?" *Gallagher*, October 2023.

[6]"Biometric Privacy," *Gallagher,* December 2023.

[7]"Commercial Property/Casualty Market Surveys," *The Council of Insurance Agents & Brokers* (ciab.com).

[8]"Inflation Boosts US P/C Insurers' Reserve Risk in Casualty Lines." *FitchRatings*, 12 January 2024.

[9]"M&A Set To Pick Up in 2024 Despite Ongoing Headwinds," *BCG,* 26 October 2023.

[10]"AI: Keeping Pace With the Cybercriminals," *Gallagher*, November 2023.

About our data

Gallagher Drive® is our premier data and analytics platform that combines market condition, claims history, and industry benchmark information to give our clients and carriers the real-time data they need to optimize risk management programs. When used as part of **CORE**360®, our unique comprehensive approach to evaluating our clients' risk management program, Gallagher Drive creates meaningful insights to help them make more informed risk management decisions, find efficient use of capital, and identify the top markets with the best solutions for their risks.

Rate changes in this report were calculated by using the changes in premium and exposure of Gallagher clients renewing in Q4 2023.

About the contributors

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Linton "B." Puckett is responsible for the leadership of Gallagher's National Market Relations practice. In this role, B. is responsible for developing and managing strategic carrier and intermediary relationships in Gallagher's US Brokerage division. B. leads SmartMarket, Gallagher's platform that couples data with a dedicated engagement model to enhance carrier relationship strategies. B. also leads Gallagher's Client Advantage strategy, which partners with carriers to bring proprietary products and solutions to clients.

Mark Stachura
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Mark Stachura is responsible for the leadership of Market Relations and Placement, and developing and managing strategic carrier relationships in Gallagher's Central Zone. In addition, Mark is responsible for all placement teams and activities within the Midwest, South Central, and Great Lakes regions.

*Source: Gallagher Drive US Client Data, July 2023-September 2023. The median is the value separating the upper half from the lower half data sample (or the middle value). Seventy-fifth percentile rate is the average of the top 25% of Gallagher clients' accounts that received the highest rate increases. Due to the variability that we're seeing in this market and specific account characteristics, individual rates may vary.

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