Competition Continues but Risks Linger

Lockton Market Update

September 2024

LOCKTON

Contents

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Since 2022, the U.S. economy has defied expectations, showing far greater strength and resilience than expected. With inflation finally cooling and the Fed starting to lower rates for the first time in four years, there is much reason for continued optimism.

Commercial insurers continued to report strong returns through the second quarter of 2024. The P&C marketplace is being buoyed by rising investment income, a growing economy and a (thus far) relatively mild 2024 wind season. This has helped keep conditions largely favorable to buyers across most lines of coverage.

Despite the positive headlines, there is still an underlying sense of fragility in both the economy and the insurance marketplace. The insurance industry is closely monitoring the potential impacts of several headwinds, including social inflation, adverse liability reserve development, cyber threats, climate change, and a host of economic and geopolitical concerns. Any large, unexpected event could quickly change the narrative across many lines and bring a sudden end to the stable and predictable market that many buyers currently enjoy.

Although market conditions remain stable for most buyers, insurers continue to exercise caution across certain lines. This environment has sparked renewed interest in alternative risk strategies, which can offer significant value for organizations seeking to more effectively manage costs and volatility.

KEY TAKEAWAYS

- Insurers are closely watching the economy and geopolitical landscape.
- Property conditions continue to improve, to the benefit of buyers.
- Workers' compensation remains competitive, while reserve redundancies help offset pressure in third-party liability.
- As social inflation continues to impact attachments, limits, and rates across third-party liability lines, insurers are carefully watching loss trends and reserve adequacy.
- Strong capacity continues to fuel a buyer-friendly D&O market, especially public companies.
- Cyber pricing continues to decline, even as concerns grow about accumulating losses.

PRICING ENVIRONMENT IN INDIVIDUAL LINES

Property	Improving
Workers' compensation	Favorable
Liability	Mixed to difficult
D&O	Favorable
Cyber	Favorable

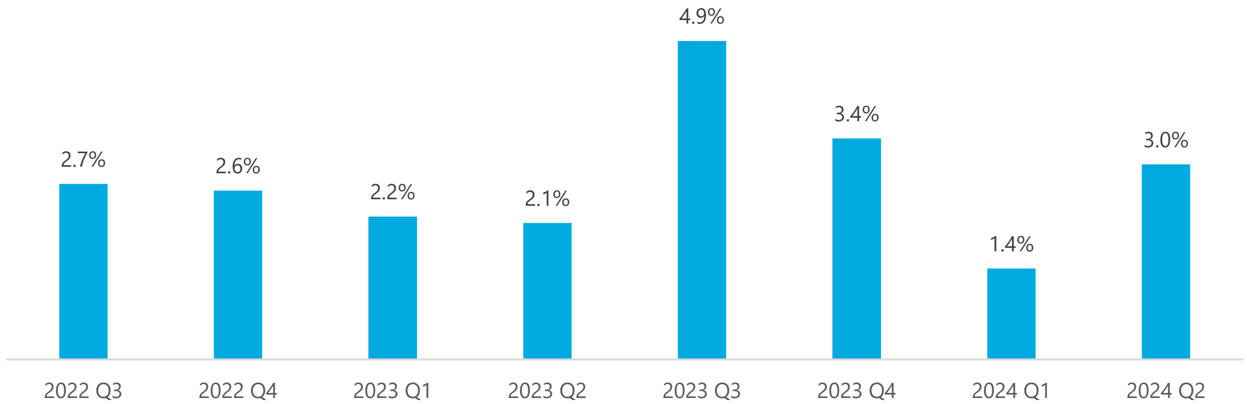
Economic cracks becoming visible

Post-pandemic, the P&C market has benefited from the strength of the U.S. economy. Despite inflation reaching heights not seen in over 40 years, the economy has continued to expand. Interest rates rose to their highest level in over 20 years, yet pandemic savings, a tight labor market, and pent-up demand combined to prevent the U.S. from tipping into a recession.

Through the first nine months of 2024, we have witnessed continued economic resilience. But fault lines are becoming more apparent.

The good news: Real gross domestic product (GDP) increased at an annualized rate of 3.0% in the second quarter, according to the U.S. Bureau of Economic Analysis (BEA). This outpaced the first quarter's annualized growth rate of 1.4% (see Figure 1) and the BEA's previously published 2.8% "advance" estimate for the second quarter.

FIGURE 1: THE U.S. ECONOMY GREW AT AN ANNUALIZED RATE OF 3.0% IN THE SECOND QUARTER.

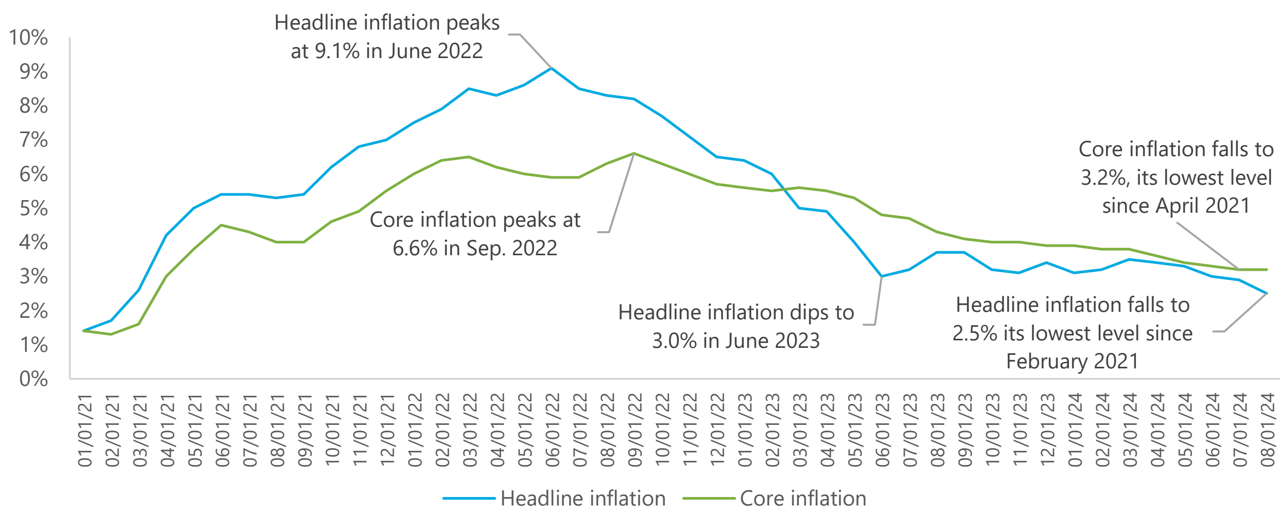


Source: U.S. Bureau of Economic Analysis

The tide also appears to be turning in the battle against inflation. In June 2022, the U.S. Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI) — commonly referred to as "headline inflation" — reached a pandemic-era peak of 9.1% year over year. Twelve months later, the CPI had slowed to 3.0%. This led investors to anticipate that the Federal Reserve would begin cutting rates at the beginning of 2024, but inflation proved more stubborn than expected.

Recently, policymakers have seen renewed success. Inflation fell from 3.5% year over year in March 2024 to just 2.5% in August — still above the Fed's 2% target, but its lowest level since February 2021 (see Figure 2). "Core" inflation — a measure that excludes changes in often volatile food and energy costs — also fell in July to 3.2%, its lowest level since April 2021, and remained unchanged in August.

FIGURE 2: HEADLINE AND CORE INFLATION HAVE FALLEN TO THEIR LOWEST LEVELS SINCE EARLY 2021.



Source: U.S. Bureau of Labor Statistics

With inflation easing, the Federal Reserve and Federal Open Market Committee (FOMC) announced a 0.5% cut in interest rates at its September 17-18 meeting, its first cut since March 2020. "This recalibration of our policy stance will help maintain the strength of the economy and the labor market and will continue to enable further progress on inflation as we begin the process of moving toward a more neutral stance," Federal Reserve Bank Board of Governors Chair Jerome Powell said.

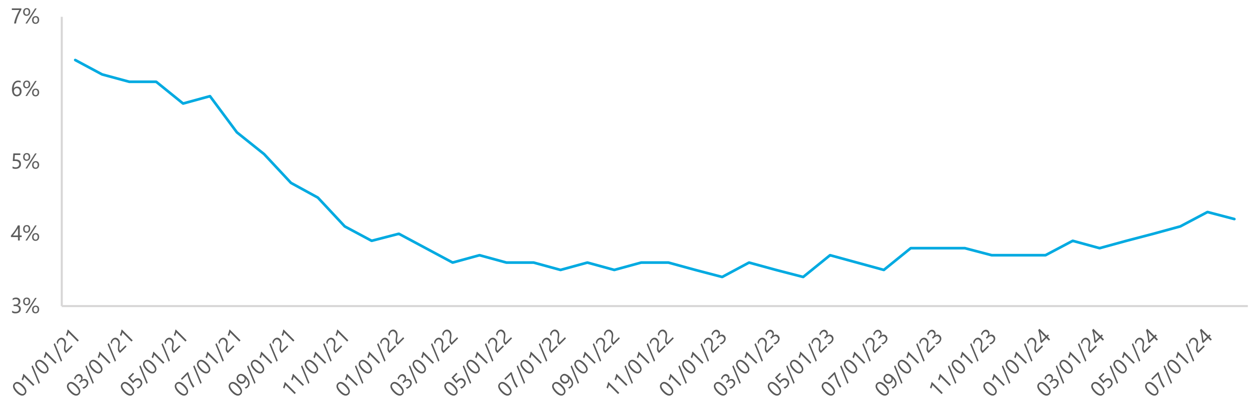
This cut had been long anticipated and many credit Powell with successfully navigating the economy to a so-called "soft landing" in which inflation was tamed without tipping the economy into a recession.

