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PROPERTY & CASUALTY

Looking Ahead to 2024

P&C Considerations for the Coming Year

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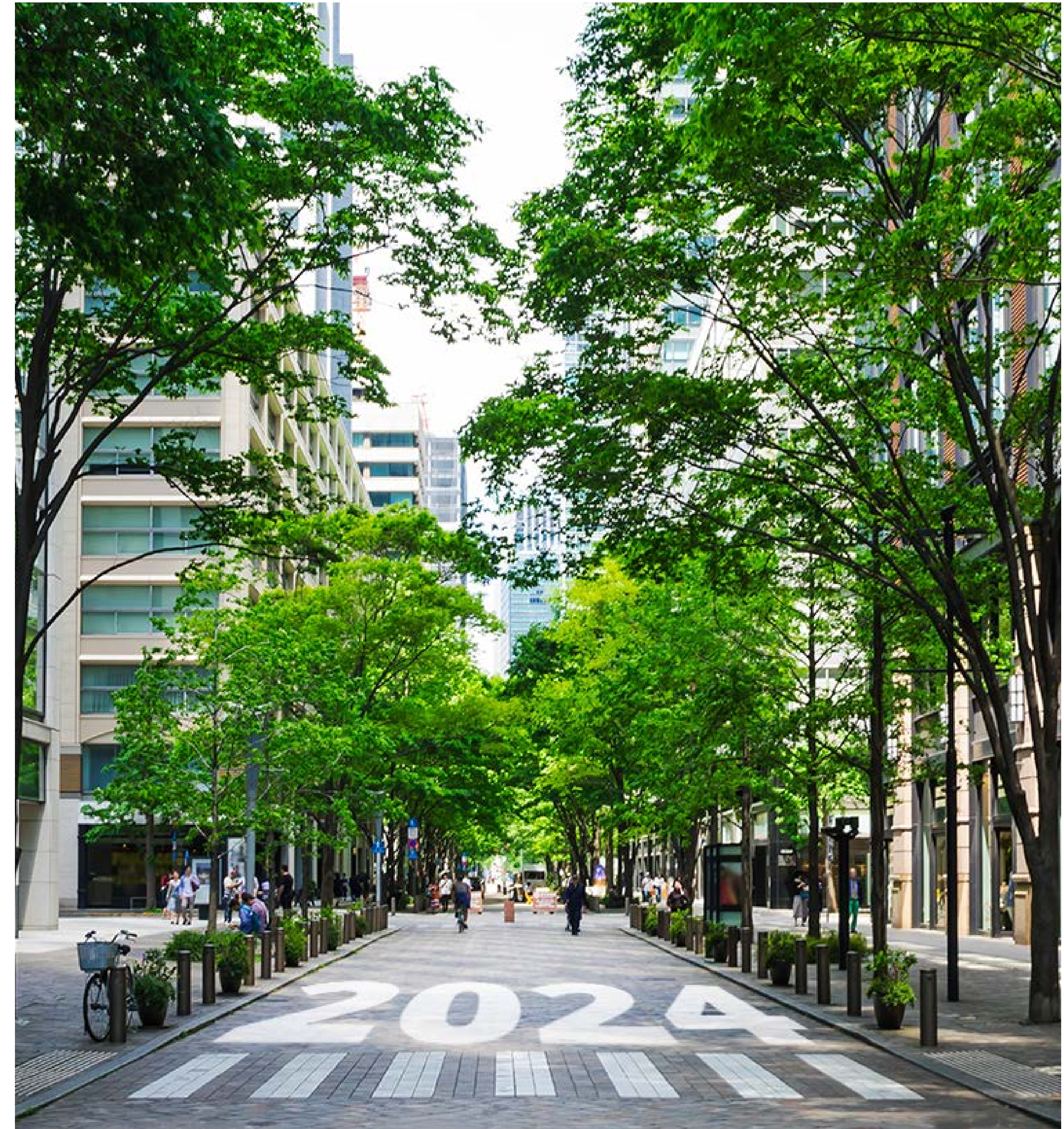
Introduction

Inflation—both economic and social—continues to contribute to premium increases in the P&C insurance market, and rising reinsurance costs due to severe weather events have led to higher property insurance costs. However, we don't expect significant rate increases in 2024—most P&C buyers should see single-digit percentage increases, like what they've seen in 2023.

Those are just a few takeaways from our annual *P&C Looking Ahead Guide*. At Woodruff Sawyer, our P&C experts stay ahead of trends to get a full understanding of the rate environment and how it will affect our clients. The *Guide* provides a detailed analysis of what drives these trends, delivers additional projections about where we're headed in 2024, and discusses specific industries in the middle market in more detail—including steps to take to mitigate rate increases.

In all types of insurance markets, it's crucial to have a knowledgeable and trusted insurance broker by your side to navigate your risk mitigation options. We specialize in untangling the complexities of P&C risks and designing creative insurance programs that align with your growth goals. We're here to help guide you through the ever-changing insurance landscape and ensure your peace of mind.



Commercial Lines

Forecast for 2024

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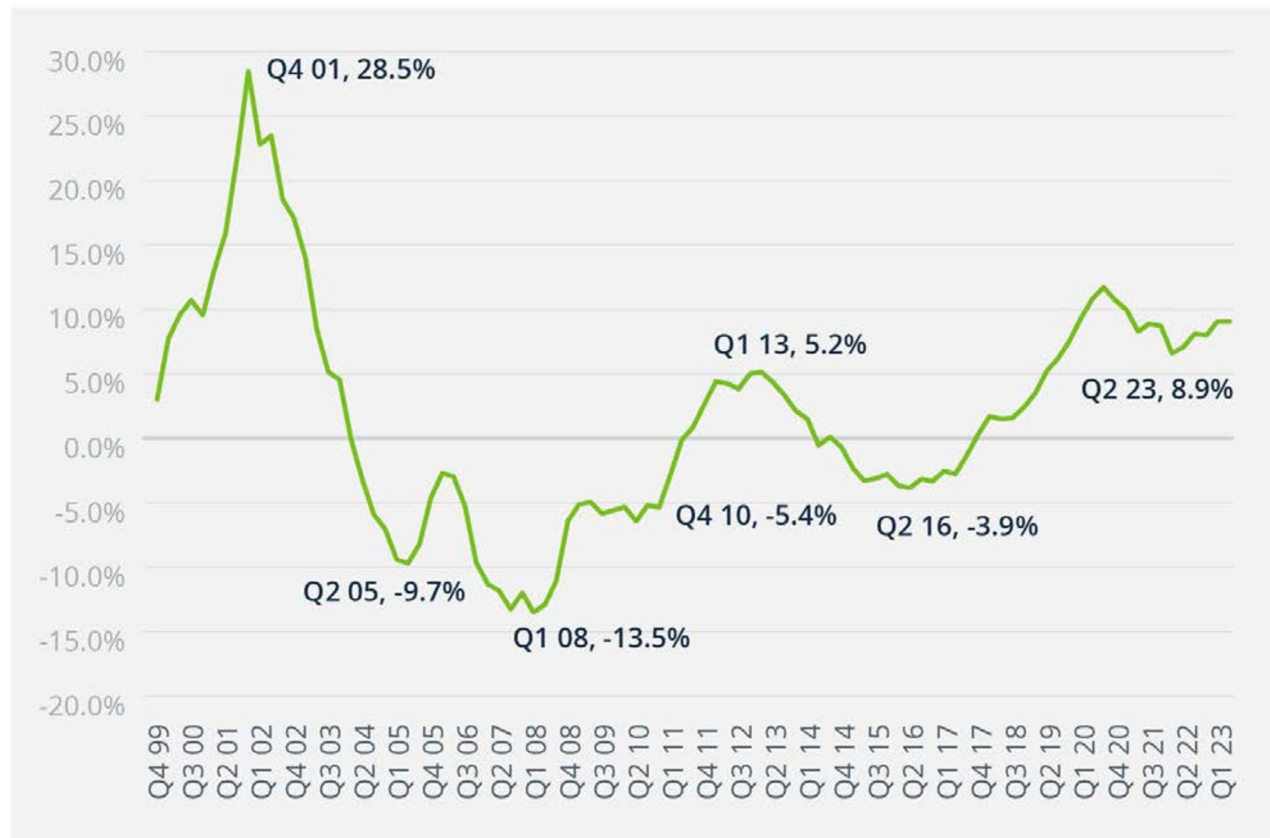
The rate environment in 2023 materialized as we forecasted at this time last year. After peaking in 2020, the rates for most commercial lines segments increased through the year, albeit at a slower pace than in 2021 and 2022.

Average Premium Changes, 1999 – Q2 2023



Source: The Council of Insurance Agents & Brokers

The Q2 2023 Council of Insurance Agents & Brokers (CIAB) P&C Market Index survey shows commercial insurance buyers experienced a slight uptick in rates driven mostly by property and commercial auto, and these increases have continued through the last half of 2023.

