



Public Entity Insurance Marketplace, Trends, Industry Issues and Outlook

Presented by: P.J. Skarlanic

January 18, 2024

Alliant Insurance Services
www.alliant.com



(THIS INFORMATION HAS BEEN CONSOLIDATED FROM VARIOUS INDUSTRY SOURCES)

Market Overview



2023 Renewal Season Recap



Financial Performance



Loss Trends & Market Disruptors



Toward the Future

Liability Renewal Season Results – Public Entity

	2021	2022	2023
Average SIR Change	16%	13%	8%
Average Limit Change	-5%	0%	2%
Average Premium Change	38%	20%	16%

Note that the average premium increases noted above are pure premium increases (vs. effective rate) as these are coupled with the average changes to SIR's and Limit purchased. (**data references as of 7/1/23*)

Source: AmWINS

Areas of Pools Focus – 2023 and 2024

Industry:

- Litigation management
- Pool Administration Best practices (verification)
- Documentation enhancement (to mitigate nuclear verdicts)
- Claims communication (reinsurers and insurers)
- Dispute resolution / Arbitration contract language
- Risk management programs & tools (including documentation)

Society:

- Media strategies around adverse case law, jury procedures, tort reform
- Education on the impact of disproportionate settlements/verdicts (who ultimately pays)

Source: AmWINS



Insurance Market & Financial Performance

Market Pressures...



Great Resignation & Quiet Quitting



Geo Political



Mass Shootings



Social Inflation/
Nuclear Verdicts & Legislation



Cyber Attacks



Ukraine & Middle East War/Conflicts



Aging Infrastructure



Climate Change



Inflation



Natural Disasters



Supply Chain & Labor Shortage



Proliferation of "secondary" perils (SCS)

Q2 23 P/C industry combined ratio, net income at worst levels since 2011:

"While the aggregate industry balance sheet is strong enough to meet its contractual commitments and obligations to consumers and businesses, the ever-increasing challenges from claims cost and expense increases, extreme weather events, legal system abuse, and ongoing regulatory resistance to rate adequacy in a few jurisdictions, continue to have significant negative financial consequences for insures," Robert Gordon, senior vice president of policy, research and international for APCIA.

Market Conditions

Impactful issues for insureds:

Property

01

Property capacity reductions:

- Further reduction in capacity from incumbents
- Coastal, Earthquake and wildfire capacity continue to be especially difficult
- Very few new entrants into the commercial property sector

02

Insurers produced negligible profit in 2022 – Nearly **\$125b in Global Insured CAT losses** in 2022 – **2nd Worst Loss Year on Record.**

- United States accounted for **75%** of global insured losses

03

Continued **increased pattern of major property catastrophes** such as hurricanes, severe convective storms, typhoons, wildfires, winter storms etc. over the past 6+ years

04

Consistent **increases in attritional property losses** (fires, water damage, tornados, hail, wildfires) – are secondary perils ‘secondary’ anymore?

05

Inflation continues to add to the issue of **valuation across all property classes**

Liability

06

Liability capacity pull back and withdrawals have been significant over the past two years

07

Social inflation & Litigation Financing driving up liability verdicts and settlements

08

Excess Workers Compensation **remains stable, but retained layer may be experiencing increased claims volume**

09

Cyber capacity has improved and creating stabilized terms and conditions

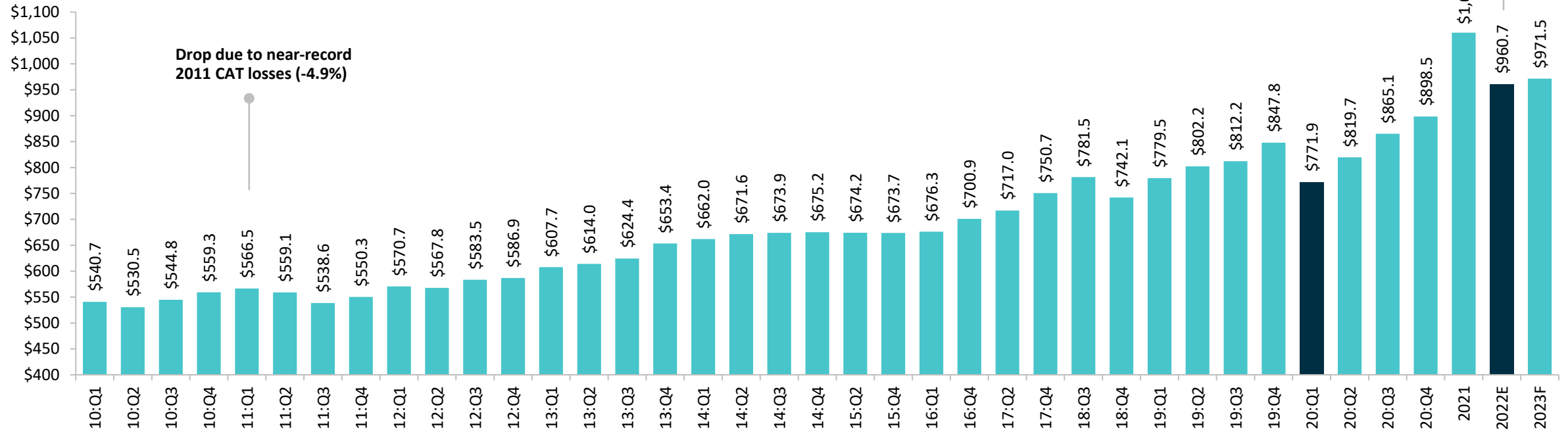
10

Ransomware cyber losses are systemic – **Expecting \$10 Trillion by 2025**

Cyber

Policyholder Surplus (Capacity), 2010: Q1 – 2023: F1*

(\$ Billions)



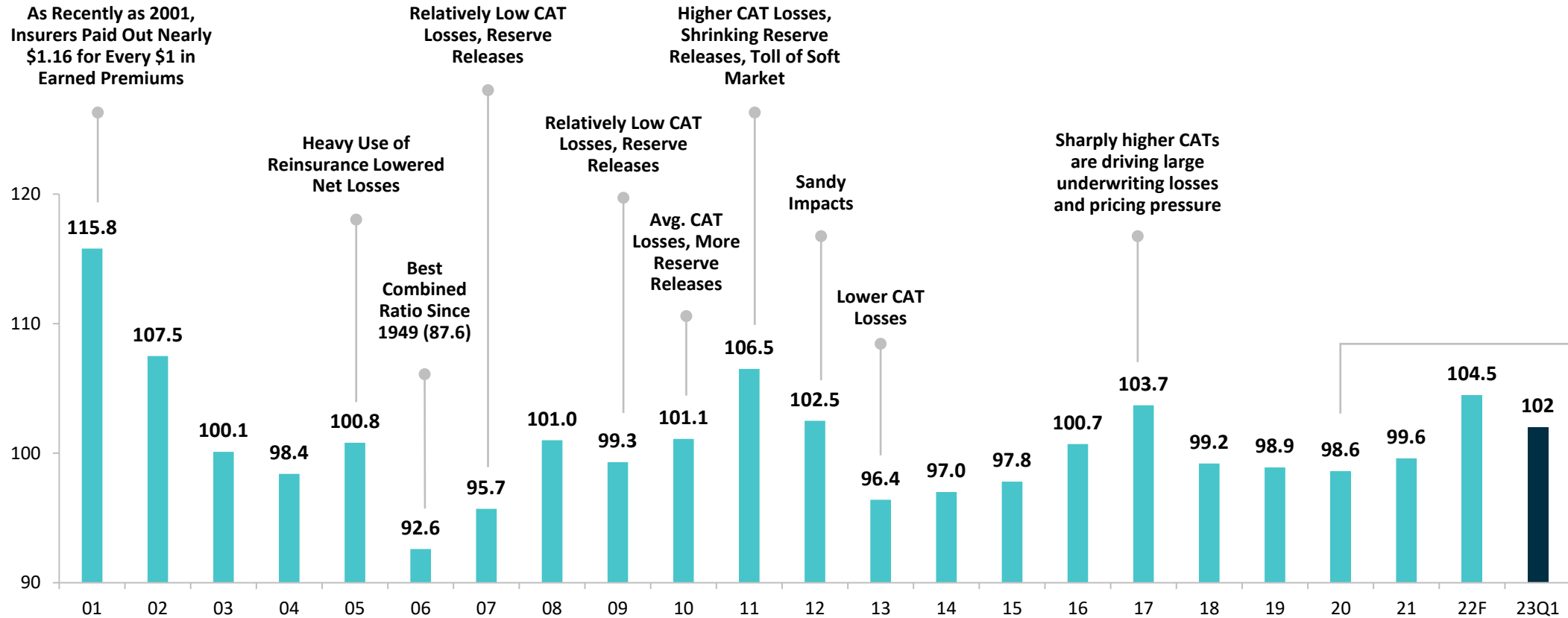
The P/C insurance industry entered the COVID-19 pandemic from a position of strength and was able to withstand the 9.0% surplus decline in Q1 2020 (far less than during the Financial Crisis). 2020 ended with record surplus. 2021 set another new record, exceeding \$1 trillion for the first time. Unrealized losses caused surplus to drop sharply in 2022.

Policyholder Surplus is the industry’s financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

*2022 figure is actual through Q2.

Sources: ISO, A.M .Best, NAIC. Risk and Uncertainty Management Center, University of South Carolina.