Despite this, Powell is not without his critics. Some observers have noted that inflation has not yet returned to the Fed's target level. Others have expressed concerns that the Fed may have waited too long before lowering rates.

Monetary policy, however, operates at a lag, and further cooling of the economy may be inevitable. Some believe that the Fed will have make additional rate cuts before the end of 2024.

Following several years of policy tightening, the labor market is now showing signs of weakening. In July, the civilian unemployment rate increased to 4.3% before falling slightly to 4.2% in August — "still low by historical standards," as Powell noted at the Fed's annual Jackson Hole, Wyoming, meeting in August, but up from 3.4% in April 2023, according to the BLS (see Figure 3). Nonfarm payroll employment increased 142,000 in August, below the average 202,000 monthly job gains seen over the previous 12 months.

FIGURE 3: THE CIVILIAN UNEMPLOYMENT RATE ROSE IN JULY TO ITS HIGHEST LEVEL SINCE LATE 2021 BEFORE FALLING SLIGHTLY IN AUGUST.



Source: U.S. Bureau of Labor Statistics

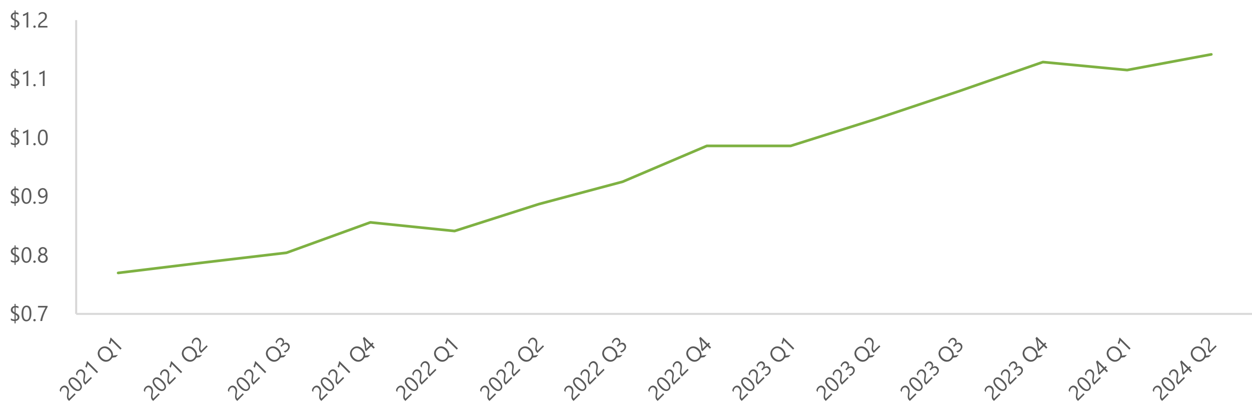
More tellingly, revised BLS data indicates that 818,000 fewer jobs were created for the year ending March 2024 than originally reported. As of July 31, there were 7.7 million job openings in America, the fewest since January 2021, according to the BLS.

In announcing the Fed's rate cut earlier this month, Chair Powell noted that the central bank would watch the labor market closely as it determines future monetary policy. "If the economy remains solid and inflation persists, we can dial back policy restraint more slowly. If the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we are prepared to respond."

Despite broader success in curtailing inflation, pricing has proven more stubborn to control in some specific areas. In August 2024, the cost of services less energy, as measured by the CPI, increased 4.9% year over year. The cost of medical care services rose 3.2% and the cost of shelter increased 5.2% year over year. Persistent inflation in these areas tends to erode consumer confidence and purchasing power and increase financial stress.

Rising debt may also drive down consumer confidence. Total household debt increased by $109 billion in the second quarter of 2024 to $17.8 trillion, according to the Federal Reserve Bank of New York. While credit card debt represents less than 7% of total household debt, it grew nearly 11% from the second quarter of 2023 to the second quarter of 2024 (see Figure 4).

FIGURE 4: AMERICANS' CREDIT CARD DEBT CONTINUES TO ACCUMULATE.

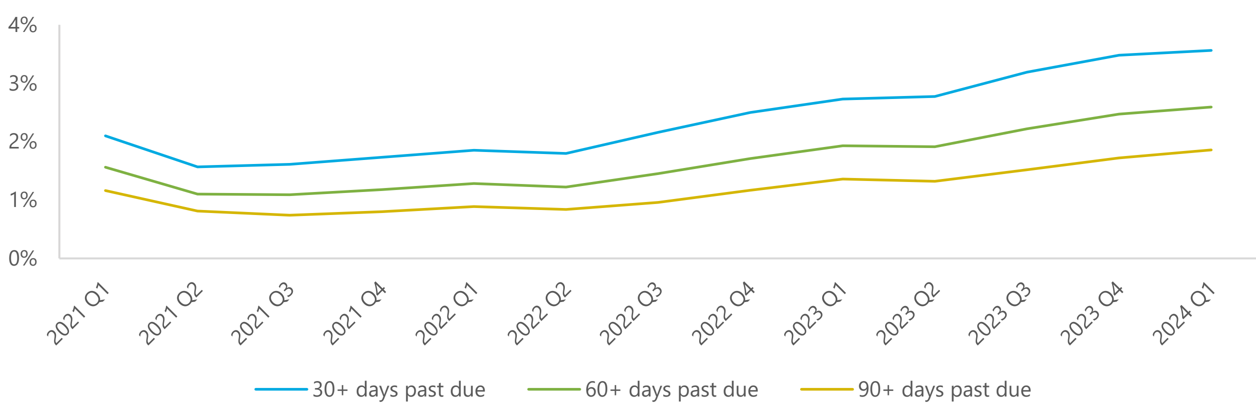


Source: Federal Reserve Bank of New York

Dollar figures in trillions.

In the first quarter of 2024, the share of credit card balances that are past due reached their highest levels since the Federal Reserve Bank of Philadelphia began its tracking of this data (see Figure 5). In a consumer-driven economy, these trends — combined with a weaker job market — could represent a significant headwind.

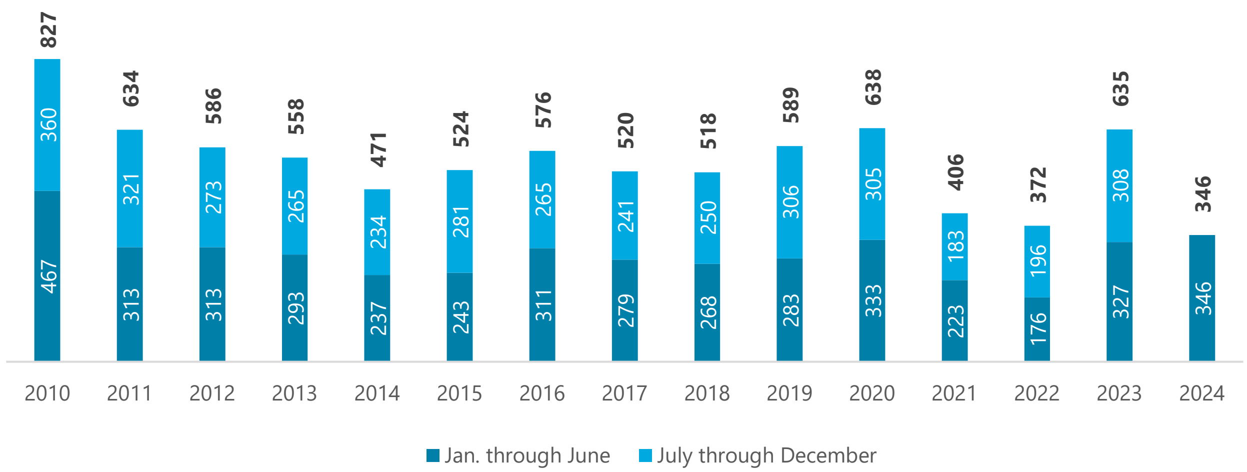
FIGURE 5: CREDIT CARD DELINQUENCY RATES CONTINUE TO RISE.



Source: Federal Reserve Bank of Philadelphia

Perhaps more troubling, nearly 350 corporate bankruptcy filings were recorded in the first half of 2024, the most first-half filings since 2010, according to S&P Global Market Intelligence (see Figure 6). "High interest rates, supply chain issues and slowing consumer spending continue to weigh on struggling companies," S&P said.