When this challenging market cycle began in 2018, we commented that eventually, the higher premiums would attract new capital to the market, which would eventually drive down premiums. This has occurred in the directors and officers (D&O) liability segment of the market and, to some extent, in the cyber market segment. Our *2024 D&O Looking Ahead Guide* provides insights on what to expect in this segment in 2024. Be on the lookout for our *2024 Cyber Looking Ahead Guide*, which will be released in January 2024.

Average Commercial Pricing Increases

	By Account Size			
	SMALL	MEDIUM	LARGE	AVERAGE
Second Quarter 2023	7.2%	9.8%	9.7%	8.9%
First Quarter 2023	6.2%	9.0%	11.4%	8.8%
Fourth Quarter 2022	6.5%	8.3%	9.1%	8.0%
Third Quarter 2022	6.5%	9.0%	8.8%	8.1%
Second Quarter 2022	6.4%	7.3%	7.5%	7.1%
Hight	20.8%	31.7%	33.0%	28.5%
High Date	*4Q01*	*4Q01*	*4Q01*	
Low	-10.0%	-15.0%	-15.9%	-13.6%
Low Date	*1Q08*	*3Q07*	*3Q07*	

Source: The Council of Insurance Agents & Brokers

Our View of 2024

For the property and casualty (P&C) segments of the commercial lines market, we expect 2024 to look like 2023: overall premiums will continue to increase by single-digit percentages. Our forecasts for the last three years have been identical—expect premiums to increase at a slower pace than the previous year. Commercial insurance buyers who remember 10 years ago when rate decreases occurred every year are likely asking, "Is this a new normal?" The answer to this question depends on the trends in the three factors that are impacting P&C premiums: inflation, more frequent and severe catastrophic losses, and reinsurance costs.

The Two Sides of Inflation

Inflation has the strongest impact on the property and auto markets. Increasing costs for materials, parts, and labor affect loss costs, leading to ever-higher insurer rate requirements. The Consumer Price Index (CPI) is up 3.7% from September 2022 and the Survey of Professional Forecasters shows a median CPI prediction of 2.5% for 2024. A counterbalance to this challenge is that inflation leads to higher interest rates on bond portfolios, which is where most insurers invest premiums. According to *ALIRT's US P&C Review*, the annualized net investment yield for the first half of 2023 was 3.2%, which was nine basis points higher than the full-year 2022 result. The combination of decelerating inflation and higher investment portfolio yields will improve insurer results, which should result in more favorable premiums—but that will likely not materialize until later in 2024.

The most unpredictable factor impacting P&C premiums is the frequency and severity of catastrophic losses.

Climate and Catastrophic Loss

The most unpredictable factor impacting P&C premiums is the frequency and severity of catastrophic losses. According to Swiss Re's US Property & Casualty Outlook, the industry net combined ratio increased to 107.3% in Q2 2023, with natural catastrophes contributing 11.8 percentage points to this number. The challenge for insurers is that catastrophic losses are impacting 2023 profitability, and this has been a mild Atlantic hurricane season. As we discuss in the property outlook in this guide, losses in 2023 have been from severe convective storms (SCS). Some in the industry refer to this category as "secondary perils" as opposed to "primary perils," which are mostly earthquakes and hurricanes for which insurers have modeled loss scenarios

for years. Secondary perils have not been modeled because they are unpredictable and have been increasing in severity over the last few years. Another example of this is hail damage.

This factor will always be the wild card for insurers and insurance buyers. Expect insurers to place greater scrutiny on resilient building materials and construction practices. If these levels of catastrophic losses persist, buyers should not expect significant decreases in premiums—particularly in property—anytime soon.

Reinsurance

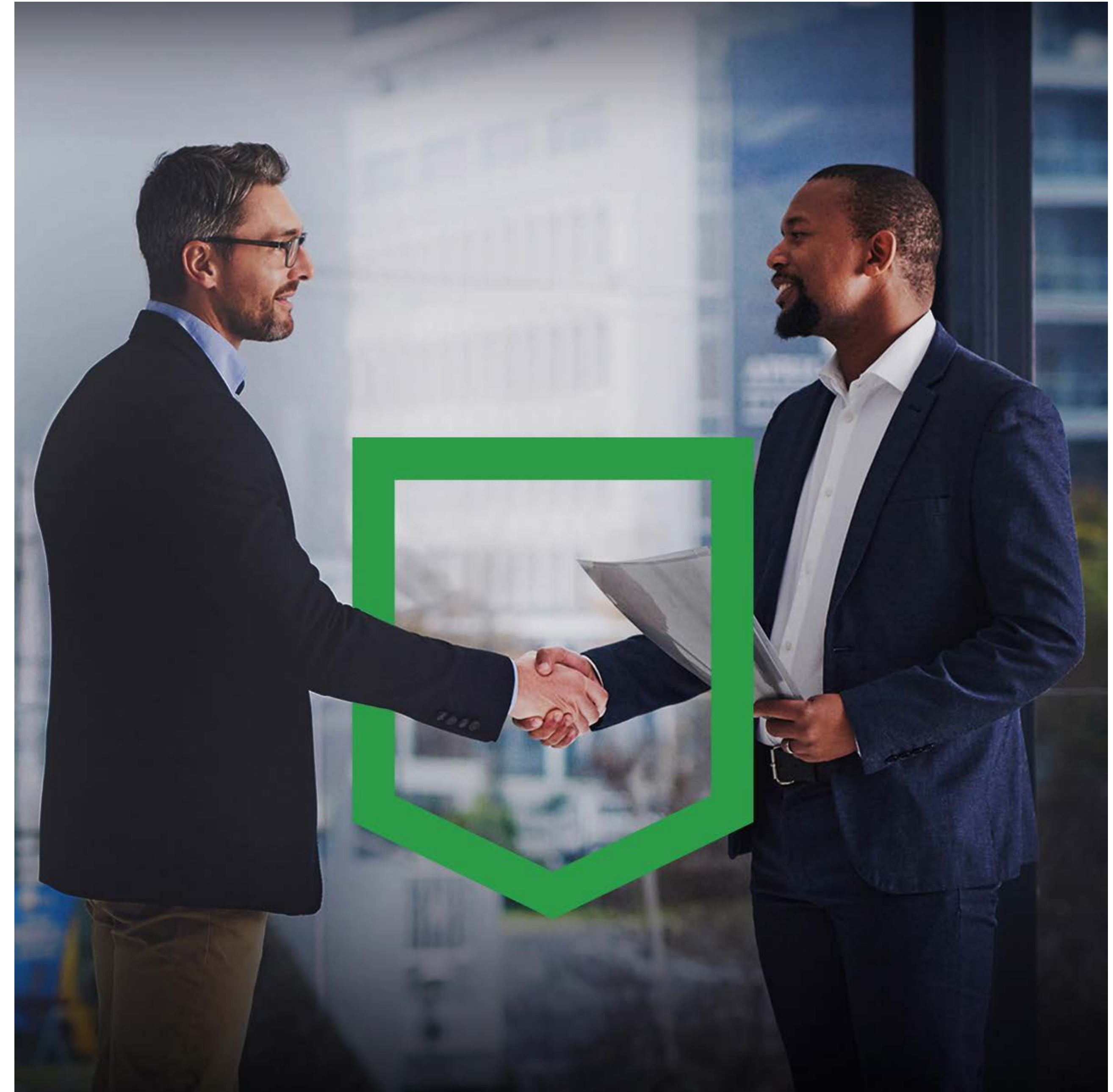
Increasing reinsurance costs are also a factor impacting premiums. Reinsurance is insurance for insurance companies, and it allows insurers to transfer some of their risk, particularly for catastrophic losses. It is no coincidence that the decreasing premiums of 10 years ago also happened to be a time when reinsurance premiums were much lower. The number of catastrophic annual events started to increase around 2016 and hasn't slowed down. Reinsurers have responded by increasing premiums, adding more restrictive terms and conditions, and requiring insurers to retain more catastrophic loss. Insurers are passing these increases on to commercial insurance buyers.

A mitigating factor in rising reinsurance premiums over the last several years has been the insurance-linked security (ILS) market, which is an alternative capital source for insurers. Insurance-linked securities can take many forms, but the segment most are familiar with is catastrophe bonds (cat bonds), which are financial instruments insurers sell to investors. These cat bonds provide a return to investors depending on the occurrence of a catastrophic event of a defined magnitude. Cat bonds are still an important source of alternative capital for insurers, but investor demand has fallen because of the increase in losses from secondary perils. The decrease in capital from this source is contributing to higher premiums.

The reinsurance situation is improving—*Fitch Ratings* recently revised its outlook for the global reinsurance sector to "improving" from "neutral" because it expects stronger financial performance into 2024. Fitch expects property reinsurance premiums to increase again in 2024 but more moderately than they did in 2023; it also expects casualty reinsurance premiums to be stable. Overall, Fitch predicts a gradual softening of the reinsurance market starting in 2025.

A Partner to Help You Understand Your Insurance Options

Based on our analysis of the three factors impacting commercial P&C rates, we do expect some premium relief for insurance buyers but likely not until 2025. With our experienced team and proven expertise, Woodruff Sawyer helps our clients understand different program options and determine the right amount of insurance to purchase. We leverage our strong insurer relationships to build programs with superior coverage and competitive pricing.