P/C Insurance Industry Combined Ratio, 2001–2023 Q1**



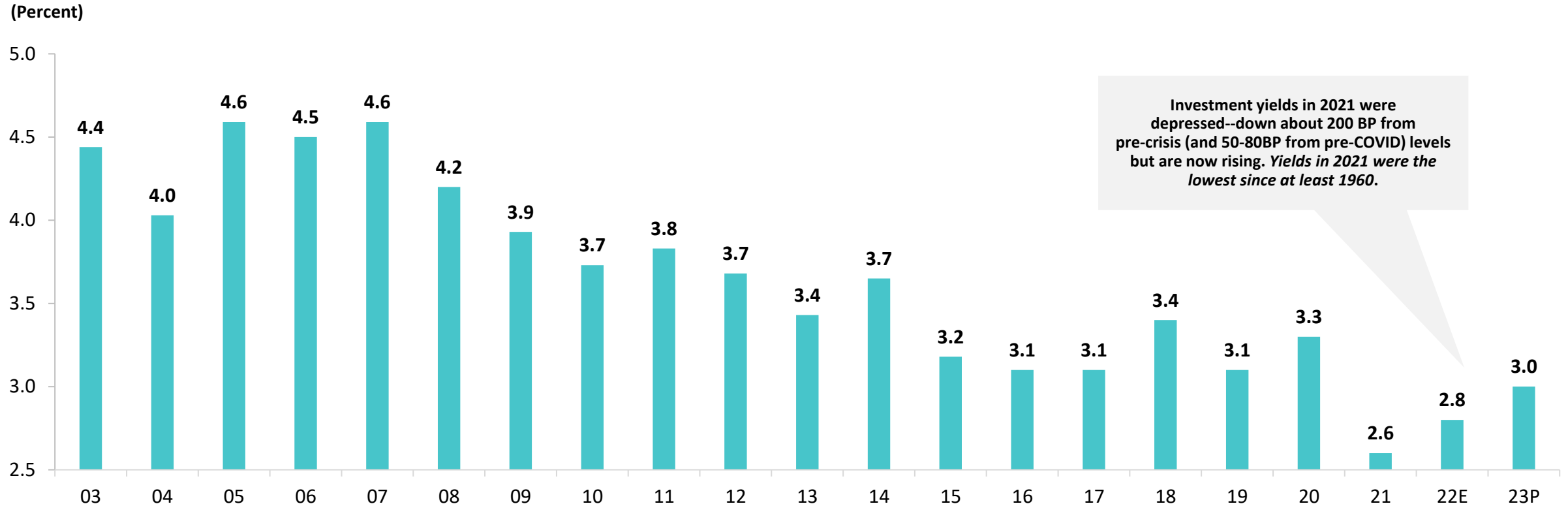
COVID-19 has had no discernable *net* impact on pre-COVID expectations for the combined ratio in 2020; -7.5 pts. due to CATs vs. 4.1 in 2019 (about twice avg.)

Pre-COVID 2020 Combined Ratio Est. 99.1 (A.M. Best)
Actual = 98

*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2022 figure is forecast. A.M. Best Review and Preview (Feb. 2021).
Sources: A.M. Best, ISO (2014-2022F).



Net Investment Yield on Property/Casualty Insurance Invested Assets, 2003–2023P

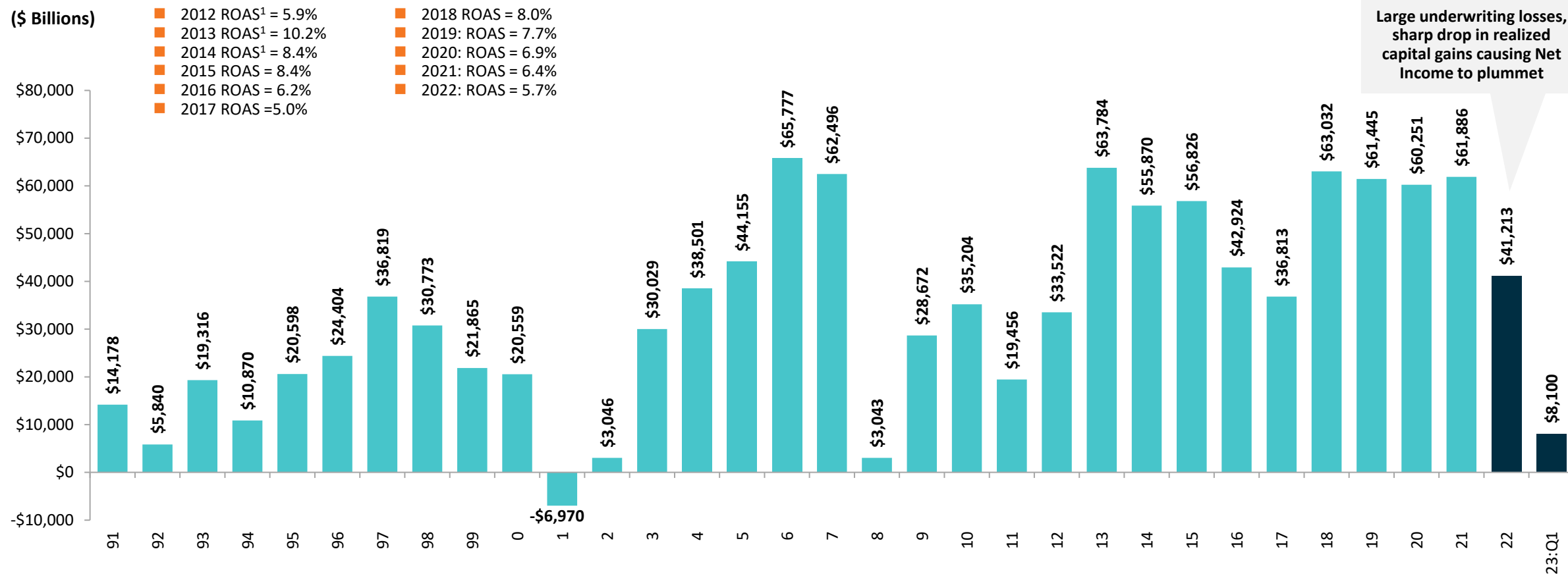


The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022 should begin to slowly lift yields.

Average: 1960-2019 = 4.9% | Low: 2.8% (1961) | High: 8.2% (1984/85)

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCA. Risk and Uncertainty Management Center, Univ. of South Carolina.

P/C Industry Net Income After Taxes, 1991–2023: Q1*

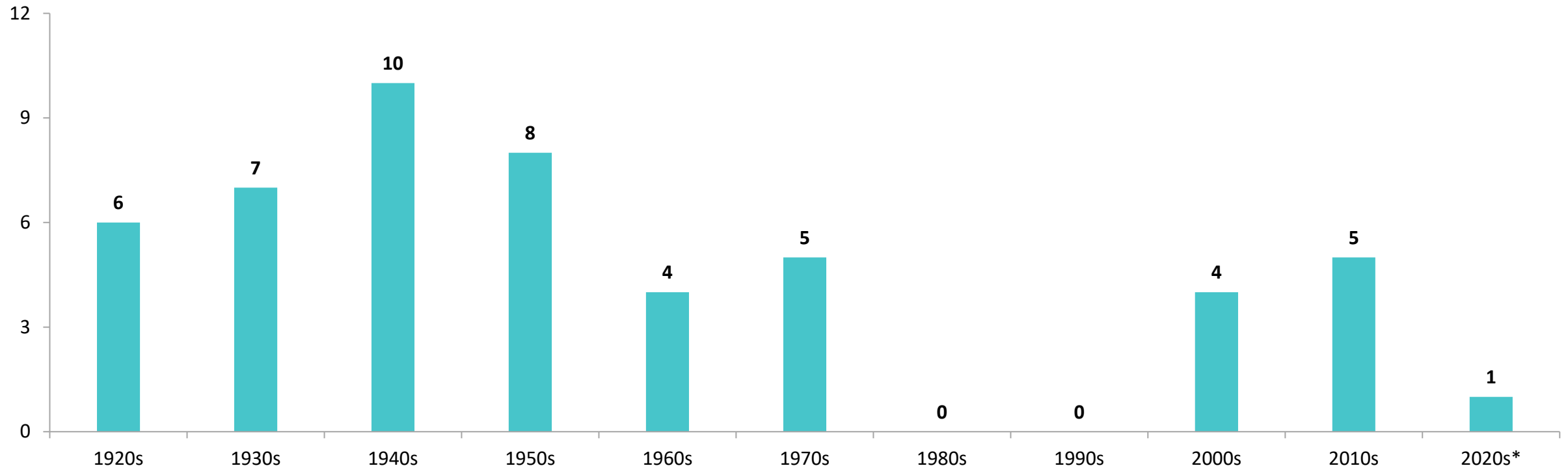


*ROE figures are GAAP; ¹Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

Sources: A.M. Best, ISO, APCA.

Number of Years with Underwriting Profits by Decade, 1920s–2020s

Number of Years with Underwriting Profits



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) –But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2020 through 2022

Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.