FIGURE 6: MORE CORPORATE BANKRUPTCIES WERE FILED IN THE FIRST HALF OF 2024 THAN IN THE FIRST SIX MONTHS OF ANY YEAR SINCE 2010.



Source: S&P Global Market Intelligence

Given this mixed data set, corporate America's confidence in the U.S. economy is shrinking. The Conference Board Measure of CEO Confidence dropped to 52 in the third quarter of 2024, based on a survey of CEOs conducted in mid- to late July. Although this still indicates that CEOs "remain moderately optimistic" about the economy, a closer look at the survey results reveals growing uncertainty:

- More than a quarter (26%) of CEOs said economic conditions were worse than they were six months ago, up from 16% when surveyed in April, and just 20% said economic conditions were better, down from 30%. Similarly, 31% said conditions were worse in their own industries than they were six months ago, up from 26% in April; 26% said conditions in their industries were better, down from 30%.
- Nevertheless, slightly more CEOs — 32% in July compared to 30% in April — said they expected economic conditions to improve over the next six months. And more than two-thirds (70%) said they did not anticipate a U.S. recession over the next 12 to 18 months.

Although the U.S. is likely not on the cusp of recession, the economy is expected to lose momentum in the second half of 2024 and slow to an annualized growth rate of 1% by the fourth quarter, The Conference Board said. For now, consumers are continuing to spend, but they are focusing on necessities rather than luxuries and looking for cheaper alternatives to their usual purchases; if consumer spending slows, it could lead businesses to pull back, further weakening the labor market.

Strong financial results... for now

As with the broader economy, the **commercial insurance market** generally continues to demonstrate strength and resilience in a number of ways. In many lines — including property, workers' compensation, directors and officers liability (D&O), and cyber — current conditions favor buyers, owing to ample capacity, strong reinsurance support, and broad competition. Liability remains a clear exception, although conditions have generally been predictable for buyers.

At the end of 2023, the P&C industry reported a combined ratio of 102% and an underwriting loss of approximately $22 billion, following a $25 billion underwriting loss in 2022. Bolstered by revamped portfolios, higher rates, fewer catastrophe losses, and rising investment income, the industry reported strong returns across commercial and personal lines during the first half of 2024 (see Figure 7). P&C insurers are expected to swing to profitability by year-end, with a projected combined ratio of 98.5%, according to the Swiss Re Institute.

FIGURE 7: COMMERCIAL INSURANCE PROFITABILITY CONTINUED THROUGH THE SECOND QUARTER.

	Net written premium			Combined ratio			Return on equity			Net investment income		
Carrier	2024	2023	Change	2024	2023	Change	2024	2023	Change	2024	2023	Change
Carrier A	$22,368	$20,098	11.3%	86.4%	85.8%	-0.6	14.5%	14.3%	0.2	$2,859	$2,252	27.0%
Carrier B	$21,297	$19,714	8.0%	97.1%	101.1%	4	13.3%	8.6%	4.7	$1,731	$1,375	25.9%
Carrier C	$11,445	$10,968	4.3%	91.1%	92.1%	1	6.4%	5.4%	1	$1,508	$1,427	5.7%
Carrier D	$22,385	$22,966	-2.5%	97.7%	106.5%	8.8	17.2%	-5.7%	22.9	$1,669	$1,357	23.0%
Carrier E	$8,659	$7,835	10.5%	93.2%	96.0%	2.8	17.4%	13.6%	3.8	$1,195	$1,055	13.3%
Carrier F	$5,064	$4,760	6.4%	94.7%	93.9%	-0.8	13.3%	13.4%	-0.1	$718	$633	13.4%
Carrier G	$25,342	$20,163	25.7%	93.6%	92.9%	-0.7	25.7%	20.3%	5.4	$797	$765	4.2%

Source: Select insurers' investor calls and presentations

Dollar figures in millions; data for six months ending June 30 in each year.

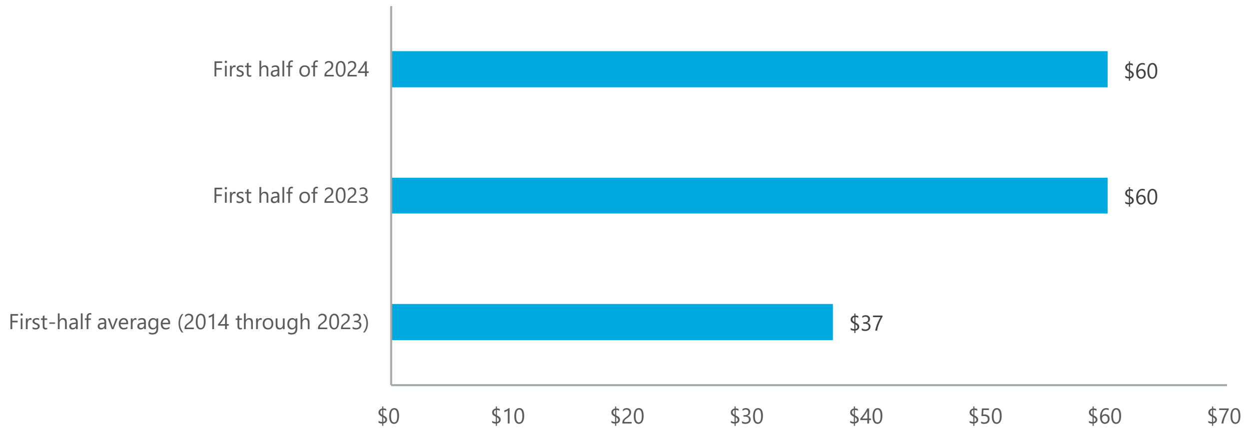
Despite the Fed's rate cut this month, investment income should also continue to grow as insurers roll over lower yield investments. The U.S. P&C sector is expected to realize a 9.5% return on equity for 2024, near the industry cost of capital of 10% to 11% and up from 3.4% in 2023.

Much has been discussed about property driving overall market realities in recent years. Property insurers are now benefiting from revamped portfolios, higher values and rates, slower inflation, improved modeling, and an increasingly favorable reinsurance market, all of which has contributed to greater stability and profitability. Reinsurers are bullish on current pricing levels but continue to carefully manage exposures and capital deployment.

As with the economy, however, the P&C market is showing signs of greater fragility. Despite the current positive outlook, insurers remain on guard, fully aware that pressing challenges remain. Multiple large events, worsening loss severity, and/or unexpected volatility could see the market quickly pivot across a number of fronts.

Climate change, for one, represents a significant long-term market concern. So far this year, three hurricanes — Beryl, Debby, and Francine — have made landfall in the U.S. Although these storms did not generate significant insured losses, the outcome for each individual event could have been much worse. What's more, hurricanes are not the only threat: Natural catastrophes generated $60 billion in global insured losses in the first half of the year, 62% above the first-half average for the previous 10 years, according to the Swiss Re Institute (see Figure 8).

FIGURE 8: GLOBAL CATASTROPHE LOSSES IN THE FIRST HALF OF 2024 WERE ROUGHLY 62% ABOVE THE AVERAGE FOR THE PREVIOUS 10 YEARS.



Source: Swiss Re Institute

Dollar figures in billions.

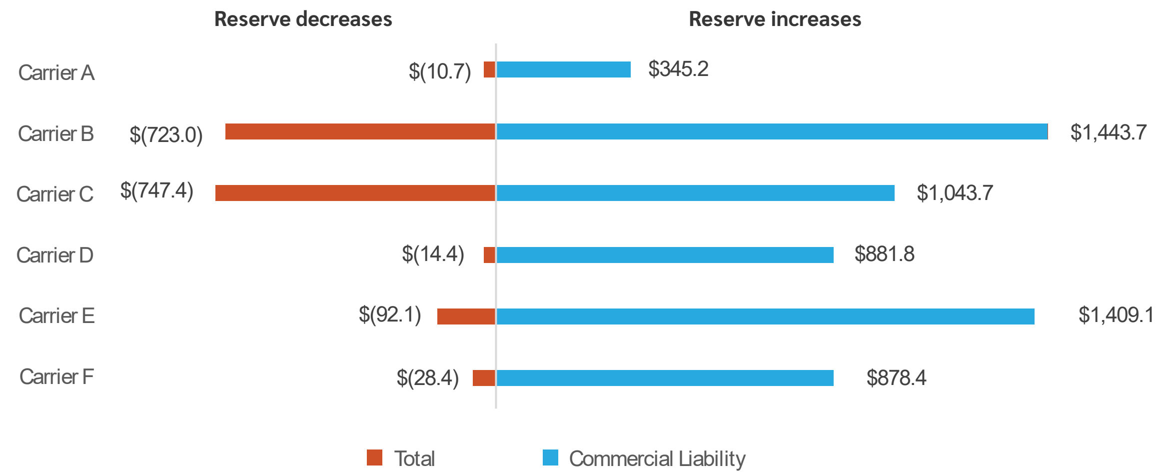
Roughly 70% of insured losses were from thunderstorms, also referred to as severe convective storms (SCS), mostly occurring in the U.S. Historically, these storms have often been referred to as "secondary" perils behind hurricanes and earthquakes. A shift in attitudes may be warranted, however, given the growing loss numbers associated with them.