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Property Update

Reinsurance Upends the Market

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The theme of 2023 has been reinsurance. In its simplest form, reinsurance is insurance for insurance companies. Similar to how insureds buy coverage as a financial mechanism to borrow money, operate, and/or recover post-loss, insurance companies purchase coverage to transfer risk to another company, thereby reducing their exposure to a loss.

Prior to the end of Q3 2022, the property market appeared to be stabilizing. Carriers were expecting another year of profitability, which meant some relief for insureds. That all changed on September 28, 2022, when Hurricane Ian made landfall in Florida. It became the third costliest weather event, with damage exceeding $112 billion. In December 2022, winter storm Elliott blew the roof off, sending the reinsurance market into one of the most difficult 1/1 renewal cycles the market has experienced.

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While losses from these events had an impact on the property insurance market, they had a much greater impact on the reinsurance market.

Most reinsurance treaty programs are renewed on January 1 and July 1. For many insurance companies, risk-adjusted rates were up 35%+ and retentions increased significantly, if not doubled. This meant insurance companies had to retain more risk on their balance sheet and pay more money for less coverage. Those increased costs were passed down to insureds, driving rate increases and coverage changes throughout 2023.

Carriers Scrutinize Property Values

Contributing to the challenges in the property market is valuation. Property valuations have been a significant focus for insurance carriers for many years. Trending values are not enough, as carriers are questioning how values were originally derived. Trending values to mimic inflationary costs is a great start; however, if replacement costs are undervalued by 40%, mimicking year-over-year inflationary costs is not adequate. Some insureds have not been proactively increasing replacement cost values, and when large, industry losses occur, it has a negative impact on the entire industry.

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Implications of inadequate values:

- **There is more scrutiny of every insured's property values.** Insurance companies run insureds' locations through valuation estimation tools, require appraisals, and/or demand significant increases in building and equipment values. Insureds want to have ownership of their values and not be forced to abide by a carrier's mandate.
- **Carriers add margin clauses or an occurrence limit of liability endorsement (OLLE).** These are punitive endorsements that are added if an insured doesn't have a detailed valuation process, and carriers question the adequacy of values. Most property insurance policies provide a blanket limit up to the policy limit. For example, if the policy limit is $100 million and you have a loss at a location of $75 million, the policy will pay the full loss, even if you only reported the location's value at $50 million. Margin clauses and OLLEs eliminate the blanket nature of a policy and will only pay a claim up to the reported building value. In the example above, that's $50 million, which means the insured is responsible for the remaining $25 million.

Premium is calculated by multiplying total insurable value (TIV) by rate, divided by 100.

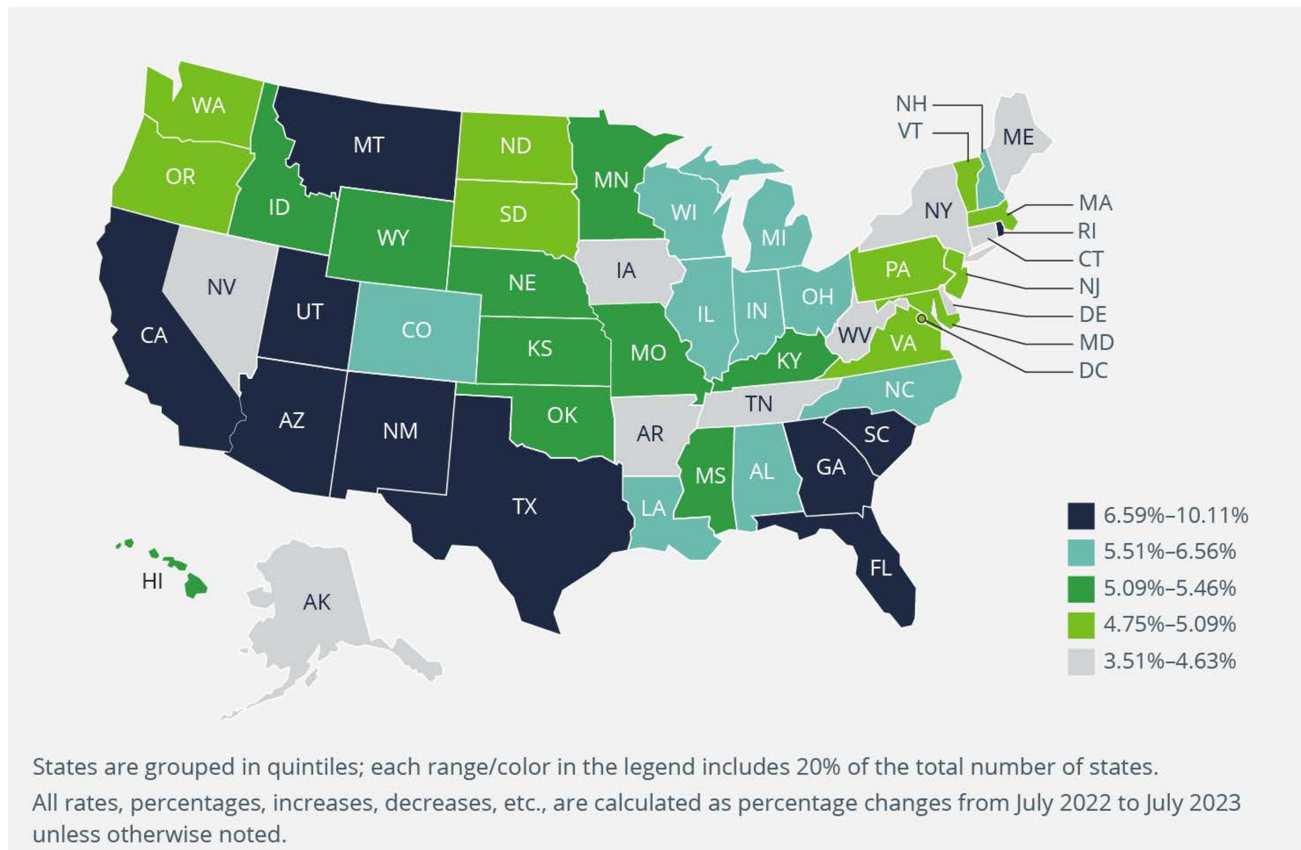
$$\frac{\text{(Rate X Total Insured Value)}}{100}$$

If values are underreported, carriers receive inadequate premium to cover losses, thereby driving up their loss ratio. When carriers are not profitable due to outsized losses, they increase rates, which drives premiums up for insureds, or results in restricted coverage.

Reconstruction Costs Level Out

According to Verisk's *360Value Quarterly Reconstruction Cost Analysis*, "total reconstruction costs, including materials and retail labor, increased 4.3% from July 2022 to July 2023. This uptick follows the 3.1% increase from April 2022 to April 2023. Quarterly reconstruction costs increased by 1.0%, a slight shift from the 1.4% increase in Q2. Costs continue to slow down and steady, with increases ranging close to pre-pandemic levels."