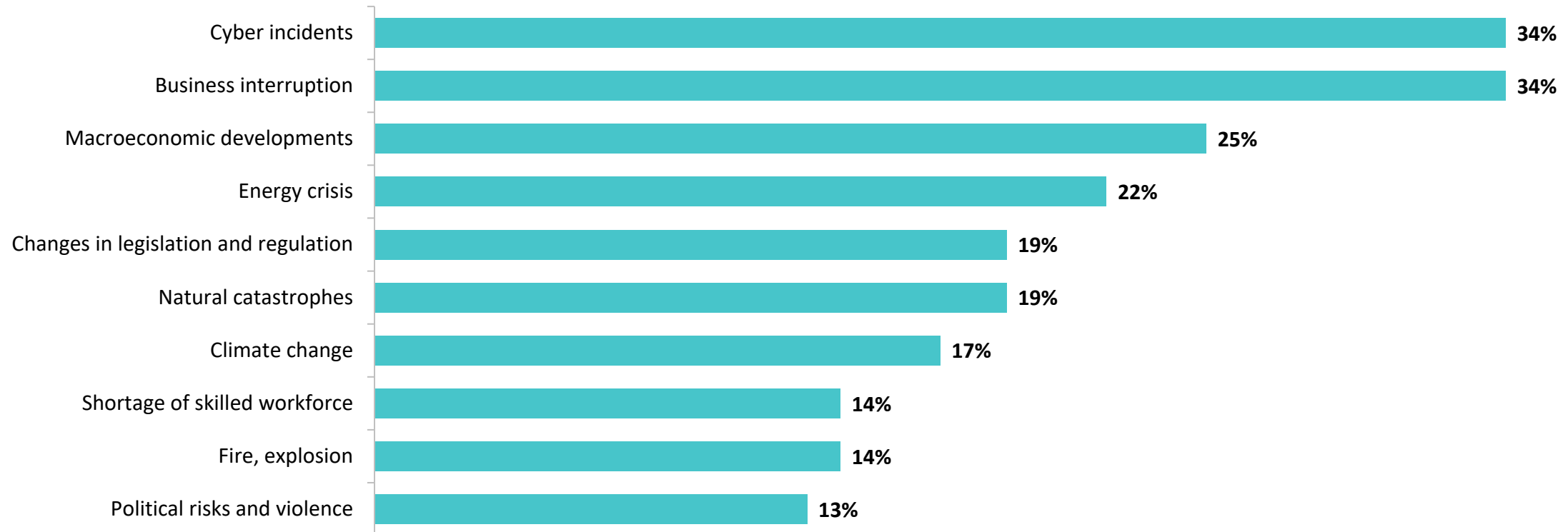
Loss Trends & Market Disruptors

What are Risk Manager's Concerns?

The most important global business risks for 2023

Alliance Risk Barometer 2023

The numbers represent the percentage of all participants who responded (2,712). The numbers do not add up to 100% because more than one risk could be selected.



Recent CAT Losses



Flooding



2018-2022 – More than **10** severe flood events



\$70.1b Economic Loss – only \$20b insured



Hurricanes



2018-2022 **77** named storms



\$470.7B+ in economic losses (US)



Hurricane Ida, Ian, Nicole & Idalia = **\$95b?**



Hilary, first CA Tropical Storm since 1939



Wildfires



2018-2022 82 \$1B+ Wildfire events



2021 Burned over **7m** acres



2022 = **7.5m** acres



\$39B in insured loss, *8.68B in 2021 alone



17% increase from 2019 to 2021 in U.S. wildfires and a 223% increase since 1983



Tornado/Convective Storm



2023 **\$50B** in insured losses due to severe convective storm through 1st half of the year (\$35B in U.S.)