With limited hurricane activity thus far in 2024, reinsurers are expected to chase demand at January 1, 2025, treaty renewals. This would lead to a decrease in reinsurance pricing that could have favorable carryover impacts in the primary property insurance marketplace. It should be noted, however, that wind season is not yet over. Sizable catastrophe losses in the fourth quarter of 2024, however, could quickly alter the property reinsurance market outlook and lead to more difficult treaty renewals.

Social inflation, meanwhile, continues to dominate the conversation among liability insurers and reinsurers. Loss rates continue to rise across virtually all liability lines, leading to renewed questions about the adequacy of attachments, rates, and reserves.

While insurers have until recently been primarily concerned about the impact of adverse reserve development on the "soft" market years of 2016 through 2019, there are now clear signs that its effects are extending into more recent years (see Figure 9). This was evident during many insurers' second quarter earnings calls, during which adverse liability reserve development was a key discussion topic.

FIGURE 9: EVEN AS INSURERS HAVE BEEN ABLE TO TAKE DOWN RESERVES FOR CALENDAR YEARS 2022 AND 2023, LIABILITY RESERVES HAVE INCREASED SUBSTANTIALLY.



Source: Select insurers' investor calls and presentations

Dollar figures in millions; data for calendar years 2022 and 2023.

This portends continued profitability and pricing pressures for insurers — and more challenging conditions for buyers.

For casualty reinsurers, however, the outlook is more nuanced. Despite recent headlines suggesting a “crisis” in advance of January 1, 2025, treaty renewals, ceding commissions are generally flat and capacity remains plentiful. This is in part due to:

- An interest rate environment that remains favorable to long-tail lines.
- The entry of new reinsurers that are competing without being weighed down by adverse reserve development during the soft market years.
- Higher attachments and tighter terms and conditions on the underlying business.
- Insurance policy limits that are relatively short compared to a few years ago.

Insurers continue to monitor geopolitical hotspots, including Russia and Ukraine, the Middle East, and the Taiwan Strait. Several recent high-profile technology outages and data breaches, meanwhile, are a reminder of the potential dangers presented by accumulating cyber losses. Insurers are also mindful of this November’s elections, which could have significant ramifications for businesses across all industries, including insurers.

Today’s P&C climate has stabilized and become much more predictable than just a few years ago. Many buyers are enjoying the best conditions they have seen in the last five years. Nevertheless, uncertainty lurks.

Three post-election government priorities to watch

The outcome of the upcoming presidential and congressional elections will drive regulation and other policy decisions for years to come. Vice President Harris and former President Trump, along with their allies in Congress, have distinct views in several policy areas, from financial services and labor to healthcare and energy.

FOR BUSINESSES, THREE OVERARCHING POLICY FIGHTS WARRANT PARTICULAR ATTENTION:

01

TAX POLICY

The Tax Cuts and Jobs Act, passed in 2017, introduced a permanent flat corporate tax rate of 21% and temporary tax law changes for pass-through businesses and individuals. The temporary provisions, which expire at the end of 2025, will have a greater than $4 trillion impact on tax revenues. Both parties are eyeing the expirations as an opportunity to make major changes to tax policies and to change tax-related incentives that impact other policy areas, including healthcare, energy, and manufacturing.

02

THE DEBT CEILING

After the Treasury Department implemented temporary "extraordinary measures" in 2023 to avoid the far-reaching effects of the U.S. government defaulting on its debt, bipartisan legislation suspended the debt limit until January 1, 2025. The Treasury may need to resume working under extraordinary measures at the start of 2025 to delay default until a more permanent solution can be implemented.

03

GOVERNMENT FUNDING

On September 23, Congress reached a preliminary deal to extend funding for the federal government through mid-December, with formal votes pending as of this writing. Although this should avoid a shutdown, which otherwise would have begun on October 1, Congress's inability to fully fund the government through September 2025 is expected to create more opportunities for political and policy fights as temporary funding extensions create more uncertainty. Until a long-term agreement is reached, a potential shutdown will remain a distinct risk, and government funding negotiations will impact the new administration's progress on other policy priorities.

Businesses should also monitor activity in individual states, where legislators are pursuing action in several policy areas, including tort reform and cybersecurity/privacy.

Alternative risk going mainstream

Historically, alternative risk products — including parametric insurance, structured risk programs, and captive insurance solutions — have been seen as niche offerings, with limited market uptake. Today, the value proposition for the alternative risk market is rapidly expanding for many buyers. Such solutions are now a key component of many risk financing programs.

Evolving risks are one reason why alternative risk solutions have become more attractive to buyers. Traditional insurance products are increasingly being challenged by social inflation, cyber risk, and natural catastrophes. Alternative risk offerings can be tailored to a business's unique or complex risks in ways that standard policies may struggle to match, enabling buyers to better finance risk and manage volatility and uncertainty.

Advancements in technology, data, and analytics have also made it easier for insurers to assess and price alternative risk products. Parametric insurance, for instance, leverages precise data-driven triggers, facilitating more efficient claims handling and faster payouts. Structured risk solutions, meanwhile, rely on advanced modeling, which can benefit organizations with strong risk management frameworks and favorable loss histories. These solutions can bridge gaps in the traditional marketplace and enable organizations to more efficiently combine risk transfer and risk financing to secure effective coverage, smooth volatility, and remain within risk appetite.

Now is the perfect time for organizations to reevaluate their exposures and appetite for risk and volatility. Reassessing limits, program efficiency, and market relationships can ensure that buyers are best positioned to weather potential challenges ahead — regardless of market conditions.

Recommendations

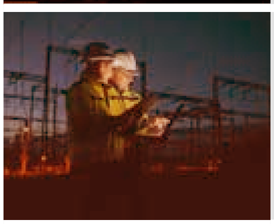
- **Leverage advanced risk modeling.** Develop a thorough understanding of potential loss scenarios and outcomes based on key risks.
- **Reevaluate your appetite.** Reassess potential changes in your organization's willingness and ability to retain risk and volatility. How much is too much and what are the most important metrics?
- **Review existing coverage.** Identify potential challenges with upcoming renewals, such as terms, attachment points, and limits. Evaluate whether alternative risk solutions can help improve the financial efficiency of your program and/or smooth potential volatility.
- **Strengthen market relationships.** Build strong partnerships with carriers that have deep interest, expertise, and experience in alternative risk solutions.
- **Work with the right advisor.** Choose a broker with specialized expertise, market relationships, and risk financing experience to help evaluate your options and execute your strategy with precision.

A focus on preparedness and responsiveness

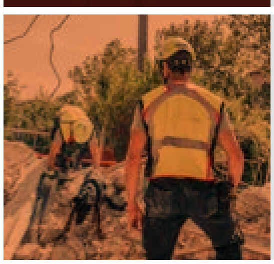
Hurricanes, wildfires, workplace violence, terrorism, evacuations, civil unrest, cyberattacks and technology interruptions, and product recall and contamination are just a few of the many threats that businesses and other organizations must prepare for. While insurance coverage can provide valuable support in the aftermath of these events, effective crisis management planning and incident response is also essential to limiting injuries, operational disruptions, and costs.

AMONG OTHER AREAS, INCIDENT RESPONSE AND CRISIS MANAGEMENT PLANS SHOULD ADDRESS:

Critical dependencies that could be affected by various types of events. What single points of failure exist in a company's supply or value chain? What alternative suppliers or manual solutions can fulfill essential needs in the event of a disruption? If a crucial location is rendered inoperable, is there sufficient redundancy?



The team members who should be involved in responding to an event. Individual participants could vary depending on the nature of an organization and/or a specific event, but a variety of functions should be represented on incident response and crisis management teams. Plans should also clearly articulate individual roles and responsibilities.



Third-party resources that can be engaged before, during, and after a crisis event. Organizations should identify and evaluate these resources — which may include restoration consultants, forensic accountants, mental health professionals, communications advisors, negotiation specialists, and outside counsel, among others — before an event so they can engage their services immediately, when time may be a factor. Many policies will reimburse insureds for the use of these services during and after a loss event; some also allow for their engagement prior to a loss.

Plans should be regularly updated — at the very least, annually, but ideally more frequently. Material changes to businesses — for example, mergers and acquisitions, new product launches, and the closure of important facilities — can present important opportunities to review and update plans.

C-suite executive involvement in crisis preparedness is crucial. Although they can require significant time and other resources, it's especially important that leadership is involved in tabletop exercises, which can help confirm whether a plan will work when needed. In a tabletop exercise, an organization can practice a potential crisis scenario, probing for potential weaknesses and identifying issues that may remain unaddressed in existing plans. The result is less uncertainty, a better understanding of individual roles and responsibilities, and greater preparedness.

Businesses should consider engaging experienced specialists who can help them build and maintain robust incident response and crisis management plans and to facilitate regular scenario testing and tabletop exercises to ensure they are prepared before a crisis strikes.

