P&C Market Update 1Q 2023

Summary by Line

Coverage Line	Market Condition	Comments
Property	●	• Rates and capacity continue to be stressed • More frequent extreme weather in most regions driving higher risk and loss activity • Aftermath of Hurricane Ian driving continuation of tight market conditions, especially in reinsurance market • Insurers paying close attention to insured values to account for inflation
General Liability	●	• Social inflation continues to be a factor, but market capacity is stable and rate increases typically moderate • Limited market competition for tougher classes of business, so higher-hazard accounts experiencing larger rate increases
Auto	●	• Accident trends and litigation costs continue to make market challenging for insurers • Particularly difficult market for trucking risks
Umbrella / Excess Liability	●	• Capacity constraints causing higher-hazard or higher limit accounts to experience increases
Workers' Compensation	●	• Most competitive line of coverage for healthy accounts
Cyber / Tech E&O	●	• Market is improved vs. highly distressed conditions of last 2-3 years, but conditions remain tight
Environmental	●	• Generally stable for well controlled accounts, though additional scrutiny around higher-hazard exposures (e.g., PFAS)
Professional Liability (non-Tech)	●	• Generally healthy and stable market
Management Liability	●	• Market conditions have moderated, though potential for tightening with increased layoffs and anticipated recession

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Commentary

Overview

The insurance market has been in an increasing-rate cycle since 2018. There has been considerable variation across lines of coverage, with Property, Cyber, Auto, and Excess Liability experiencing the most strain. Increases on other casualty lines have been more modest, while the Workers' Compensation market has been competitive for healthy accounts.

For much of 2022, we experienced a deceleration in rate increases (though generally not rate decreases), a sign that the market may be softening. This was upended by Hurricane Ian, which struck Florida in late September and caused insured losses that are expected to total $50-65 billion. Total insured catastrophe losses for 2022 are estimated at approximately $120 billion, the second straight year over $100 billion and well above the long-term average.

Property Outlook

As we think about our experience in late 2022 and our expectations for 2023, we see continued stress in the Property market. Accounts that have taken significant rate increases in recent years may see further increases or face reduced capacity. Additionally, accounts that are on the perimeter of risk appetite for "standard" markets may be pushed in to the surplus lines markets, which generally results in higher costs and more restrictive coverage terms. More than ever, it is important for companies to position themselves as top-tier risk managers and good stewards of their property.

Cyber

The Cyber market, which has been highly stressed by loss activity and a rapidly evolving threat environment, is showing signs of stabilizing. Pushed by strict underwriting requirements, most insureds have adopted improved security protocols. At the same time, carriers have become smarter about risk selection and policy terms, which has allowed premiums to become more closely aligned with loss expectations. We expect that rates will continue to increase and that underwriting standards around security will continue to tighten, but the pace of tightening will be less severe than in recent years.

Auto, Excess, and Other Lines

Increasing litigation costs are driving renewed pressure in the Auto and Excess Liability markets. Traffic levels have fully returned to normal, accident trends are continuing to deteriorate, and the costs associated with accident-related injuries or property damage are growing. These trends, which date back well before the pandemic, are compounded by the inflationary macroeconomic environment.

While tight conditions for Property, Cyber, Auto, and Excess make this market challenging for many accounts, other lines of coverage are more stable. For accounts with favorable loss history where the higher-stress lines are not the predominant exposure, the market is competitive. Incumbent carriers are typically willing to offer fair renewal terms and well-targeted marketing efforts can sometimes result in meaningful savings.

Macroeconomic Impact

In addition to loss trends across the various coverage lines, one factor driving uncertainty for 2023 is the macroeconomic environment. On the one hand, normalized and stable interest rates are good for the profitability of insurance carriers' investment portfolios, which typically results in more competition for premium dollars vs. a focus on underwriting profitability. If Fed hikes begin to slow later this year, that could be a catalyst for market softening. At the same time, if a recession materializes, if inflation remains stubbornly high, or if financial markets continue to experience losses, there may be less rate competition.

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Preparing for Renewal

Prioritize Basic Risk Mitigation	Consistent attention to risk management procedures is likely to pay off. Companies with a culture of safety and risk awareness – and the processes to support that culture – will get more favorable treatment from the market than their less careful peers. Keep up with building and facility maintenance, follow a fleet safety plan, review worker safety training, and find other **manageable opportunities to reduce risk in your business**.
Address Carrier Loss Control Recommendations	Insurers are being more selective about how to allocate their capacity and where to offer their most competitive pricing. We strongly advise clients to **take carriers' loss control recommendations seriously**. It's especially important to comply with recommendations covering human element risk (e.g., employee training and safety protocols), self-inspection, hot work programs, and fire prevention. Even if you make a business decision not to comply with a recommendation (e.g., investing in a major sprinkler upgrade), it is beneficial to provide a written response to the carrier stating that you've seriously evaluated the feasibility of the recommendation, and outlining what other steps you are taking to mitigate the risk identified.
Prepare Early	Work with your RBN team to update your renewal exposures and prepare applications **at least 45-60 days ahead of your renewal date**, if not earlier. This allows sufficient time and leverage to work with the incumbent carrier to get competitive renewal terms while also ensuring we have time to get alternative options if appropriate. Depending on the market for your particular class of risk and loss history, work with your RBN team to understand the marketing strategy for your account and potential steps you can take to get the best terms and structure.