Accounted for nearly **70%** of all **global** Insured losses



SCS insured losses growing at a rate of **8.9%** since 1990



10 singular **\$1B+** events



Winter Storms



Uri – 2021 Over **110** deaths associated



Estimated **\$20B+** insured losses



Largest Q1 loss record

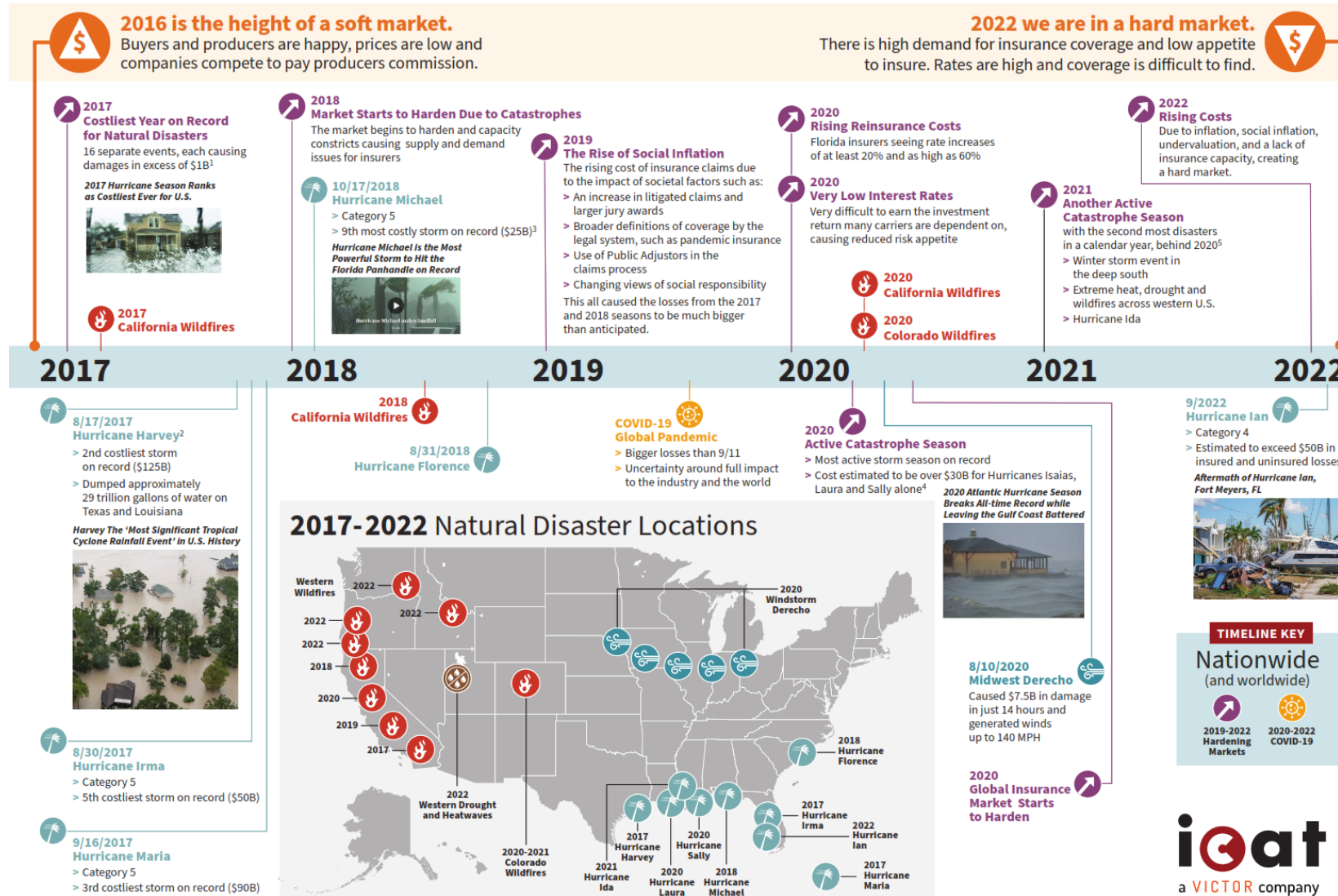


Elliott – 2022 Over **65** deaths associated



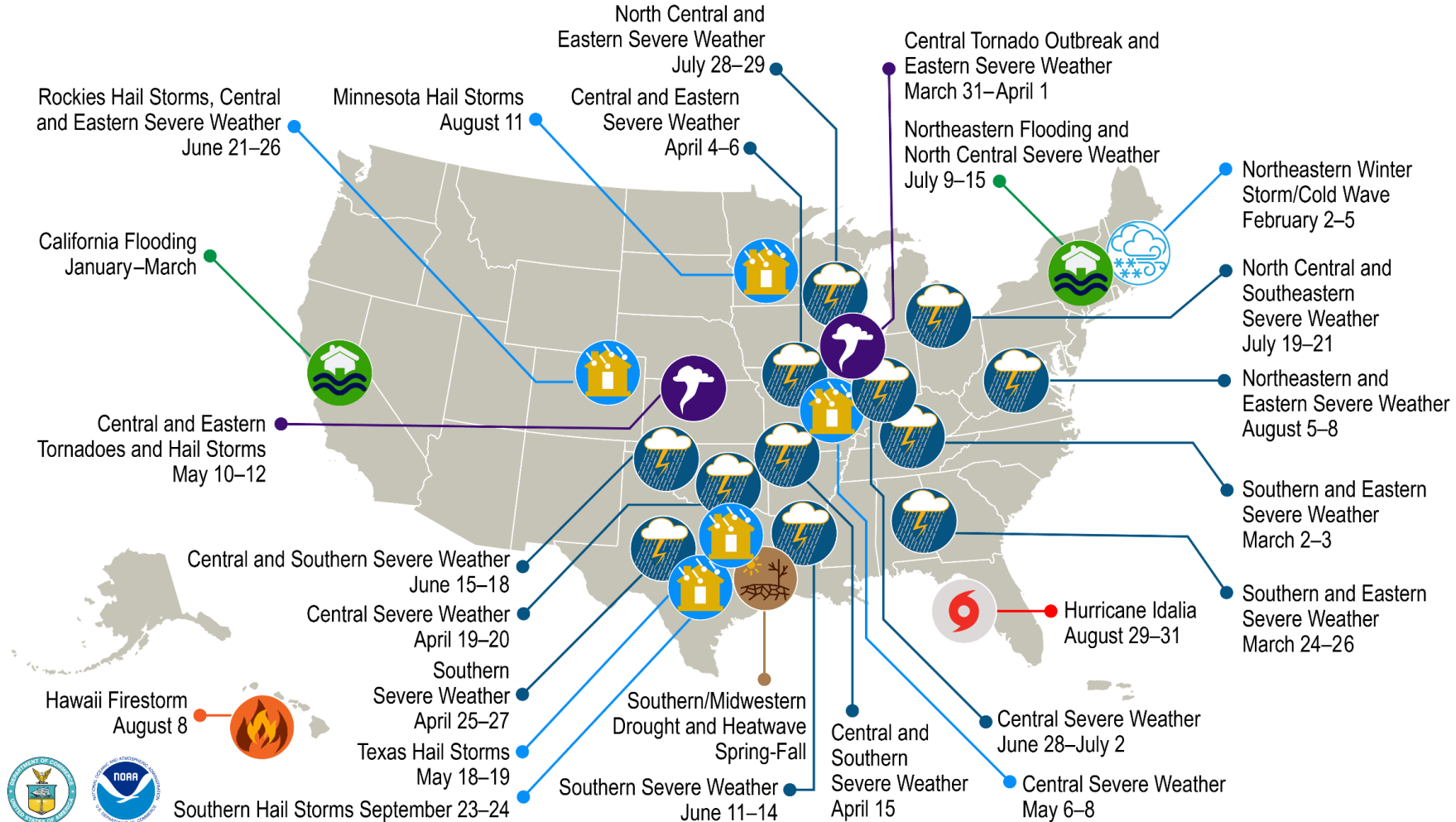
Estimated **\$5.4B+** insured losses

The Makings of a Hard Market – Timeline



Major U.S. Losses in 2023

U.S. 2023 Billion-Dollar Weather and Climate Disasters



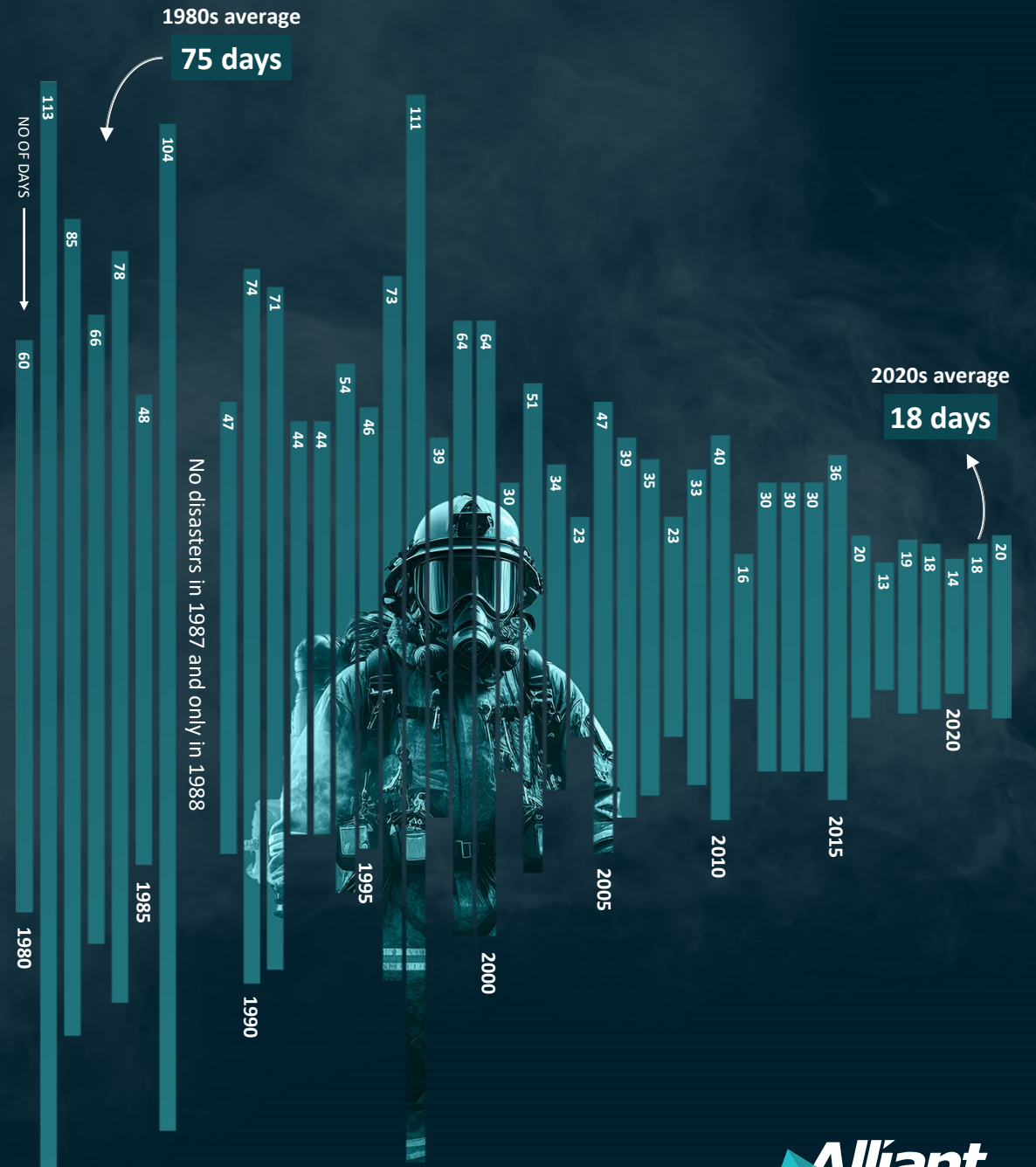
This map denotes the approximate location for each of the 25 separate billion-dollar weather and climate disasters that impacted the United States through October 2023.

Days between billion-dollar disasters

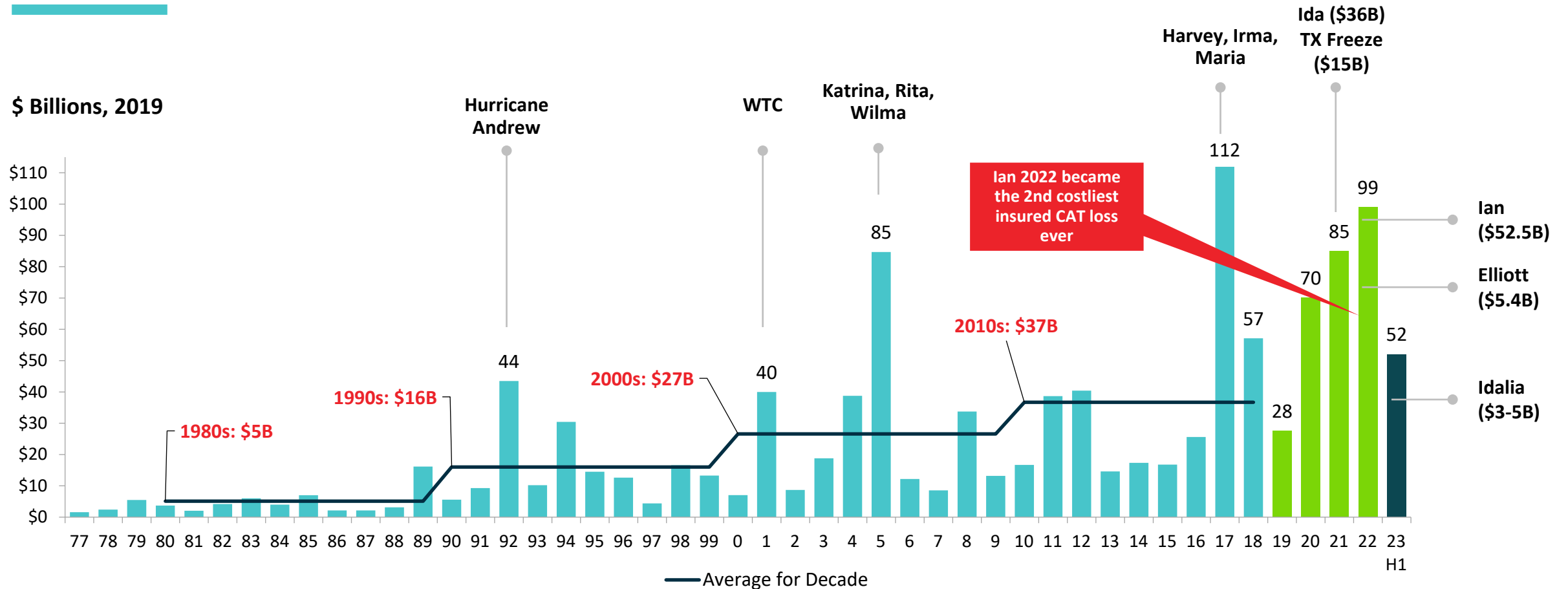


Since the 1980s, the U.S. has faced more frequent climate disasters with every passing decade. Between 2020 to 2022, the average number of days between billion-dollar disaster events within one year dropped to just **18**.

Billion-dollar disasters are events where overall damages/costs reached or exceeded \$1 billion (including CPI adjustment to 2023).