Changes In Reconstruction Costs by State

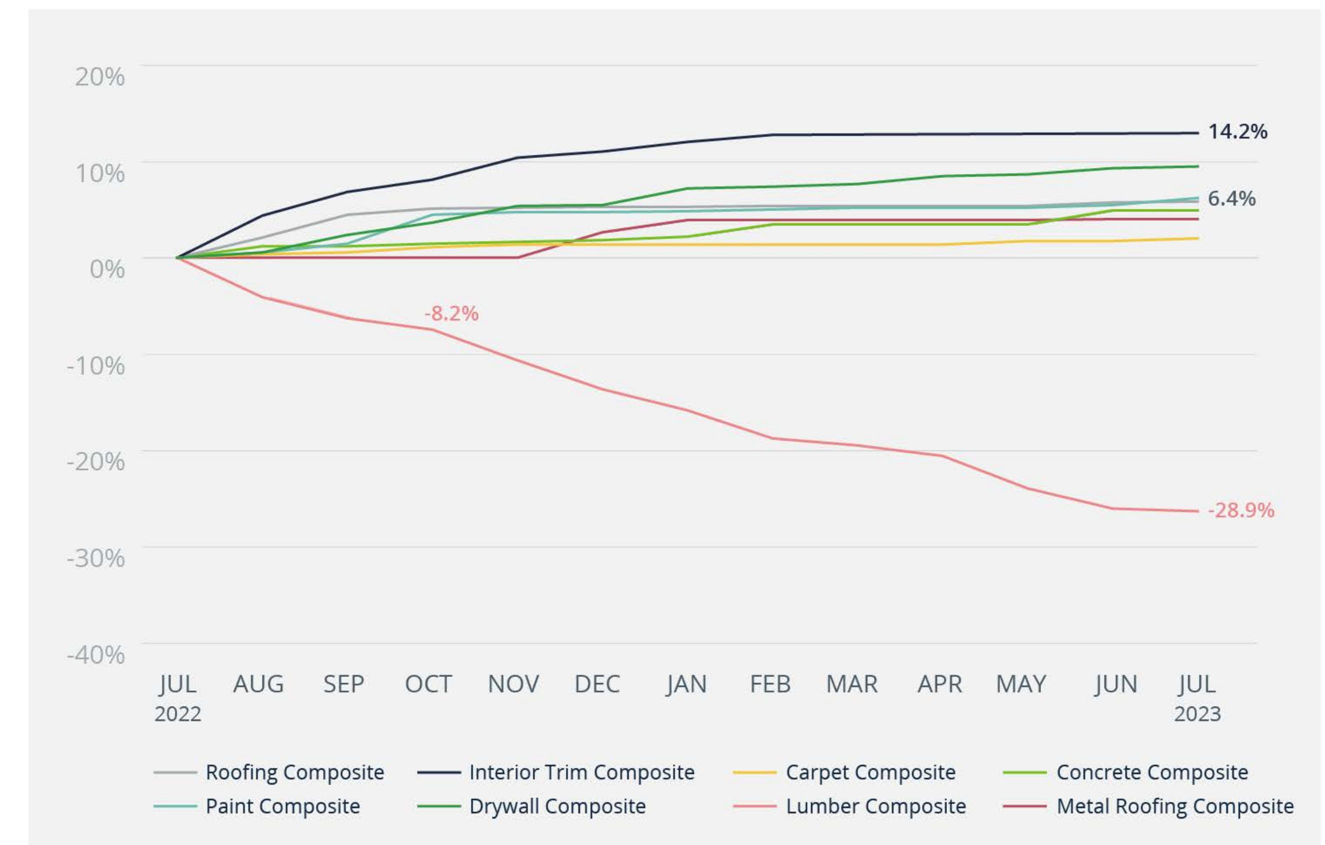


States are grouped in quintiles; each range/color in the legend includes 20% of the total number of states.
All rates, percentages, increases, decreases, etc., are calculated as percentage changes from July 2022 to July 2023 unless otherwise noted.

Source: Verisk 360 Quarterly Reconstruction Cost Analysis, Q3 2023

Although materials and labor remain elevated compared to pre-pandemic levels, costs have been leveling out in the past few months.

Materials Percentage Change In Costs by Month



Source: Verisk 360 Quarterly Reconstruction Cost Analysis, Q3 2023

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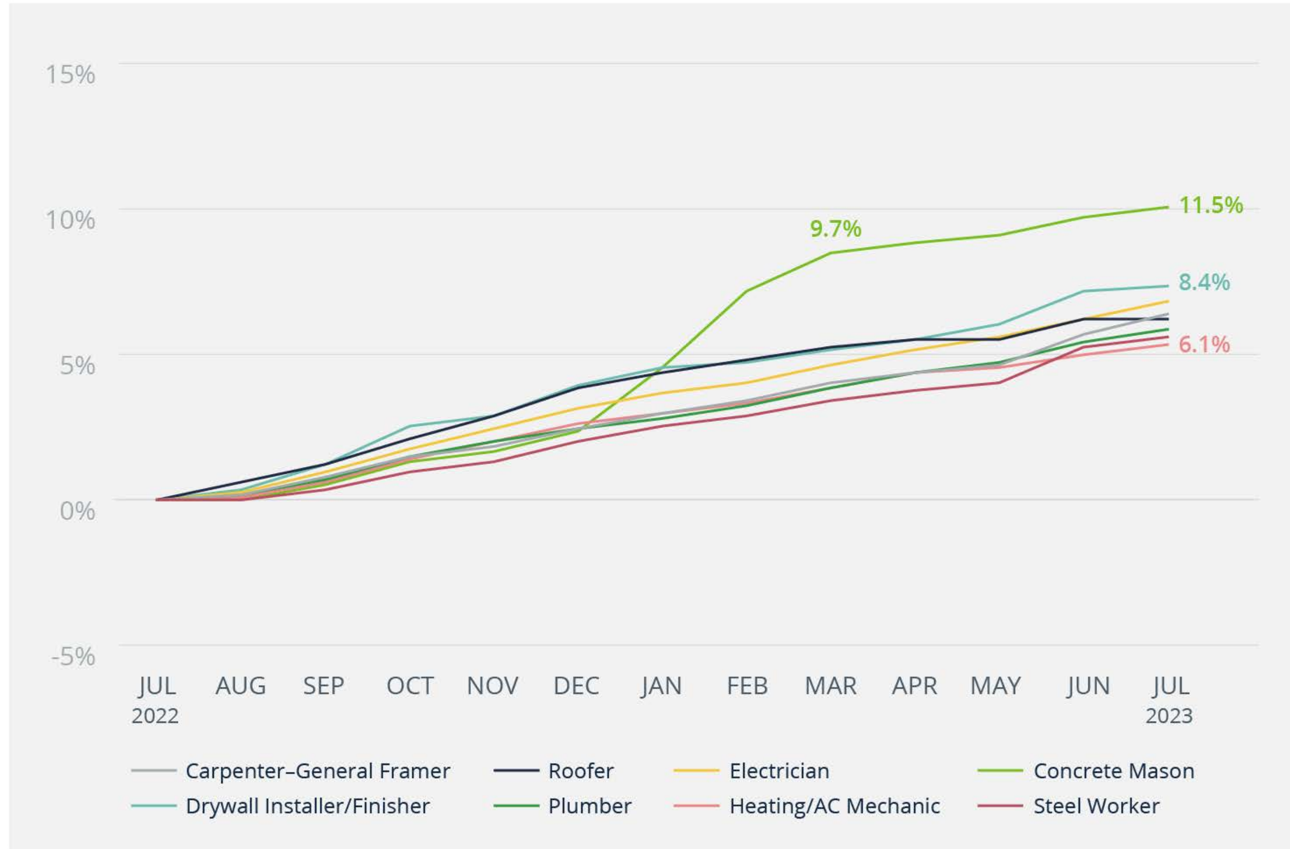
Labor Percentage Change In Costs by Month



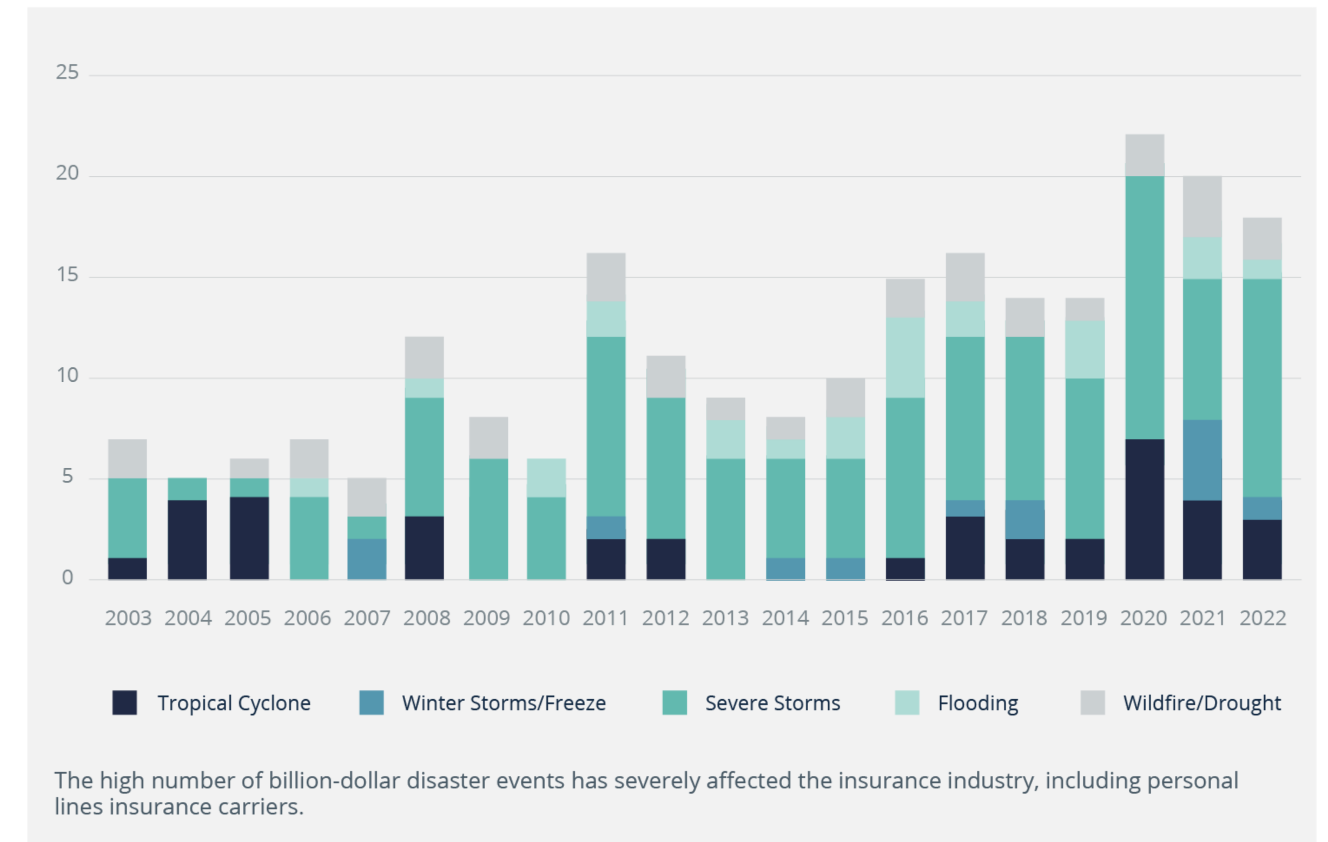
Source: Verisk 360 Quarterly Reconstruction Cost Analysis, Q3 2023

Catastrophes and Capacity

One of the challenges our industry faces is determining the appropriate coverage and premium amid an ever-changing catastrophe landscape. We continue to see an increase in the frequency and severity of catastrophic events. For example, historically, carriers rarely modeled or charged much premium for severe convective storms (SCS), which refer to tornados, hail, severe wind, and heavy rainfall. SCSs continue to see an increase in frequency and severity. The first half of 2023 saw $37 billion of insured losses from SCS.