Property insurance transitioning to buyer's market

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

NON-CAT EXPOSED

10% rate decrease to 5% rate increase

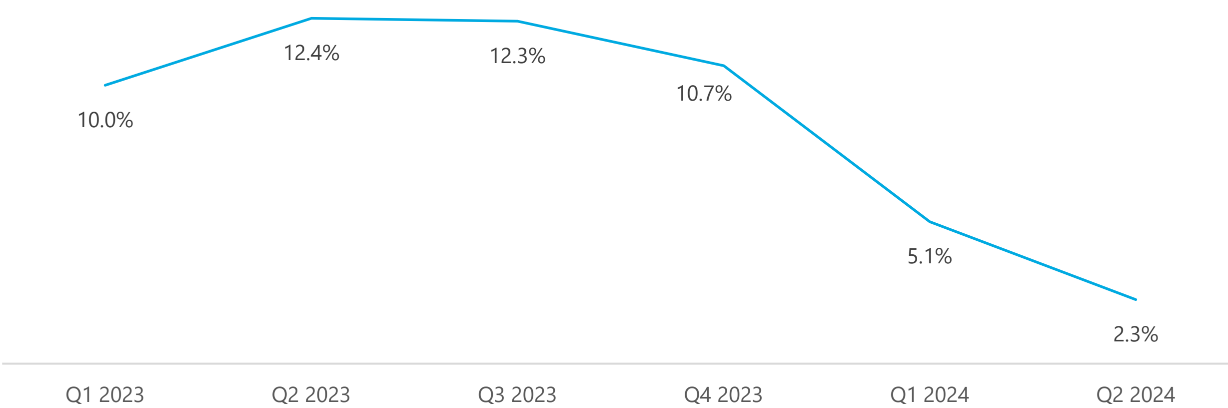
CAT-EXPOSED/CHALLENGED OCCUPANCIES

Flat to 15% rate increase

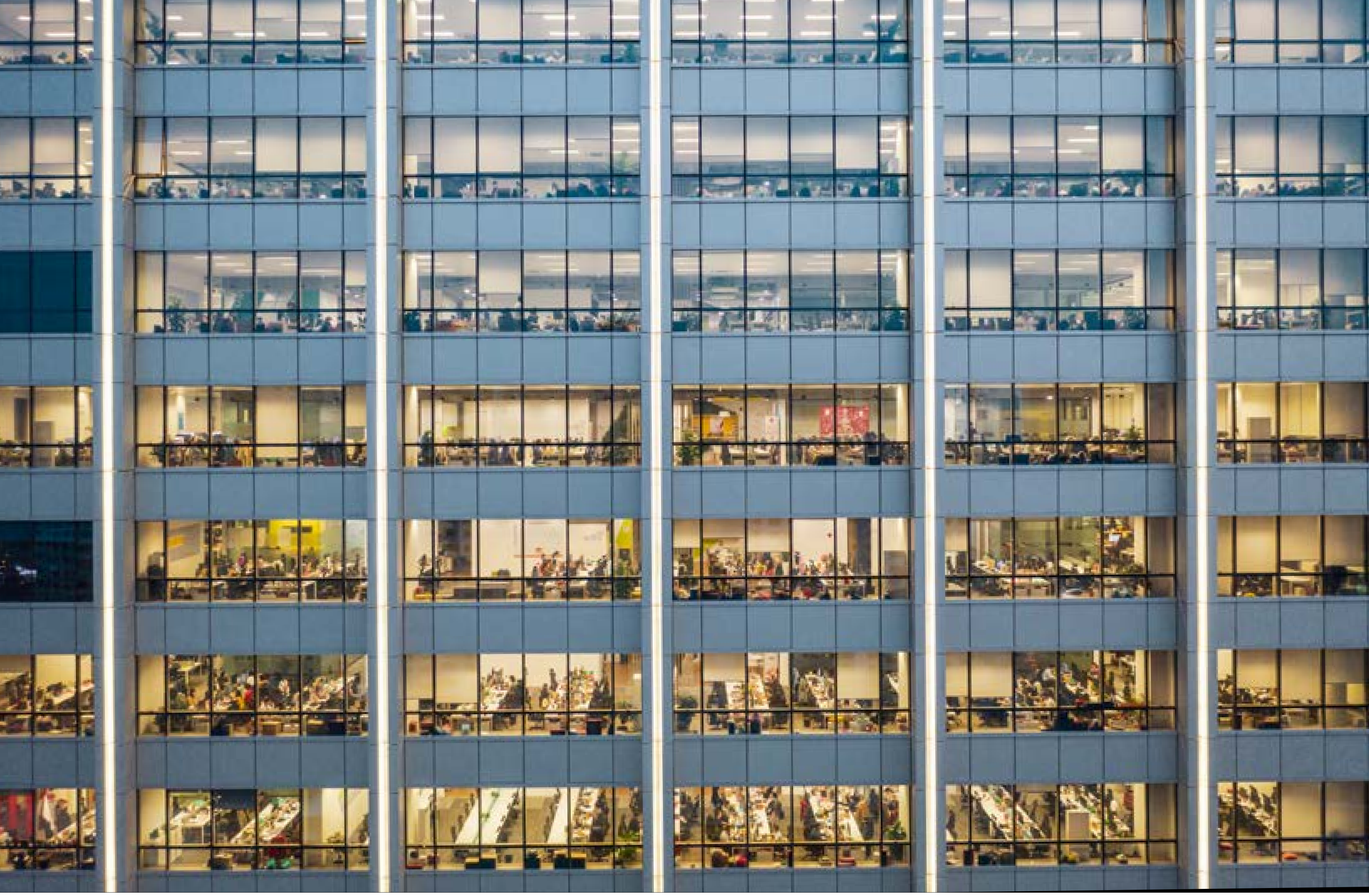
[1] Note: Rate ranges presented here reflect expected renewal outcomes — as of the Lockton Market Update publication date — over the next quarter for the majority of insurance buyers. These should not be taken as a guarantee of any specific result during renewal negotiations. Depending on risk profiles, loss histories, account specifics and other factors, individual buyers may renew their programs outside of these ranges.

Conditions in the property insurance market continue to improve and benefit insurance buyers. In the second quarter of 2024, median property insurance prices increased 2.3% (see Figure 10).

FIGURE 10: PROPERTY INSURANCE PRICING INCREASES CONTINUE TO MODERATE.



Source: Lockton P&C Edge Benchmarking Report, Q2 2024; median rate changes year over year shown



Outliers remain, however, both favorable and unfavorable. Buyers with shared and layered programs are generally seeing more competitive conditions than those with single-carrier programs.

Primary insurers are under pressure to grow or maintain premium volume and are thus competing aggressively for business. Buyers are now able to secure more favorable terms and conditions and fewer nonconcurrencies as a result of oversubscription and competition.

Inflation continues to ease, including for building materials and equipment. Buyers are applying minor inflation factors in underwriting submissions, to which insurers appear receptive.

Even as the market grows more favorable to buyers, interest in alternative risk products remains high. Parametric solutions, in particular, remain a frequent topic of discussion among buyers, who often find such solutions attractive due to their ease of settlement and ability to cover losses not found in typical property policies.

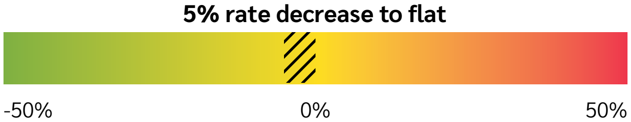
Despite significant catastrophe losses in the first half, primarily from severe convective storms, the reinsurance market remains stable, with adequate capital driving competition in various layers. Attachment points have not decreased, which has largely protected reinsurers from catastrophe activity. Demand for insurance-linked securities and catastrophe bonds remains high.