U.S. Inflation-Adjusted Insured CAT Losses: 1977 – 2023:H1



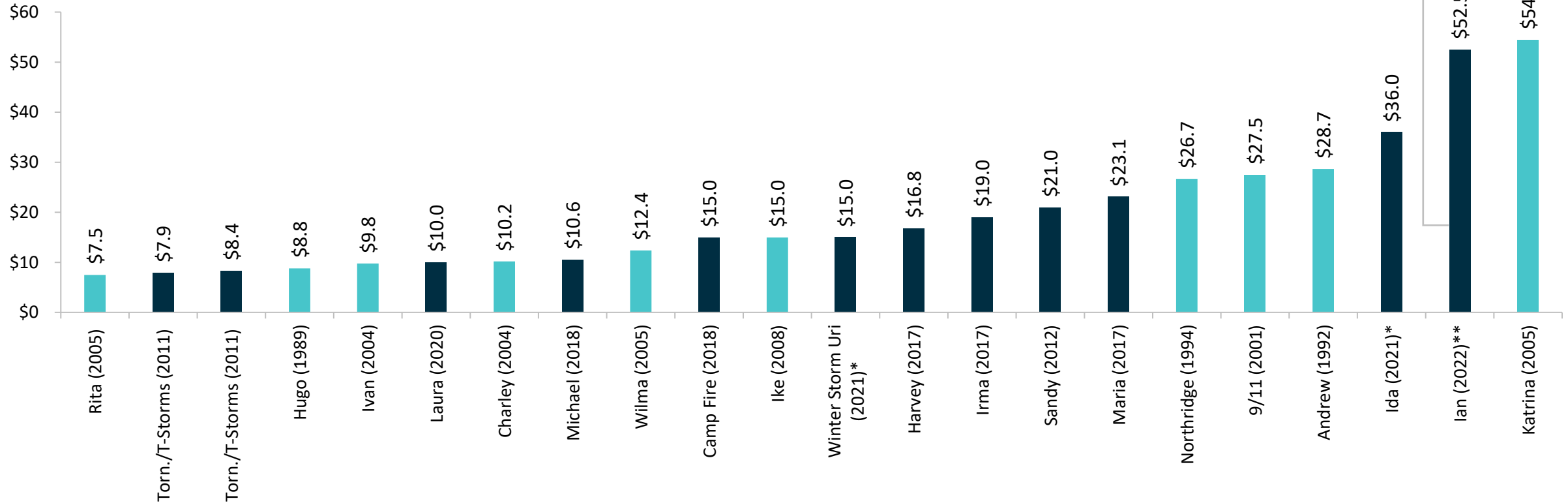
The 2020s are off to an ominous start with \$85B in average annual insured losses (2020-22)

Insured Cat Losses Are Increasing At An Alarming Rate – Nearly 700% Since 80's
 Average Insured Loss per Year* | 1980-2021: \$23.8 Billion | 2012-2021: \$44.1 Billion

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

Top 22 Most Costly Disasters in U.S. History

(Insured Losses, 2020 Dollars, \$ Billions)



12 of the top 22 mostly costly insured events in US history occurred between 2010 and 2022 (inclusive)

Hurricane Ian in 2022 became the 2nd costliest insured CAT loss ever

18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*2021 dollars; **2022 dollars (Aon insured loss estimate as of 1/25/23).

Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2020 dollars using the CPI.



Trend and Valuation

Construction Inflation & Claims

Construction Cost Trends

Inflation has subsided some this past quarter and the nation is gearing up for the CHIPS/Science Act and the Infrastructure Investment and Jobs Act. Still, concerns remain about construction costs, with one of the biggest issues in the US being the extreme labor shortage (roughly 650,000 workers) slowing completion of construction projects from residential homes to infrastructure to hospitals.

Inflation & Claims

Property insurance, which is sensitive to inflation and rising construction costs, had an estimated 6-13% increase in claims payouts in 2022, with an additional 3.5-10% hike expected for 2023.

Construction Cost Trends

Property insurance, which is sensitive to inflation and rising construction costs, had an estimated 6-13% increase in claims payouts in 2022, with an additional 3.5-10% hike expected for 2023.

July 2023 Construction Cost Trends

10.6%

BLS: Construction Cost

2.9%

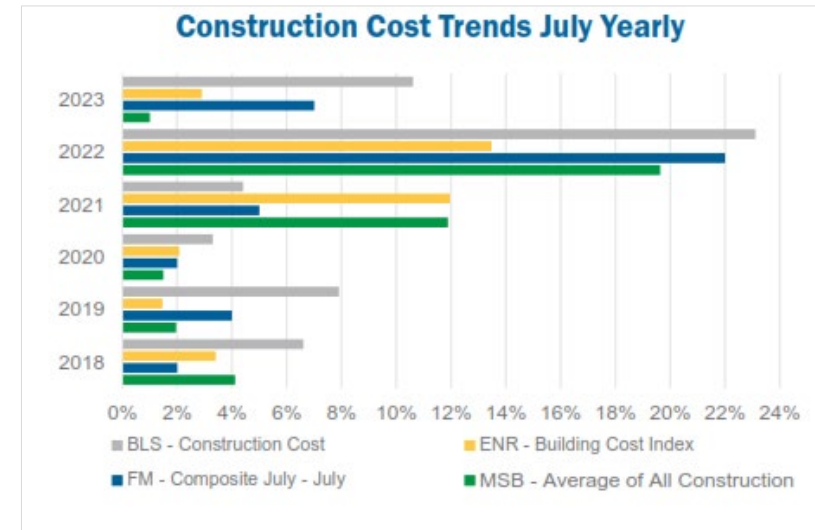
ENR - Building Cost Index

7.0%

FM – Composite July – July

1.0%

MSB - Average of all Construction



- Inflation has created new challenges for insureds and carriers
- The insurance industry is faced with record increases in property claim costs, combined with increases in the time required to resolve claims.
- Not indexing for inflation impacts the delta between replacement cost and property claims costs

WWW.cbiz.com/valuation

Casualty Market Major Disruptors



Auto Liability

- Cost of vehicles(inflation)
- Cost to repair (technology)
- Fatality Trends
- Distractive Driving – Cell Phones
- Claims Frequency **and** Severity Trajectory
- Social Inflation



Workers Compensation

- Opioids
- Mental Health
- Aging Workforce
- Medical Cost Inflation
- Cancer & PTSD Presumptions
- Workplace Violence
- Medical Service Delays
- Out of State Exposure



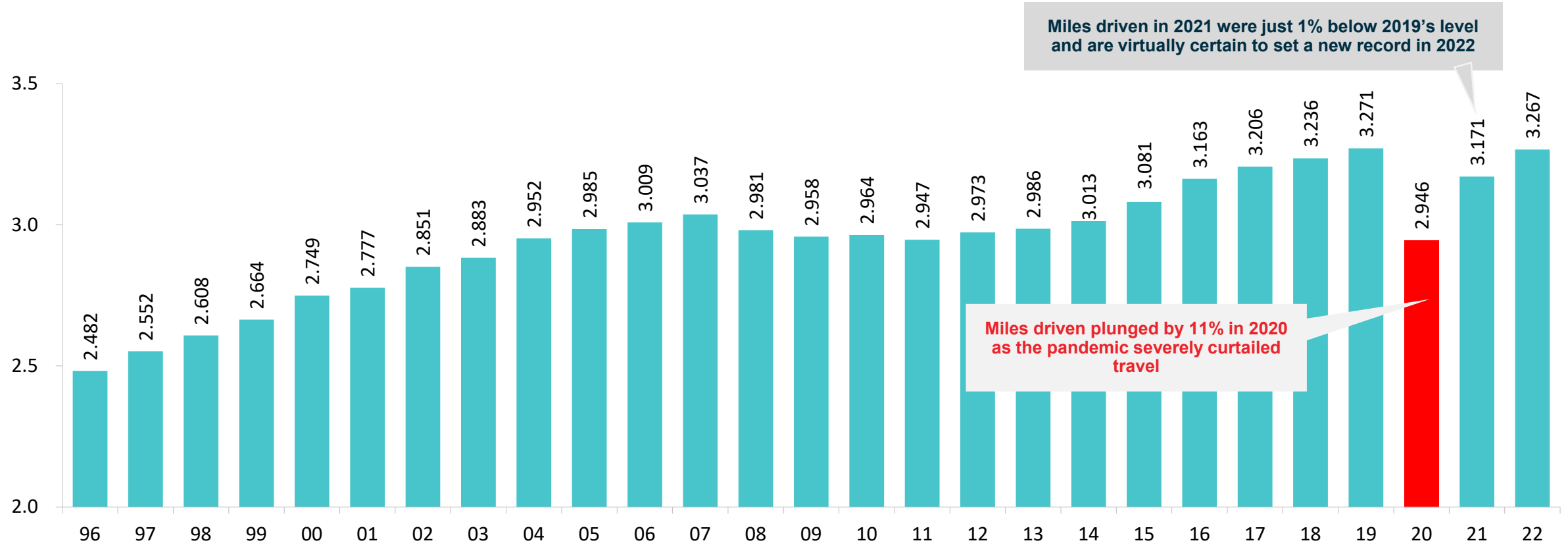
General Liability & Excess Liability

- Increase in Catastrophic Losses
- Punitive Damage Awards
- Organized Plaintiff Bar
- Personal Injury Trends
- Litigation Financing
- Aging Infrastructure
- Sexual Misconduct
- Law Enforcement Liability

Increasing Impact on Liability Market

 <p>Reduced Capacity reinsurer withdrawals have been significant over the past two years</p>	 <p>Litigation Financing continues to drive large claims. Funding increased \$3.5B in 2022.</p>	 <p>Plaintiff Attorney Strategies specialization and strategies have evolved to get larger verdicts and settlements.</p>	 <p>Hyper Social Inflation 1.7b award given in Missouri on October 31, 2023 for conspiring to inflate real estate commissions and will triple to 5.3b under US antitrust law.</p>	 <p>Labor Shortage everyone is doing more with less</p>	 <p>Reviver Legislation Amendments A rise in Sexual Abuse and Molestation claims and settlements</p>	 <p>Law Enforcement Increased focus on policing policy and procedures as well as pressure on Qualified Immunity</p>
 <p>Auto Liability Frequency & Severity of losses has returned to pre COVID figures</p>	 <p>Underwriter Scrutiny reinsurers are seeking to grow prudently and are maintaining a disciplined, conservative underwriter approach.</p>	 <p>Inflation Rising cost are increasing the size of claims</p>	 <p>Exclusions continued restrictions surrounding sexual abuse, Wildfire Exclusions, COVID, cyber, opioids, man made chemicals (PFAS) and Biometric Identifiers (new focus)</p>	 <p>Emerging Risk New Technologies such as AI, Telematics, Biometrics and machine learning systems risks are not fully understood given historical information Environmental risks relative to climate change are substantial Growing concerns around mental health impacts including impact on productivity, access to care, medical inflation and the steady rise of healthcare costs</p>		