According to the NOAA National Centers for Environmental Information (NCEI), severe storms have caused the highest number of billion-dollar disaster events (185), while the average event cost is the lowest ($2.4 billion, CPI-adjusted). Tropical cyclones and flooding represent the second and third most frequent event types (61 and 42), respectively.

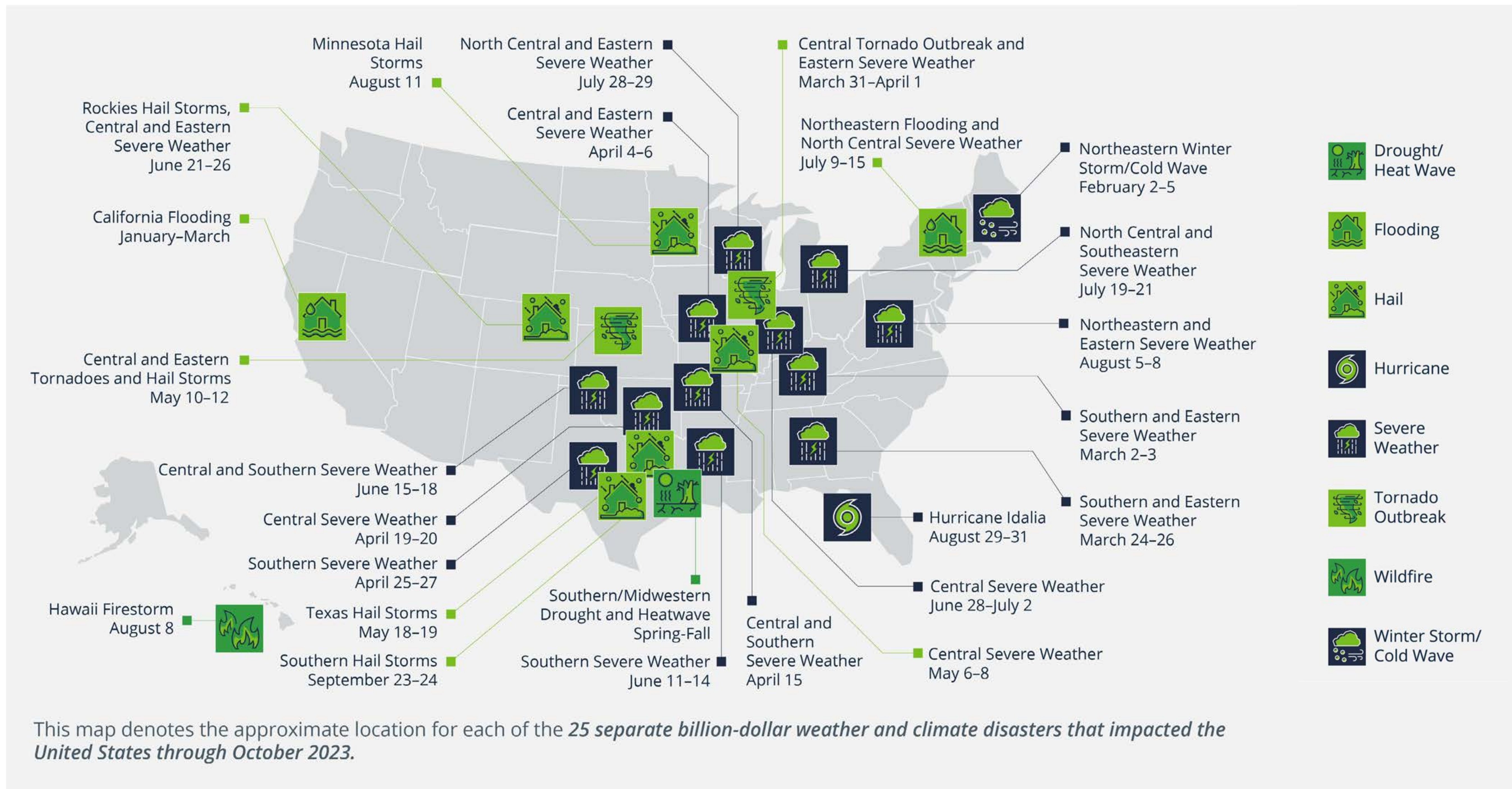
US Billion-Dollar Disaster Events



The high number of billion-dollar disaster events has severely affected the insurance industry, including personal lines insurance carriers.

Source: Market Trends 2023, Chubb

US 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.***

Source: NOAA National Centers for Environmental Information

The increase in catastrophic events combined with increases in values and increases in retained risk (via reinsurance retentions increasing) has led to carriers reducing catastrophe limits, increasing deductibles, and charging significantly more premium.

These changes have forced a shift in how programs are placed. Property programs that used to require one insurance carrier now require multiple carriers. Oftentimes, the more carriers on the program, the more expensive the program becomes due to the minimum premiums—an unfortunate byproduct of program evolutions.

In addition to potential premium increases, multiple carriers mean multiple policy forms. Negotiations take longer, and coverage analysis is much more detailed. An experienced property broker will closely review coverage for all policies to ensure gaps don't exist between policy forms.

Risk Quality: Has Your Risk Improved?

Second to valuation, the question underwriters ask most often is how your risk has improved since last year. Risk quality and improvement are more important than ever. It's what separates favorable renewals from unfavorable renewals. It's about a culture of risk management, strong human element programs, responding to recommendations, and adequately protecting properties. Superior risk management also leads to lower losses. According to FM Global, "Sites identified through Locations Predisposed are 15 times more likely to experience a significant loss."

Risk quality and improvement are more important than ever. It's what separates favorable renewals from unfavorable renewals.

Looking Ahead: A Potential for Stabilization in 2024

If we can finish 2023 with no major industry events, we expect a stabilization of coverage and rate increases in 2024. Absent a significant event, reinsurer rate increases should be manageable, and most carriers should produce a profit in their property departments.

There must be a continued focus on processes and improvement:

- **Risk improvement must be prioritized:** This has the most meaningful impact during renewals. Insureds must demonstrate why their risk is better than last year. This will also help generate competition, which helps reduce rate increases. While it's impossible to complete all risk recommendations, insureds should demonstrate their progress. For example, completing all human element recommendations, which require minimal capital expenditures, can go a long way with carriers.
- **Foster relationships:** Carriers do provide favorable treatment of clients who demonstrate knowledge of their business risks, work toward risk improvement, and spend time explaining the risk. No one tells an insured's story better than them. It allows underwriters to hear, firsthand, that an insured is committed to running a safe and responsible operation. It's difficult for insurance carriers to get a full picture when reading an email, so in-person meetings with carriers can be fruitful.
- **Marketing:** Start early. While this doesn't always mean you will receive quotes early, it does give you and your broker time to evaluate options, answer questions, and identify the most cost-effective capacity. This also gives you time to generate competition to help drive costs down.
- **Outcome:** We can't change the current market conditions. What we can do is help make an insured a better risk in the eyes of the underwriters. Analyzing and evaluating all options—deductibles, limits, impact of a business continuity plan (BCP), property versus stock throughput (STP)—ahead of renewals leads to better outcomes. This will reduce the magnitude of rate increase as much as possible.

Casualty Update

Workers' Comp Driving Results for Insurers and Renewal Strategy for Businesses

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Just when insurance buyers thought they were out of the hard market, casualty loss trends have pulled them back in.
At the end of 2022, the liability insurance market seemed to be softening, bolstered by improvements in underwriting results for commercial auto and general liability. Insurers competed aggressively for business recently considered undesirable, and rate increases slowed.

A year later, the hard market for **primary liability** is back. According to the Council of Insurance Agents & Brokers (CIAB), commercial auto rates increased 10.4% in the second quarter of 2023, the largest increase since 2019. Rates for general liability rose 5.2%, up from 4.9% the prior year.

What has emboldened insurers to demand price increases? Litigation activity, which slowed during the COVID-19 pandemic, has boomed, backed by an increasingly aggressive plaintiffs' bar and deep-pocketed litigation financiers.