Soft market continues in workers' compensation

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

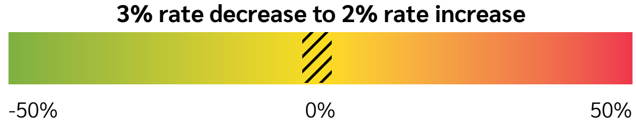
GUARANTEED COST

5% rate decrease to flat



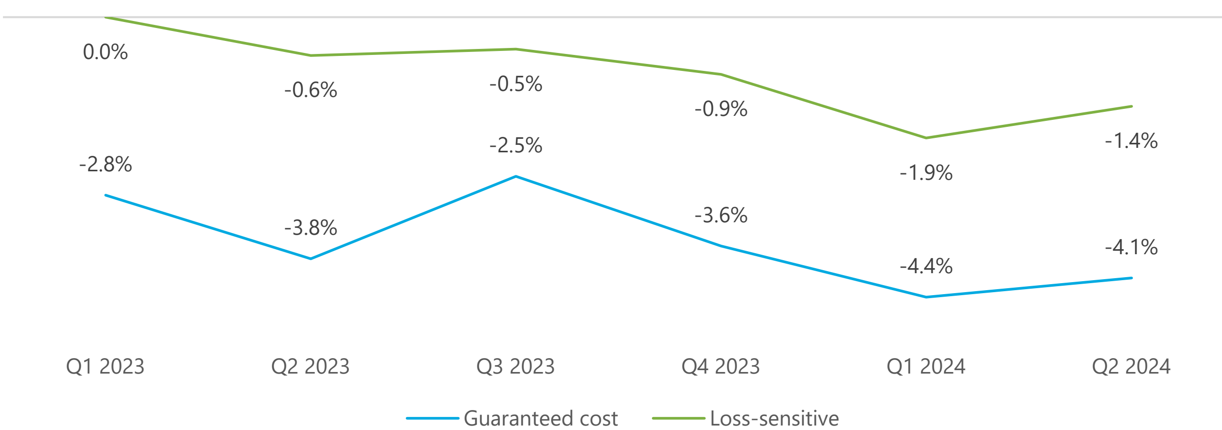
LOSS-SENSITIVE

3% rate decrease to 2% rate increase

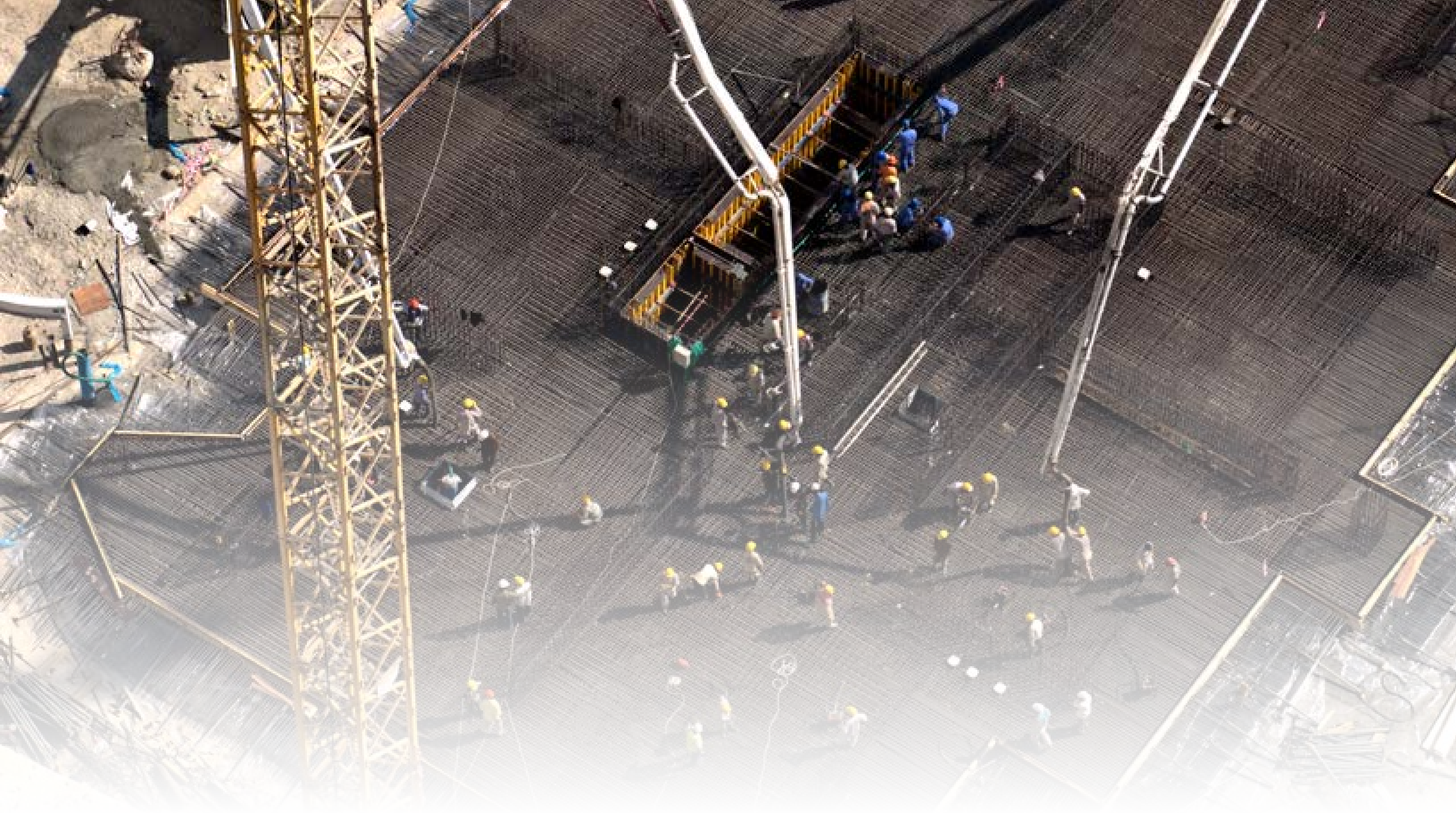


Workers' compensation remains highly profitable for insurers, resulting in continued competition and favorable pricing for buyers. In the second quarter of 2024, median guaranteed cost rates fell 4.1% while median loss-sensitive rates fell 1.4% (see Figure 11).

FIGURE 11: WORKERS' COMPENSATION MARKET CONDITIONS CONTINUE TO FAVOR BUYERS.



Source: Lockton P&C Edge Benchmarking Report, Q2 2024; median rate changes year over year shown



Although the soft market is expected to persist for the foreseeable future, insurers have cautioned that discipline is needed in light of several headwinds.

Pricing for workers' compensation has declined steadily. Though the frequency of workplace injuries has also declined over this same period of time, a recent Swiss Re report indicates we may have reached "an inflection point": Reserve releases have obscured a steady increase in accident year combined ratios, which now exceed 100%. "This is likely to continue the downward pressure on premium rates with the risk of the actual underlying performance becoming unsustainable," Swiss Re said.

Data shows that large workers' compensation claims have increased in frequency over the last several years. A recent study by the Workers' Compensation Research Institute of claims with injury dates from October 2015 through March 2019 notes that high-cost claims — defined as claims in the top 5% of medical payments within 36 months of injury — accounted for 28% of total medical payments and the average total cost of high-cost claims was more than $200,000 per claim.

There are several reasons for these rising costs, including:

- Job turnover, leading to an uptick of injuries among newly hired employees.
- Comorbidities and other preexisting injuries, which can complicate recovery timelines; and
- The failure of fee schedules to cover catastrophic injury claims.

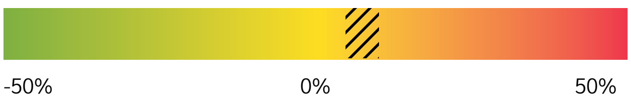
Medical inflation, which generally has lagged behind overall inflation over the last three years, is also proving problematic. In July, year-over-year increases in the cost of medical services outpaced "headline" inflation for the first time since March 2021, according to BLS data, with the gap further widening in August. Swiss Re projects that medical costs will continue to rise as a shortage of healthcare workers pushes wages up.

Predictable results continue for liability buyers

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

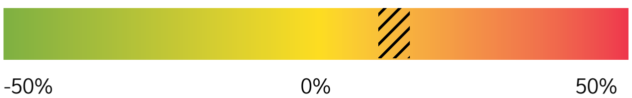
GENERAL LIABILITY

5% to 10% increase



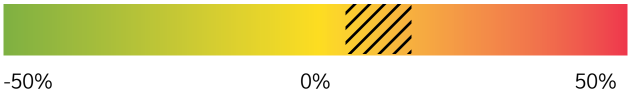
AUTO LIABILITY

10% to 15% increase



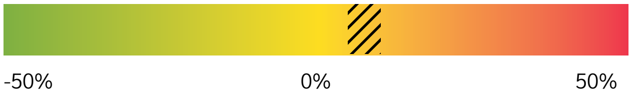
LEAD UMBRELLA

5% to 15% increase



EXCESS

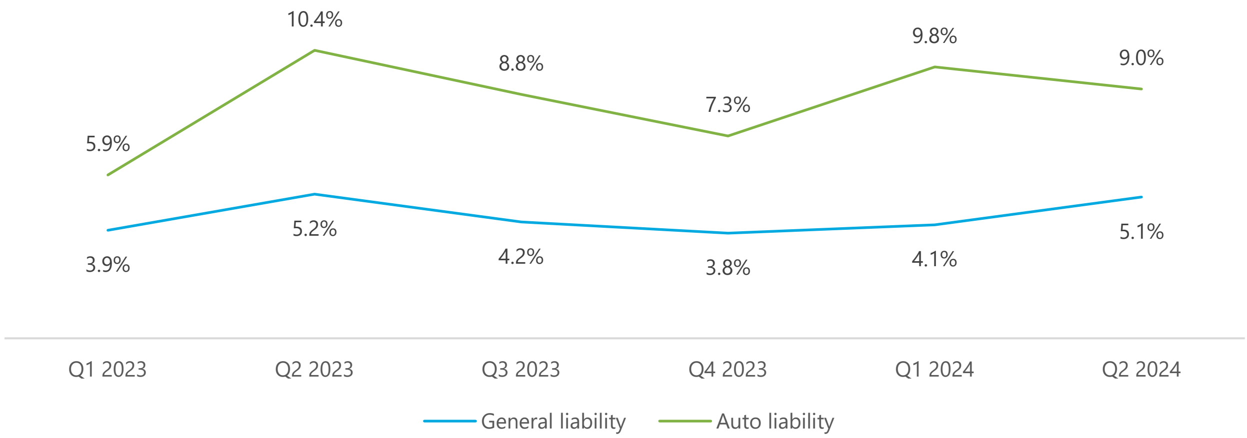
5% to 10% increase



Liability pricing continues to rise for many buyers, but at a predictable pace, generally in line with results from the last several quarters. On average, general liability pricing increased 5.1% and auto liability pricing increased 9.0% in the second quarter of 2024, according to data from the Council of Insurance Agents & Brokers (see Figure 12).*

* Charts in this report using Lockton P&C Edge Benchmarking data show median rate changes year over year. Median figures, however, are not available for Figure 12, which includes data from CIAB.