Travel in Trillions of Vehicle Miles in U.S.: 1996–2022



Miles driven in 2021 were just 1% below 2019's level and are virtually certain to set a new record in 2022

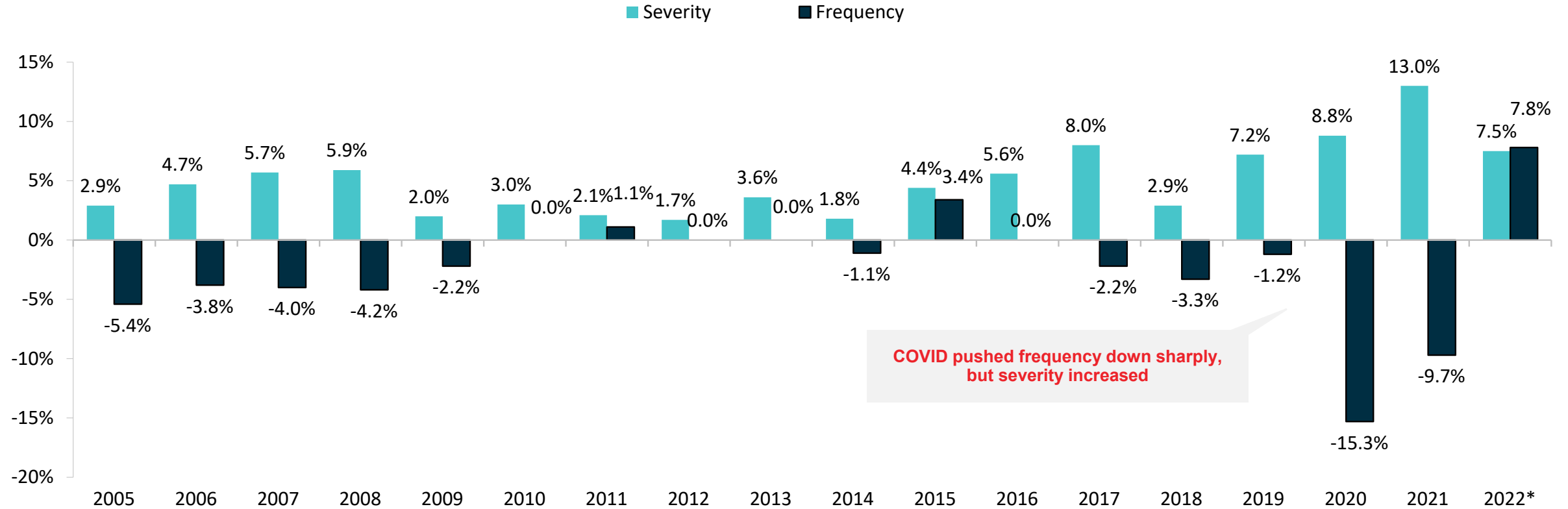
Miles driven plunged by 11% in 2020 as the pandemic severely curtailed travel

Miles driven in 2022 will likely set a new record, but could still be held back by soaring gas prices that could induce vehicle owners to scale back on their driving

Sources: Sources: [Federal Highway Administration](#); USC RUM Center.

Auto Liability Bodily Injury Severity Trend Is Up, Frequency Plunge in 2020/21 Due to COVID Has Ended and Is Reversing

Annual Change, 2005 through 2022*



COVID pushed frequency down sharply, but severity increased

Frequency decline has ended. Q1 2022 BI frequency was +9.5% and Q4 2021 was +3.5%

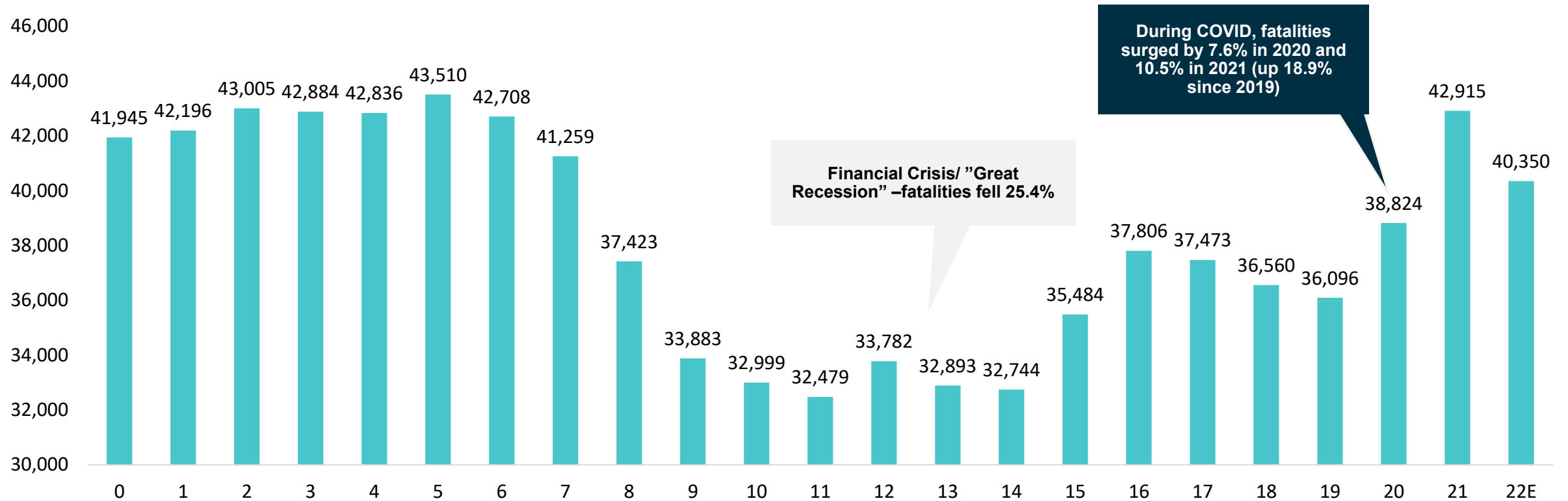
*2022 figure is for the 4 quarters ending 2022:Q1.

Source: ISO/PCI Fast Track data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

eSlide – P6466 – The Financial Crisis and the Future of the P/C

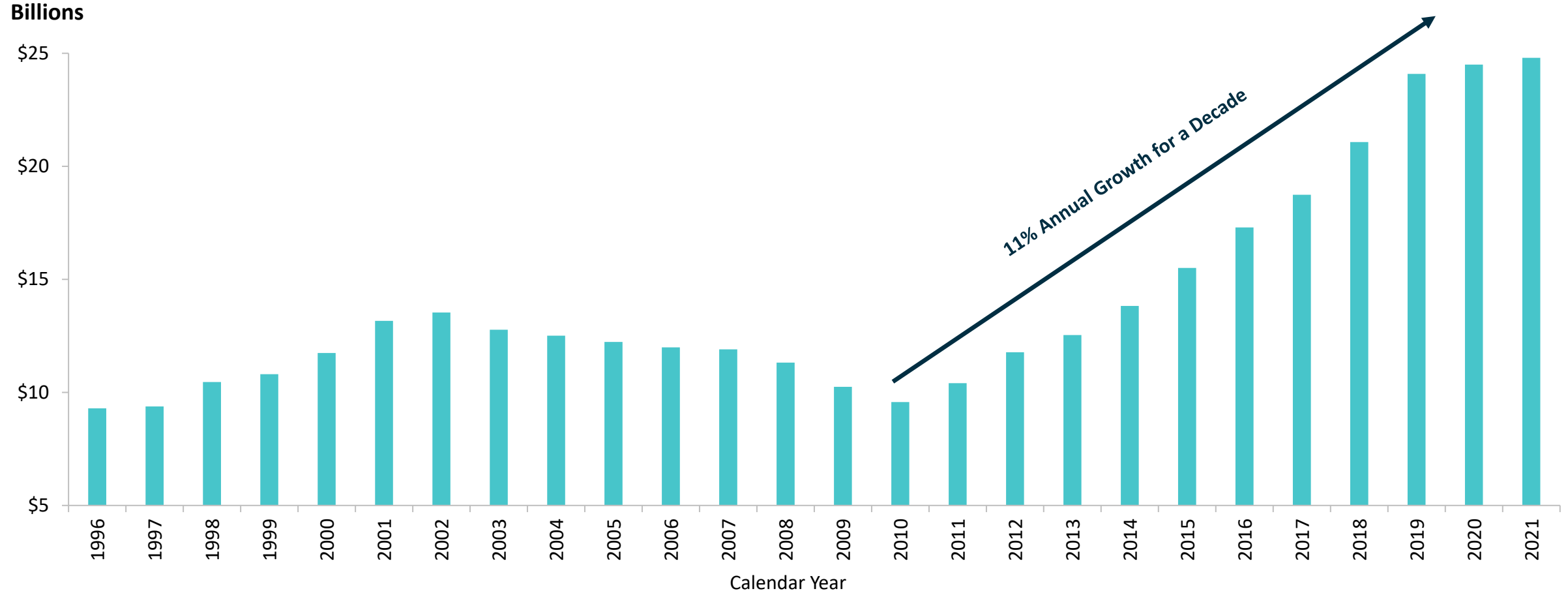
Traffic Fatalities in the U.S., 2000-2022

(Millions of Units)



Extraordinary Increase in Poor Driving Behaviors in 2020 and 2021 Contributed to Sharply Higher Auto Fatalities

Upward Trend in Liability Claims



Sources: NAIC data sourced from S&P Market Intelligence; Insurance Information Institute.