While the upward pressure has only impacted primary liability so far, there is good reason to think the boom in litigation will imperil improvements to the **umbrella/excess liability** market as well. After a three-year period of increasing rates and cutting capacity, excess insurers have slowed rate increases and, in some cases, had to cut rates for higher excess layers in reaction to new entrants. Two forces stand to reverse that trend: the general boom in personal accident litigation activity and the emergence of potentially catastrophic class action lawsuits such as those involving PFAS ("forever chemicals"), addictive software design, and microplastics in the courts.

Faced with these fast-moving and challenging market conditions, what is a strategic insurance buyer to do? Our best advice is to leverage **workers' compensation**, which continues to be a stable source of insurer profits and growth target for essentially every casualty market.

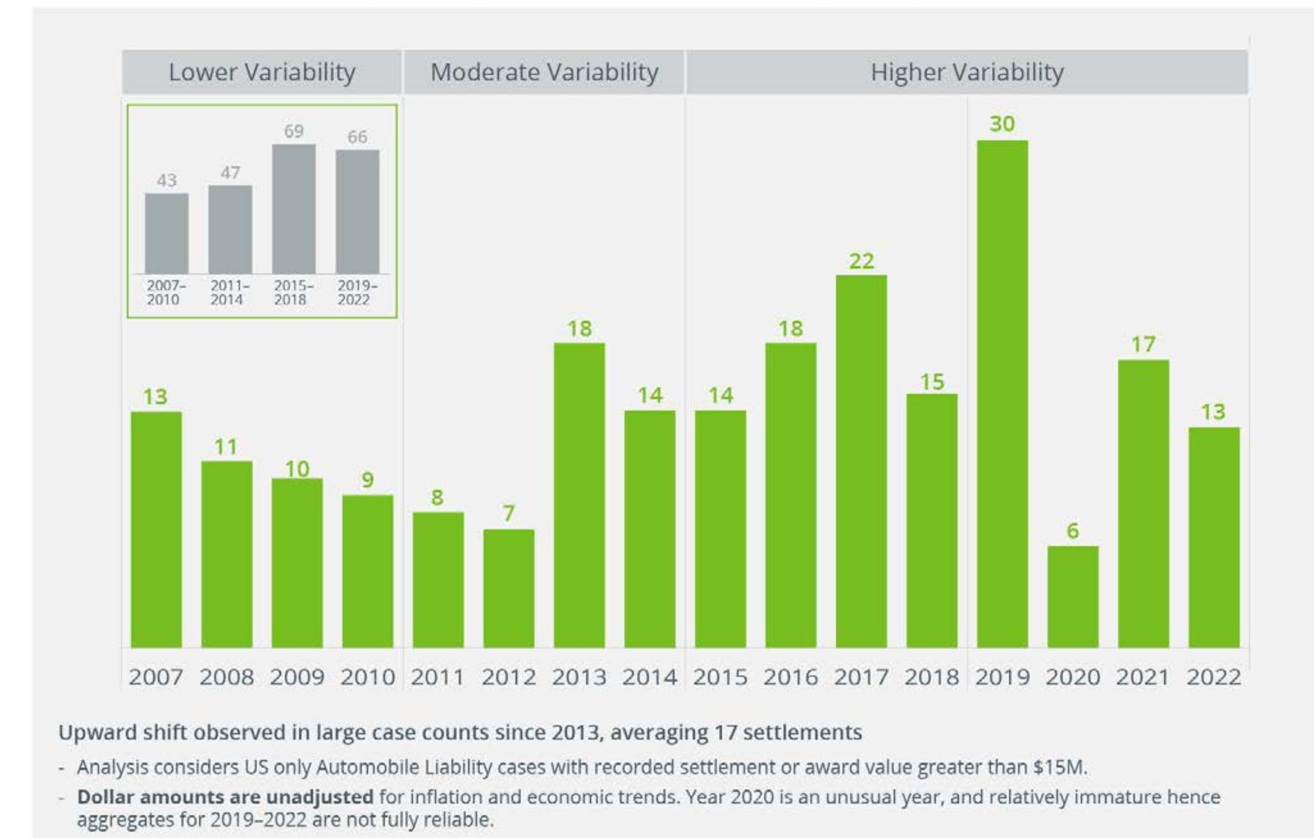
We'll provide context for the challenging liability loss and rate trends, insight into the emerging catastrophic liability exposures, and tactical advice on how to use workers' compensation as a ballast for your overall insurance program.

Social Inflation: An Intensifying Challenge

For nearly a decade, the principal force behind increasing loss costs and insurance premiums for every casualty coverage has been the phenomenon of social inflation. Social inflation refers to rising claims costs due to changing societal factors, such as legal advertising, litigation financing, the appeal of class action lawsuits, public anger over wealth disparity, and growing distrust of corporations.

The historical frequency of large auto liability claim resolutions provides a useful illustration of social inflation. A Woodruff Sawyer analysis of Zywave's large auto liability claims data illustrates steady growth in the number of auto claims with settlements or judgments exceeding $15 million since 2013.

Automobile Liability Large Case Counts – by Disposition Year



Source: ADVISEN'S online MSCAd Large Loss Database

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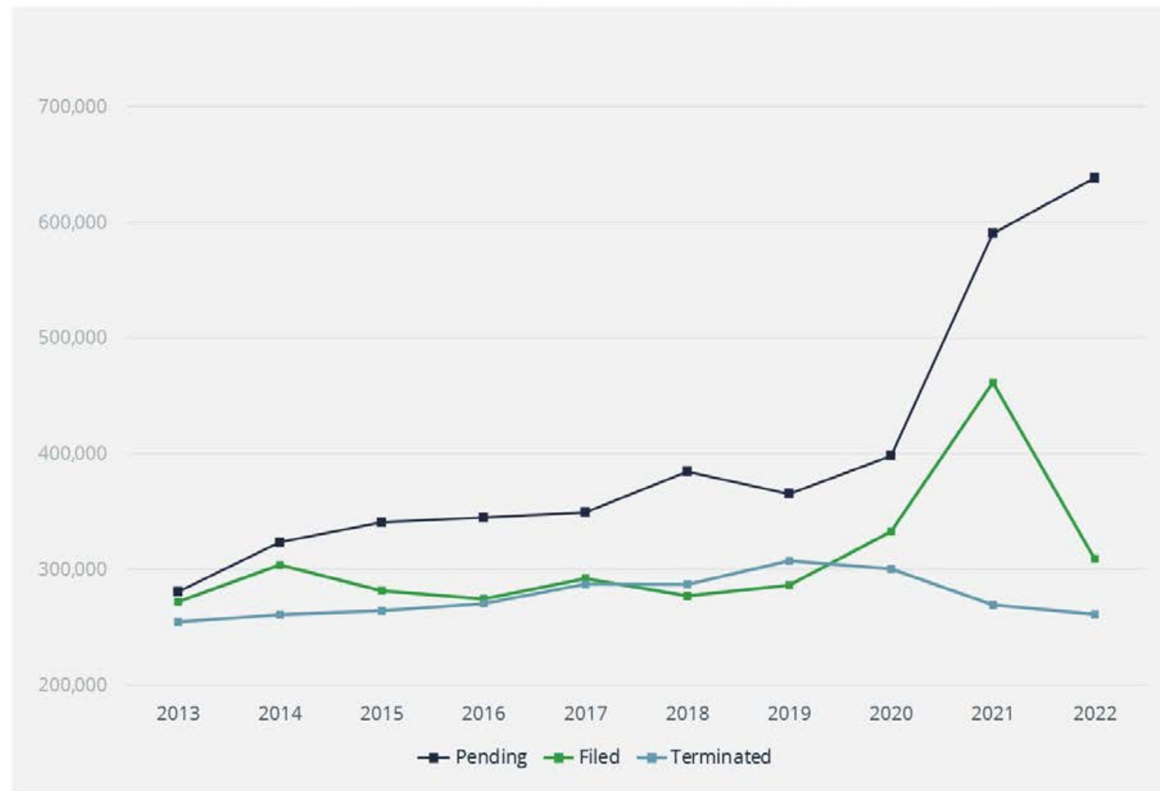
The COVID-19 pandemic, during which most US courts were closed, obscured whether liability claim activity continued to rise after peak levels in 2019. New data shows that 2019 represents the beginning of a new normal, with increasing volumes of litigation flowing through the court system.

The number of civil litigation cases predictably spiked in 2020, according to an analysis of US court filings by Dowling Hales, as plaintiffs' lawyers filed complaints delayed by the pandemic. For underwriters, the most concerning development is the continued growth in the number of lawsuits filed in the subsequent years.

US Civil Cases: Filed, Terminated, and Pending (2013–2022)



Source: US Courts, Dowling Hales Analysis

Commercial Auto: Expect Modest Rate Increases

Commercial auto coverage continues to destroy capital for insurers. Underwriting results briefly improved in 2021, when the industry posted a combined ratio of 98.8%, the best outcome since 2008. Results immediately deteriorated in 2022, when the combined ratio rocketed to 105.3%.