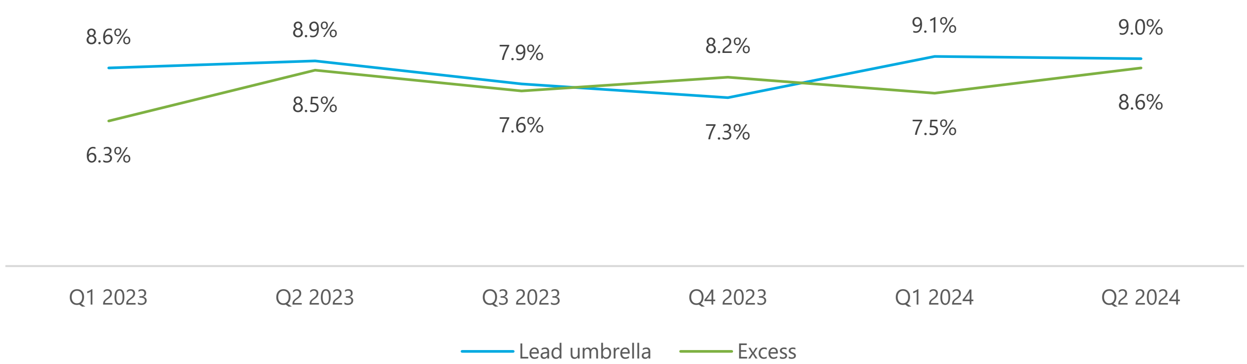
FIGURE 12: PRIMARY LIABILITY INSURANCE PRICING REMAINS PREDICTABLE FOR MOST BUYERS.



Source: Council of Insurance Agents & Brokers, Q2 2024; median rate changes year over year shown

Median lead umbrella price per million increased 9.0%, while excess pricing increased 8.6%, according to Lockton data (see Figure 13).

FIGURE 13: UMBRELLA AND EXCESS PRICING CHANGES HAVE BEEN FAIRLY CONSISTENT FOR SEVERAL QUARTERS.



Source: Lockton P&C Edge Benchmarking Report, Q2 2024; median rate changes year over year shown

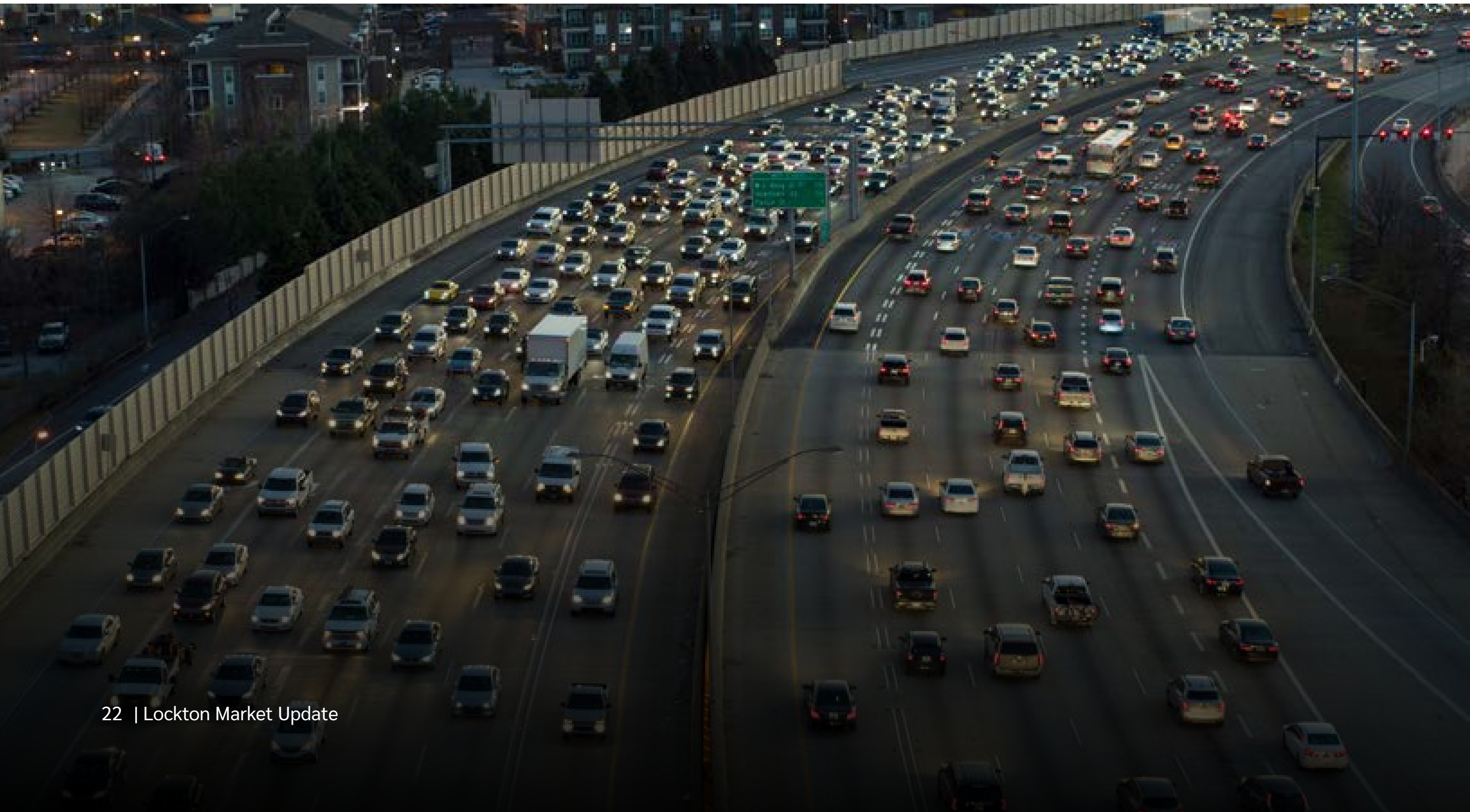
Liability insurers remain cautious in the face of social inflation and continue to adjust programs structures, pricing, and terms. The industry is determined to stay ahead of rising loss trends but remains divided about what this trend actually is. Further, results can vary widely based on individual risk characteristics.

Buyers with large fleets, that rely on third-party transportation, or with significant nonowned auto exposure continue to face challenges. Given escalating loss severity, insurers are determined to manage their exposures through risk selection, higher attachments, and reduced capacity. Rates also continue to climb.

Although less of a focus for insurers, buyers with smaller fleets may also face scrutiny around their controls. Those that cannot answer underwriters' questions to their satisfaction will also experience pressure around attachments and rates. Insurers are similarly asking more questions about significant nonowned vehicle exposure.

Several liability reinsurers have commented that rates will need to increase substantially as loss trends across several lines — including auto, premises, products, and medical professional — soar. For several quarters, primary insurers have cited loss severity trends of between 7% and 9%. But with insurers noting that adverse reserve development is increasingly becoming a problem for calendar years 2022 and 2023 — and not just limited to the so-called "soft" market years of 2016 through 2019 — some have concluded that the losses may actually be trending up by 10% or more.

The excess and surplus (E&S) lines marketplace remains a strong, viable alternative for risks that are more difficult to insure. For the industry, it also acts as a source of innovation. As carriers look for new lines of revenue, many are expanding their specialty operations to grow in the E&S space. Some buyers — particularly companies in the technology/AI and cannabis industries and others with emerging risk exposures — could benefit from the more flexible underwriting appetite and coverage offered by these insurers.