Social Inflation: Many Interrelated Causes, Difficult to Manage



INSURANCE CLAIM COSTS



Increasing Propensity to Sue



Size of Jury Awards



Courts/Juries Favoring Plaintiffs



Growing Distrust of Large Corps.



Litigation Financing



Aggressive Plaintiff Bar Ads



Changes in Regulatory and Legal Environment

TOP VERDICT CATEGORIES

Dollar Value of Top 100 verdicts by cause of action, in millions.

2022

\$30,844

Worker/workplace Negligence

\$18,726

Intellectual property

\$13,131

Products Liability

\$5,710

Intentional Torts

\$2,417

Motor Vehicle

\$2,404

Employment

\$2,255

Professional Negligence

\$1,553

Medical Malpractice

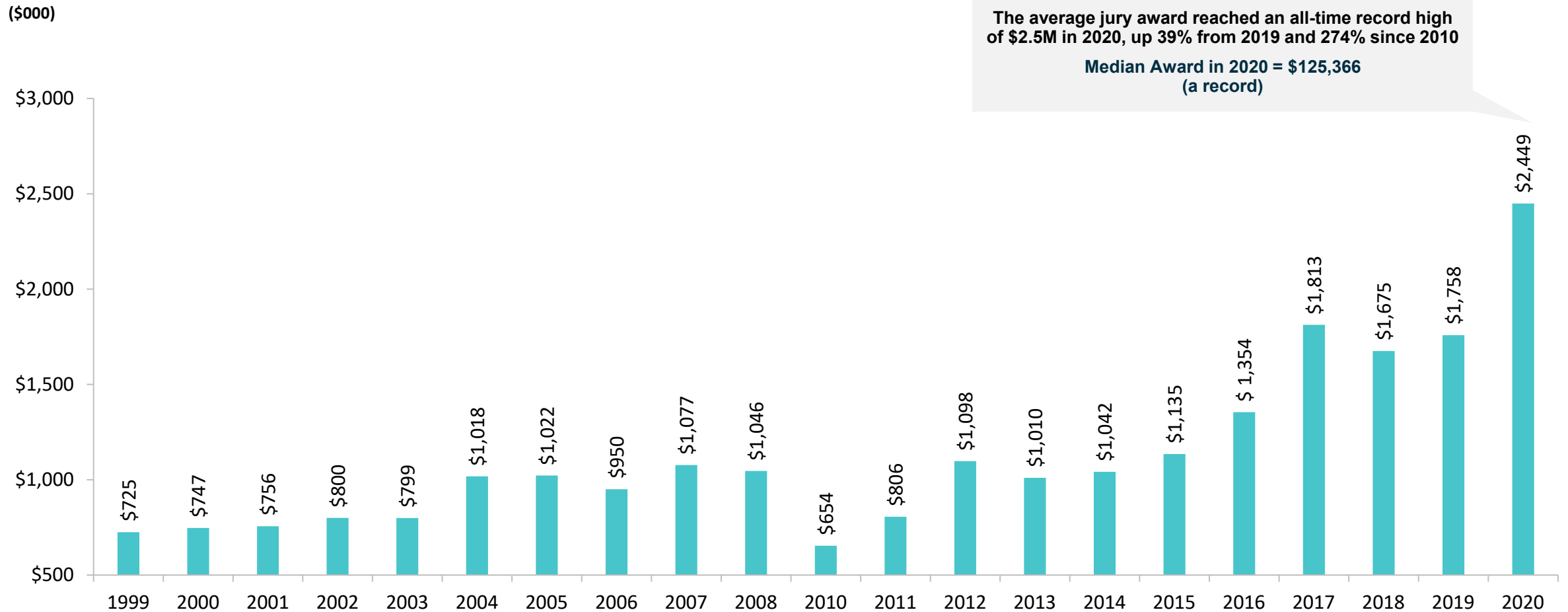
\$1,332

Business Law

\$1,160

Toxic Torts

Average Jury Awards, 1999 – 2020 (latest available)



Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (61st Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

The Nation's Judicial Hellholes: 2021/2022



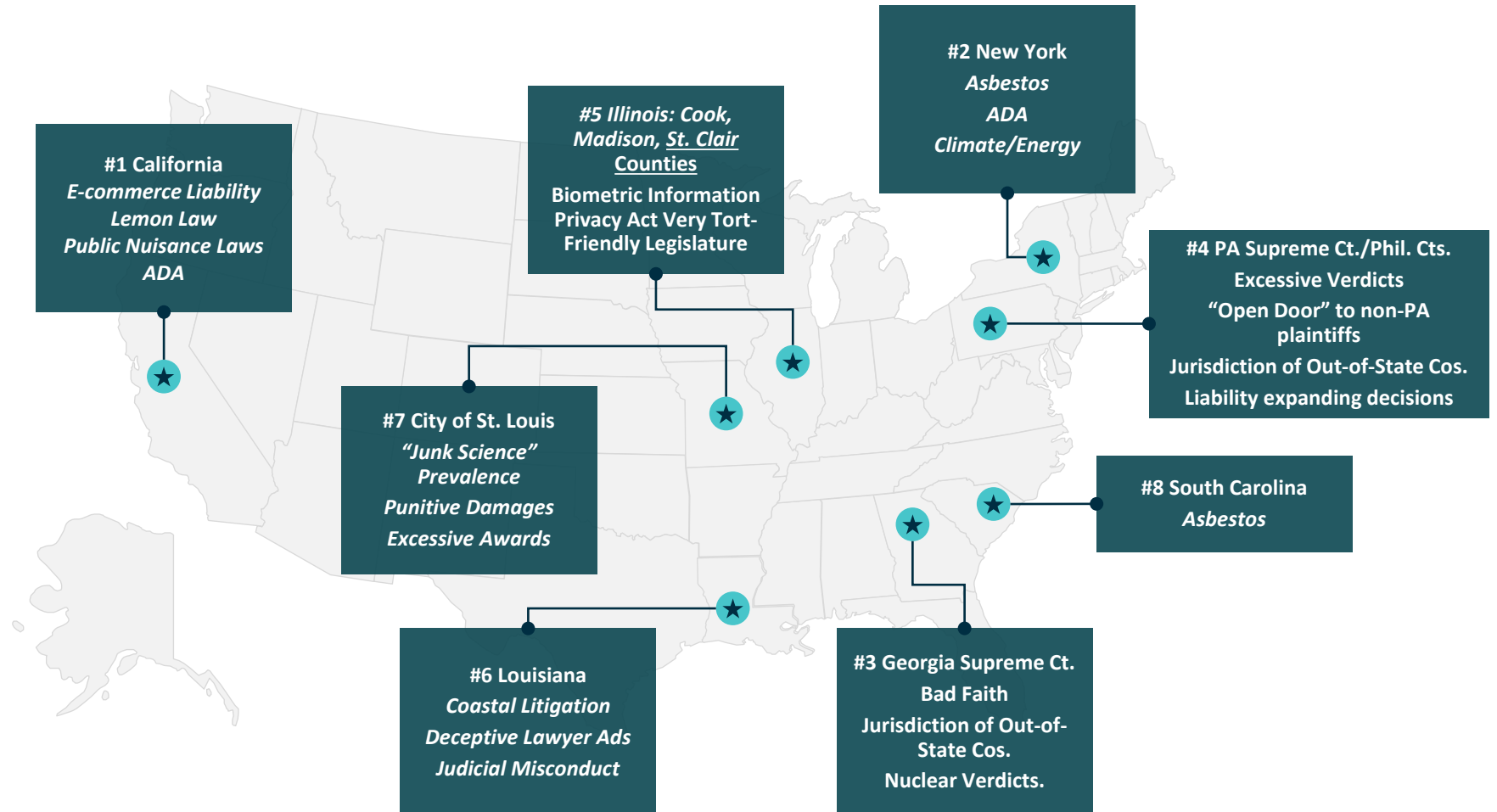
Watch List

- Florida Legislature
- Colorado
- TX Ct. of Appeals
- Minnesota
- Maryland



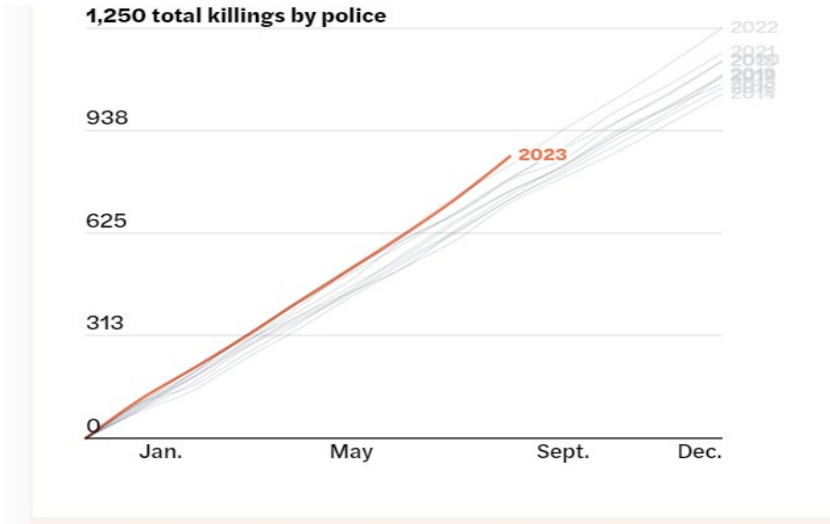
Dishonorable Mention

- American Law Inst.
- FL Appellate Ct.
- KY Atty. General
- Ohio
- Utah Supreme Ct.