The key ongoing challenges for commercial auto: vehicle repair cost inflation, more aggressive litigation, and greater frequency of distracted-driving accidents. Insurers will demand increased rates, with organizations using fleets of heavy autos or large hired/non-owned exposures (such as delivery operations) bearing the largest price increases.

Rate Forecast for 2024

We anticipate modestly higher rate increases of **+6% to +9%**.

Commercial General Liability: More Frequent Large Claims

In 2022, the combined ratio for general/products and other liability (essentially, liability lines not including auto or multi-peril policies) was the best since 2008, with six of top 10 US insurers posting combined ratios less than 95%, according to S&P Global Market Intelligence. Underwriters reacted to the marginal improvement in underwriting results by reducing rate increases for general liability in the first quarter of 2023 to 4.6% compared to 5.7% in Q3 of the prior year.

That trend reversed just one quarter later when the average general liability rate increase bumped up to 5.2%, the highest in two quarters. Given the increasing volume of civil litigation working its way through the courts, insurers are wary that loss costs for primary general liability—which covers a policyholder's liability for bodily injury or property damage arising out of their premises, operations, or products, or for liability related to personal and advertising injury—will rise faster than recent rates and slice into the recent underwriting gains.

Expect rates to increase slightly faster in 2024, with the greatest pricing impact borne by the toughest risks: manufacturers of tough products (e.g., kids' goods, auto or medical parts, and chemicals), habitational real estate owners and operators, sharing economy firms (on-demand delivery services and home sharing), and companies with material wildfire exposure (utilities and forestry concerns).

Rate Forecast for 2024

We anticipate rate movement of **+3% to +8%**.

Umbrella and Excess Liability: A Market on the Edge

The umbrella/excess liability market presents two different challenges depending on the insurance layer in question. First, the tough aspect of excess casualty placements: Lead umbrella layers continue to experience material rate increases due to increased frequency of large losses and limited insurer competition. Umbrellas tend to be the lowest layer on the tower with limits of $5 million or more exposed.

The market for monoline umbrella policies—as in, those not accompanying a primary casualty program provided by the same insurer—is extremely limited, with few admitted US insurers willing to provide options. For organizations with heavy auto fleets, such as trucking companies and manufacturers moving their own products with heavy trucks, options are especially limited.

The market for excess layers above the umbrella is a different story. Prior years' price increases have attracted new capacity from the US excess and surplus market, as well as the London market. Rates for many accounts with strong safety and claims protocols have fallen over the past couple of years because of the renewed competition. Competition for layers above $5 million attachments remains strong, holding rate increases to a minimal level.

Rate Forecast for 2024

Lead Umbrella: For large companies (revenues of $1 billion+), we anticipate rates of **+7% to +15%**. For small commercial and middle-market firms (less than $1 billion), we anticipate rates of **+4% to +10%**.

Excess Liability: For large companies (revenues of $1 billion+), we anticipate rates of **+4% to +10%**. For small commercial and middle-market firms (less than $1 billion), we anticipate rates of **+2% to +8%**.

There is a developing threat to the improving picture for excess casualty coverage. A handful of liability risks are emerging that present the potential for costly class action litigation, prompting underwriters to raise rates and restrict coverage for certain businesses.

Exposures most concerning to underwriters include:

- **PFAS:** Per- and polyflouroalkyl substances, also known as forever chemicals, are found in a broad array of consumer products including nonstick coatings, water-repellant clothing, cleaning products, personal care products (such as shampoo, nail care products, makeup) and many other products. PFAS have been linked to cancer, fertility issues, and endocrine disorders. Along with the potential for products containing PFAS to harm individuals directly, environmental contamination involving PFAS in the air, water, soil, and fish presents public health dangers.
- **Addictive software design**: Numerous lawsuits allege that technology and social media companies' apps are designed to create addictions to online activity, leading to depression, suicide, and other mental disorders.
- **Microplastics**: Microplastics are plastic pieces smaller than 5 millimeters released into the environment via disposal and breakdown of consumer products. Microplastics are suspected of increasing the risk of immune system disorders and other health problems.

Workers' Compensation: Potential for Rate Reductions

Workers' compensation remains the most consistent source of profits for casualty insurers. The combined ratio for private WC insurers was 84% in 2022, the sixth straight year with a combined ratio below 90%, according to the National Council on Compensation Insurers (NCCI). In contrast, the overall US P&C industry posted a 102% ratio in 2021. Key drivers of profitability include improved loss trends such as the reduction of indemnity claim frequency of 4%.

Insurers cut rates by 0.7% on average in the second quarter of 2023, according to the CIAB Q2 2023 Rate Survey.

Rate Forecast for 2024

We expect continued underwriting profit and insurer competition in the coming year. The combined factors of stable loss costs and a strong labor market will stimulate more intense competition among WC insurers and drive down rates. We anticipate a rate movement of **-5% to +1%**.

Leveraging Workers' Compensation

Given the challenges on primary and umbrella liability renewals, it is critical that insurance buyers seek opportunities to leverage their workers' compensation programs to push insurers to provide optimal pricing for holistic casualty programs (encompassing WC and some combination of general liability, auto, and umbrella).

Getting the most out of a multiline remarketing of your casualty program requires careful planning. Key recommended strategies include:

- Perform a best practices review of employee health and safety programs, including enhanced OSHA recordkeeping practices, post-accident investigations, and safety training for new hires.
- Perform a targeted review of open WC claims several months ahead of your renewal date to identify claims with early resolution opportunities or high potential for adverse development. Reducing the amount of outstanding claims cost will be critical in minimizing renewal premium and collateral requirements.

- Conduct a well-organized, thorough marketing of your renewal program involving several insurers with expertise in underwriting your industry. Begin 150 days from expiration with a strategic risk financing review. Provide underwriters with renewal data 90 to 120 days from expiration to ensure sufficient time for review and negotiation.
- Think creatively about how to minimize collateral, which tends to be the biggest obstacle to moving casualty programs to new insurers. Consider alternative collateral instruments that provide balance sheet flexibility, such as surety bonds provided directly to insurers to cover a portion of overall collateral requirements, surety-backed letters of credit (LOC) in place of traditional LOCs, and other nontraditional collateral funding instruments.

OSHA 300 Logs: How to Determine Whether to Record an Injury or Illness

When keeping 300 logs and 300A summary records, accuracy is essential—overreporting can result in unnecessary regulatory attention. Learn more in this blog.

Workers' Compensation Investigations: The Why, When, and How

Learn how to determine when you should open a workers' compensation investigation and the types of investigations available.

Healthcare

Life Sciences

Technology

Construction

Real Estate

Manufacturing and Food Processing

Industry Insights

Healthcare Professional Liability:

Stable Market With Ongoing Rate Pressure

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As we look ahead to 2024, the healthcare professional liability marketplace is producing some mixed signals. There is ample capital, improved underwriting results, stable frequency, and healthy competition—and the challenges from the pandemic are starting to appear in the rearview mirror. That said, we expect insurers to continue to seek rate increases to keep pace with inflationary claims costs, equity market volatility, and the 8th consecutive year of underwriting loss (albeit the smallest since 2018). Rate increases in 2023, thus far, have ranged from 5% to 15%, depending on specialty and jurisdictional loss ratios. We expect this trend will continue into 2024.

Claims Costs Continue to Rise

The current landscape of staffing shortages, batch claims, social inflation, consolidation, and the erosion of caps on noneconomic damages (California's MICRA as an example) have increased the severity of medical malpractice claims over recent years. Likewise, the costs to defend these claims and high reinsurance costs have driven the ever-increasing expenses faced by insurance companies. The claims frequency and/or severity impact of the pandemic will prove difficult for actuaries to assess, as those years are characterized by backlogged courts and depressed healthcare service volumes.

Rate increases in 2023, thus far, have ranged from 5% to 15%, depending on specialty and jurisdictional loss ratios. We expect this trend will continue into 2024.

As in prior years, the most common claims arise from surgical, diagnostic, childbirth, or medication errors; but we're also seeing increased activity around sexual abuse and molestation, surgeries being performed in physicians' offices, and the uncertainty surrounding the increasing use of telehealth. From 2010 to 2019, the average jury verdict size has doubled, with hospitals carrying the burden given their higher limits and balance sheets. The effects of social inflation fueled by third-party litigation and plaintiff-minded jurors show no sign of slowing down.

Securing Coverage with Reasonable Premiums

Despite these headwinds, favorable results are achievable in the marketplace with risk differentiation and thoughtful—not transactional—broking approaches. To assist our healthcare clients in securing the coverage they need at reasonable premiums, we are raising their awareness of risk management actions they can take to be more attractive to insurance companies, with a particular focus on policies and procedures around:

- Sexual abuse prevention
- Opioid prescribing and safeguarding
- Workplace violence
- Employee staffing levels
- Patient safety plans
- Prevention of healthcare provider burnout
- Telehealth licensing and appropriateness
- Agency staffing usage
- Data privacy and protecting IT systems

Being consistent and proactive in your approach and delivery and having a knowledgeable thought partner who understands your current model and your direction in this challenging and dynamic healthcare environment is essential.