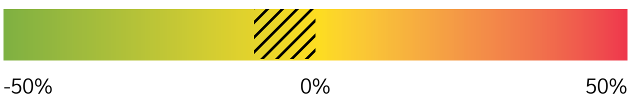


Competitive market conditions persist in D&O

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

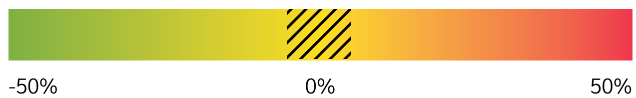
PUBLIC

10% rate decrease to flat



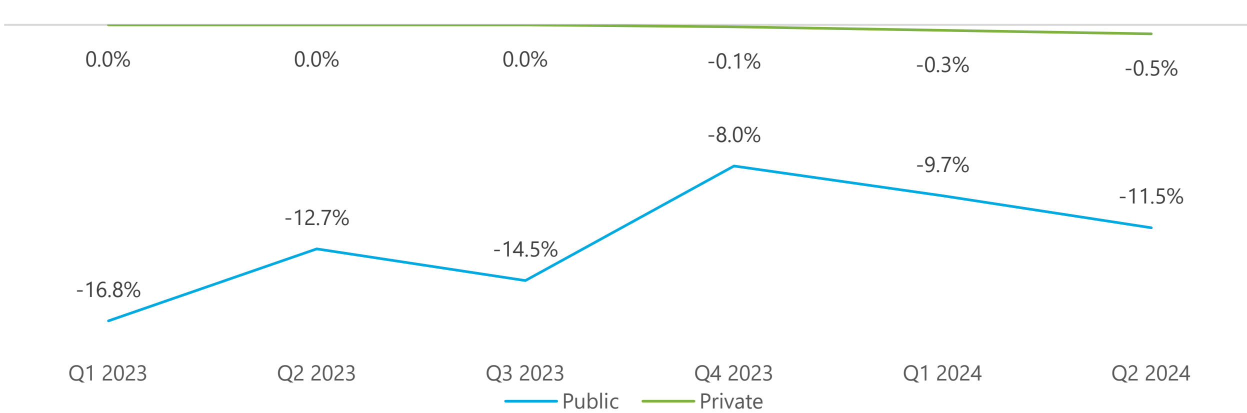
PRIVATE

5% rate decrease to 5% rate increase



Directors and officers liability (D&O) insurance buyers continue to benefit from strong competition. For public companies, the market remains soft, with median pricing for total companies falling 11.5% in the second quarter (see Figure 14). Median total program pricing for private companies and nonprofits fell 0.5%.

FIGURE 14: D&O PRICING REMAINS COMPETITIVE, ESPECIALLY FOR PUBLIC COMPANIES.



Source: Lockton P&C Edge Benchmarking Report, Q2 2024; median total program rate changes year over year shown

Public companies

Strong capacity is driving competition, with favorable pricing and broad coverage available for most risks. Insureds with completed IPOs and SPAC/de-SPAC transactions within the last two to three years continue to see larger premium decreases, generally between 15% and 25%. Mature public companies without challenging risk profiles are generally renewing flat to down 10%.

Insurers are generally willing to compete on new business, and on existing business are willing to quote primary and lower excess layers where possible to remain competitive on programs. While transactional activity has increased in 2024, it is still below recent historical levels, which is prompting insurers to compete on existing business to grow their books.

Generally, insurers are considering most risks, but are taking a more guarded approach to companies in financial distress, and not all carriers offer coverage for digital assets and cannabis. Underwriters are asking specific questions related to cybersecurity and incident response planning in light of the Securities and Exchange Commission's recently implemented cyber disclosure rules. They are also scrutinizing insureds' use and marketing of artificial intelligence as AI-related securities claims begin to emerge.

Although rates continue to fall for the majority of buyers, there are signs that prices could begin to stabilize for mature public accounts by the end of the year. Carriers have suggested that they have given up as much rate as they can, and that risks may now be "underpriced."

Private/nonprofit

In the current marketplace, it is hard for new insurers to win business, leading them to take more aggressive positions in attempts to unseat incumbents. Driven by a few carriers, we continue to see expansions in coverage, increased limit capacity, and reductions in retentions. Pricing is trending down most private and nonprofit buyers. Organizations with active claims or other unique risk profiles — for example, those with significant debt levels — are seeing more difficult market conditions.

Broader coverage terms are generally available now, due to the competitive marketplace. Underwriters are pushing back on raising defense rate caps and on antitrust and regulatory coverage for companies in certain industries. The markets for large healthcare, digital assets, life sciences, and government contracting are somewhat limited, with insurers deploying more conservative terms.

Although the overall claims environment appears steady, there is some concern related to insolvency. Insurers are worried about a recent uptick in bankruptcies, out of court restructurings, and lender workouts, which could lead to large claims. There is also some concern about potential fines and penalties stemming from California's recently enacted workplace violence preparation requirements.

Profitability fuels competition in crime insurance market

Crime insurance remains a profitable line for insurers, bolstering capacity and competition. Most public buyers are renewing flat or with slight decreases; private companies, which often purchase crime insurance as part of a broader management liability package, are seeing larger rate decreases.

Most carriers are willing to compete on both new and existing business, despite a growing frequency of social engineering claims. New entrants are willing to offer larger limits or standalone coverage for social engineering.

As large losses become more commonplace, insurers are responding with greater underwriting diligence, including requiring specific controls (similar to how insurers are approaching cyber insurance). Specifically, insurers are requiring policyholders to demonstrate favorable financial security controls — for example, that they have specific procedures in place to verify wire transfer requests. Insureds with callback procedures on transfer requests generally can obtain higher limits for social engineering losses.

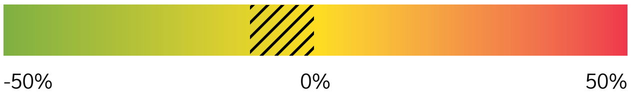
Insurers are also monitoring a rise in more "traditional" crime claims, such as mail theft, forgery, and employee theft. Employees remain the single biggest exposure for companies.

Payment processors may see a more limited marketplace, as some carriers will not consider providing crime coverage due to the nature of their operations and potential for fraud. Digital asset companies, financial institutions, law firms, IT consultants in the financial industry, and service providers may also have fewer options.

Despite gathering storm clouds, cyber rates continue to fall

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

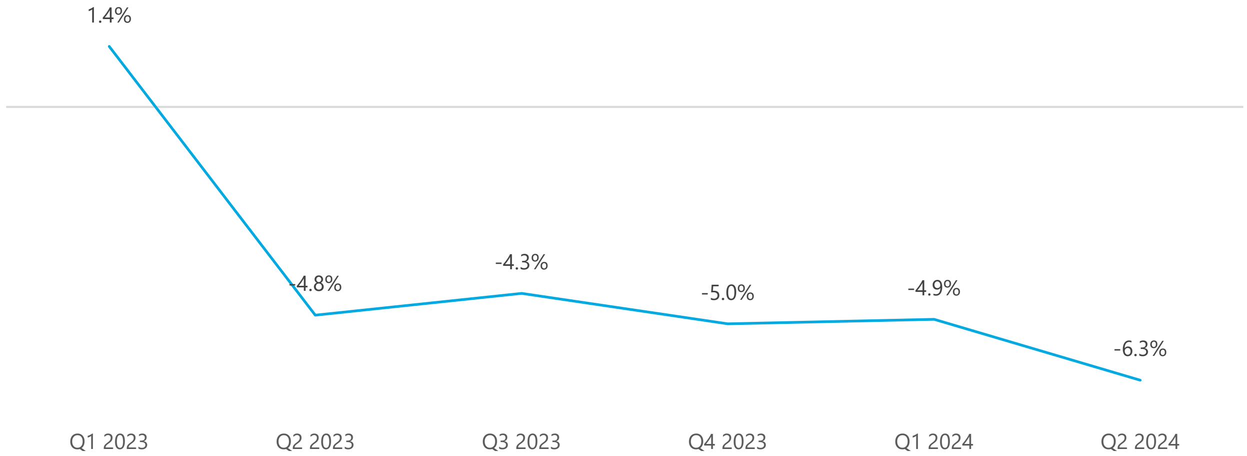
CYBER



[4] For total programs.

Cyber insurers continue to aggressively compete for business, keeping pricing favorable to buyers. In the second quarter of 2024, median pricing for total programs fell 6.3% (see Figure 15).

FIGURE 15: CYBER INSURANCE PRICING CONTINUES TO FALL.



Source: Lockton P&C Edge Benchmarking Report, Q2 2024; median total program rate changes year over year shown

Strong capacity and competition continues to limit the ability of insurers to push for rate increases for most buyers. An open question, however, is how long current conditions can persist in the face of accumulating losses.

During the first half of 2024, signs have emerged that increasing claims activity could lead to some degree of firming. It is expected that recent large data breaches and other significant cyber events could result in billions of dollars in losses, but as of this writing, it does not appear that the market will immediately change.

With pricing continuing to fall in spite of frequent and often severe cyber losses, many observers are waiting for the market to turn less favorable to buyers. And the longer we wait for such a turn, the more likely it becomes that the turn will be sudden and significant, not unlike the change in market dynamics seen in 2021 as ransomware losses took off.

For now, conditions remain favorable for most buyers, although insureds in some industries, such as healthcare, face greater scrutiny. Underwriters also appear to be more interested in understanding business interruption risks for manufacturers and others.

Insurers remain concerned about the threat of ransomware. Cybersecurity firms have warned about the growing threat of "lone wolf" actors who have broken off from more established ransomware attack groups. These individual actors tend to have lower profiles and thus are often more easily able to get in and out of corporate systems without being detected.

Underwriters are also monitoring some emerging risks, including media liabilities stemming from the use of music on social media and other platforms without licenses. Music companies and artists are increasingly filing suit against social media influencers and others with large audiences who use their content without permission.

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