Evolving Law Enforcement Environment

Officer Involved Fatal Shootings



According to MappingPoliceViolence.org

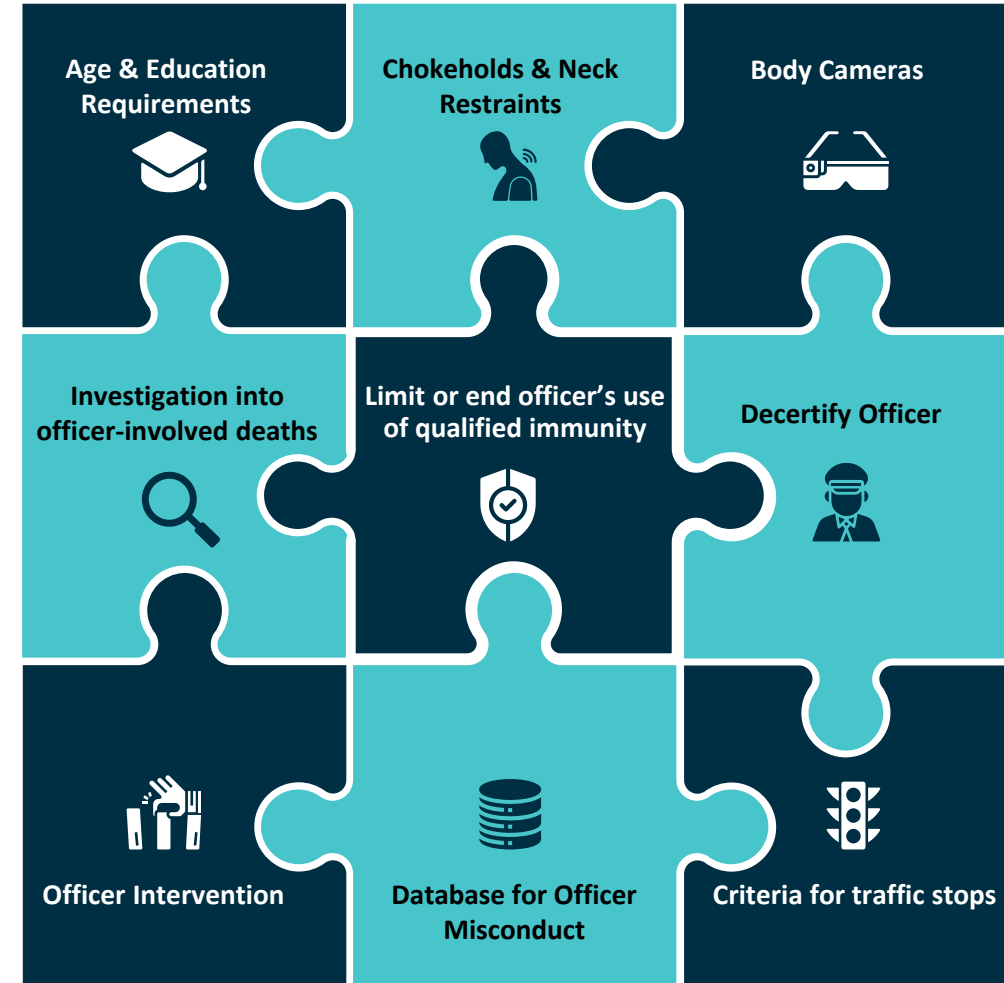
859 to date in 2023 (August)

1,176 in 2022

1,145 in 2021

1,152 in 2020

Policing Reform



Cyber Market – Cyber Liability Claims Trends



Ransomware losses continue to be a major concern, as it is the #1 cybersecurity threat to all businesses



MetaPixel and Movelt claims have skyrocketed and as such, underwriters are adding exclusions to those without sufficient controls



Select U.S. markets have begun inserting 'widespread event' or 'catastrophic first party loss' exclusions on their renewals



As the war in Ukraine continues, London underwriters are all deploying proprietary/Lloyd's war exclusion language



Despite some groups conducting politically-motivated ransomware and data extortion attacks the vast majority of ransomware and data extortion attacks continue to be financially motivated. Fewer of these attacks involve encryption (locking) of data compared to years past



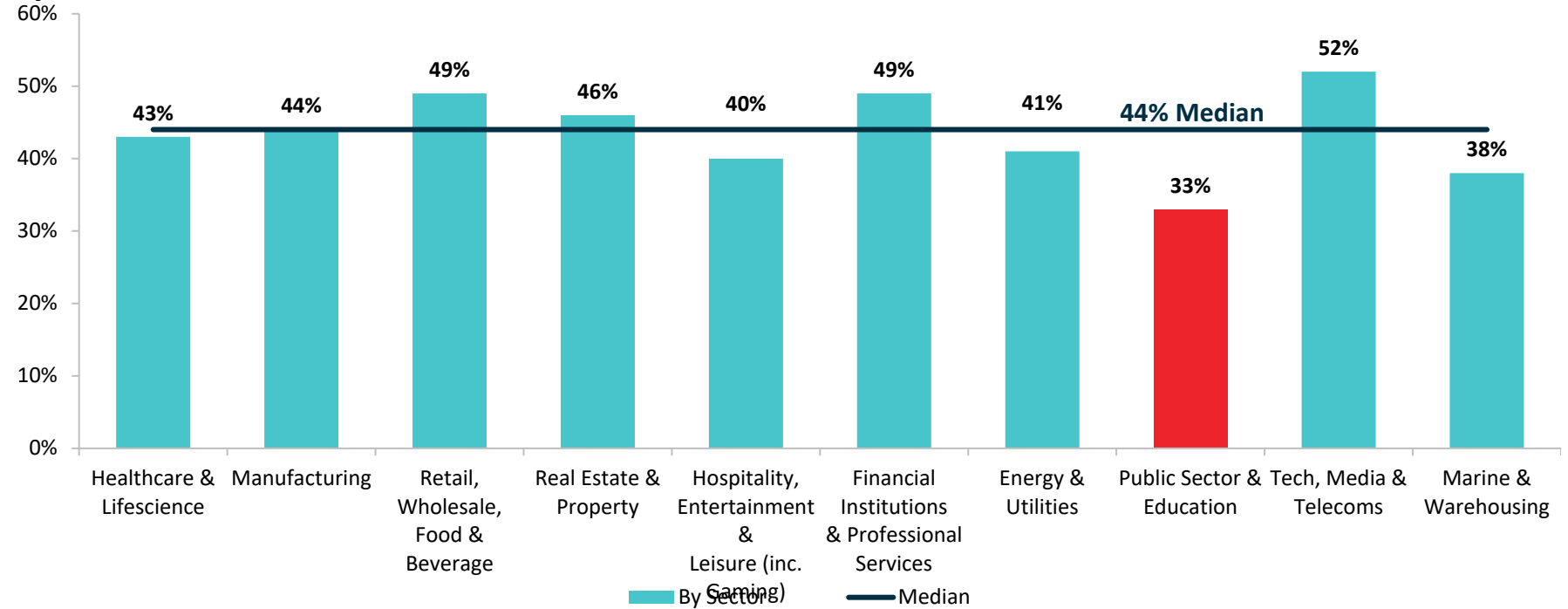
Expected increase in state and federal regulations and cyber related enforcement actions

Targeting Public Entities

Security standards across the marketplace:

- Multi-factor authentication
- Well managed end point detection
- Well managed RDP connections – VPN, MFA, etc.
- Back Ups
- Planning and Training (and Frequency)
- Reasonable patching schedule/plan
- Plan or adequate measures in place to protect end of life software
- IT Security Budgets
- Email Security
- Identity Access Management
- Service Account Management

Sector view on resilience to cyber risk



Percentage of US and UK companies feeling 'very prepared' to anticipate and respond to cyber risk in 2021. Median line indicates the mid-point of the data set across all industries surveyed.

As a result, many markets are revisiting their appetite for new Public Entity cyber



Toward the Future

Liability Renewal Outlook

Excess liability continues to be a challenge



Specific Problem areas:

- Aggregate limits – Many carriers are looking to cap their exposure on pool programs
- Attachment point/Retentions are being closely examined
- Underwriter scrutiny on Law Enforcement and Sexual Abuse/Misconduct coverages
- Emerging Exclusions: PFAS, Biometric Identifiers, Legislative



Insurers reporting loss cost increases in the 10-15% rate. Pricing will be based on losses and jurisdiction



Engage incumbent carriers early to gain commitment on renewal. Seeking face time with underwriters for complex risks.

Property Renewal Outlook



Continued scrutiny of data (SOV, COPE, ITV with Increased Construction Cost)

- *Must go to market with a compelling narrative*



Increased retentions and caps on certain types of exposure

- *Windstorm & Severe Convective Storm*



Rate increases expected and highly dependent on Wind Season, Reinsurance Market and individual client losses



Underwriter submission activity remains high – imperative to engage early and access global market

- *For the first time in a number of renewal cycles, there are a few new markets writing in the property sector*
- *Many London markets are targeting premium growth in the 20-30% range, including increased rate on renewal business and inflation*



Regional Underwriting: Property markets are affected differently across the nation.

- *e.g., West: Wildfire/Earthquake, East: Hurricanes, Midwest: SCS, etc.*



Unknown impact of RMS v23

- *Atlantic wind model expected to show an average 5%-10% uplift to aggregate industry modelled losses –for some areas, could be as much as 20-30%*
- *The most significant changes are to the Florida/Gulf/Southeast areas and commercial exposures*
- *Most carriers, however, are still testing/trialling this version*
- *Anticipated influence on insurer aggregates and pricing likely not fully realized until early 2024*



Public Entity Space dislocation – leaving buyers underinsured

Successfully Navigating the Market



Information



Meetings



Relationships



Start Early



New Capacity



Restructuring



Placement Enhancements



Thank you!

Questions?

Please contact us if you would like a copy of this presentation.