Industry Insights

Life Sciences:
Expect Continued Market Stability

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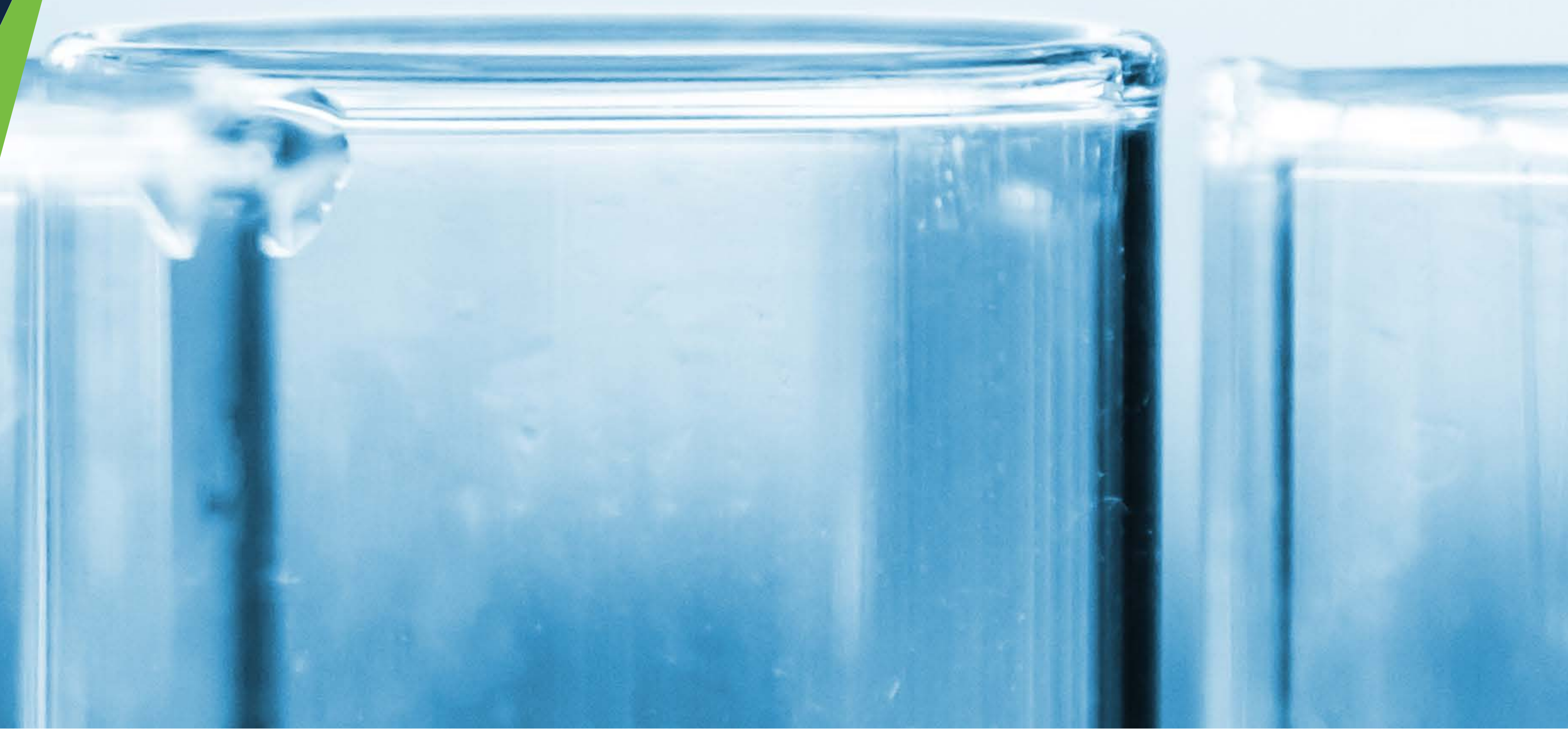

The life sciences market continues to be stable with plenty of capacity. Carriers are looking to entertain new business opportunities while retaining their insureds, and we expect this will carry into 2024.

Average Rate Change: Q3 2023

	General Liability	Product Liability (LS)	Property	Workers' Compensation
Life Sciences Industry*	**-3%**	**5%**	**2%**	**-4%**
All Industries**	**4.2%**	**N/A**	**17.1%**	**-2%**

*Data from Woodruff Sawyer life science client renewals, Q3 2023
**Data from CIAB Q3 2023 P/C Market Survey

General liability, property, and workers' compensation loss frequency is lower for life sciences companies relative to other types of companies. This is what makes life sciences a desirable class for many insurers and is reflected in the competitive rates we see compared to other industry sectors.

The main differentiator is product liability. Product liability is on a client-by-client exposure and claims history basis. Rates for Woodruff Sawyer clients are up 5% on average, but we expect these will continue to shift based on exposure and claims.

Start the Renewal Process Early

Have early conversations with your carrier to discuss your pipeline, 12-month expectations, and future growth. Early action will also give you time to implement loss control tactics. Providing thorough details when going to market provides the best outcome for insureds with competitive rates, terms, and conditions.

On the flip side, if marketing was the strategy the previous year, know that insurers are eager to retain their insureds. Having early conversations in negotiating competitive rates, terms, and conditions to remain out of the marketplace strengthens the relationship between the insured and insurer.

Industry Insights

Technology:

Tech Companies Continue to See Reduced Rates

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There continues to be good news for technology companies when it comes to property and casualty rates. As we have reported in previous years, property and casualty market conditions for most lines of coverage remain much better in technology than in other industries. In the first three quarters of 2023, insurance rates decreased in the general liability and workers' compensation sectors, while the property rate increase was much lower than for all industries.

Average Rate Change: Q3 2023

	General Liability	Property	Workers' Compensation
Technology Industry*	**-1%**	**1%**	**-9%**
All Industries**	**4.2%**	**17.1%**	**-2%**

*Data from Woodruff Sawyer technology client renewals, Q3 2023
**Data from CIAB Q3 2023 P/C Market Survey

The main reason for the favorable market conditions is the tech industry is still very profitable for insurers. Most tech companies have very few losses, so insurers can continue to offer them reduced rates relative to other industries.

Given that there are six or seven leading technology insurers that all want to write this profitable business, we see no reason for the competitive rate environment to change. In fact, there are a few insurers making a bigger commitment to write tech business, so this should help deliver a very competitive rate environment for the rest of 2023 and into 2024.

Four Strategies for Coverage Renewal

Insureds can consider several strategies to take advantage of these favorable conditions.

1. **Approach your incumbent carrier early for pre-agreed terms on your renewal.** Many insurers are willing to offer a discount if they can keep the account out of the market. Your Woodruff Sawyer broker can help you determine what should be aggressive (but fair) renewal pricing.

2. **Consider splitting the workers' compensation (WC) from the other P&C lines.** WC has been extremely competitively priced lately, and your property/liability insurer may not offer the best WC terms. Another WC strategy is to ask for a dividend plan. Under these arrangements, you get money back if you have very few losses. Some insurers will offer dividends without a tie to loss experience.

3. **Make sure to discuss how restricted stock units (RSUs) are counted in the calculation of your premium, both at inception and at audit.** For many tech companies, RSUs can represent a significant amount, often in the tens of millions (or hundreds of millions) of dollars. Most insurers will count RSUs as payroll and thus towards premium—unless you specifically negotiate how they will be treated. Insurers vary widely in their rating plans and flexibility (on inflexibility) on RSU treatment. Talk to your broker to make sure you won't be surprised with a large additional premium at audit due to RSUs.

4. **Ask for multi-year rate agreements**, particularly if you are switching insurers.

Industry Insights

Construction:

Rate Consistency Amid Rising Challenges

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For core lines, the construction market has begun to see a slowdown in rate increases. While economic challenges remain, rate consistency and increased underwriting capacity are a welcome relief to a sector that has continuously felt the impact of a difficult market.

There are, of course, exceptions—the umbrella and property markets are still seeing double-digit increases, driven by ever-expensive catastrophic claims and inflationary pressures.

In 2024, we expect the market to continue to harden in the property and builder's risk and auto lines of coverage. We don't anticipate material changes to other lines.

Here are the trends we've seen so far in 2023:

General Liability:

0%–10% Increase

The pace of rate increases has slowed except for a few higher risk areas such as residential work and wildfire exposure.

Auto Liability:

8%–12% Increase

Commercial auto markets sought their highest rate increase due to troubling and expensive loss trends. Two material contributors to market tightening are increased road congestion post-pandemic and the ever-increasing cost to repair vehicles.

Workers' Compensation:

Flat

Workers' compensation remains steadfast and a point of relief for many contractors outside a few select classes. Despite some inflationary concerns, rates should remain steady for those with strong loss controls and safety measures.

Umbrella:

5%–8.5% Increase

While a pain point over the past few years, new market entrants have provided much-needed capacity increases and competition. Although the appetites remain largely the same, the umbrella market is showing signs of stabilization.

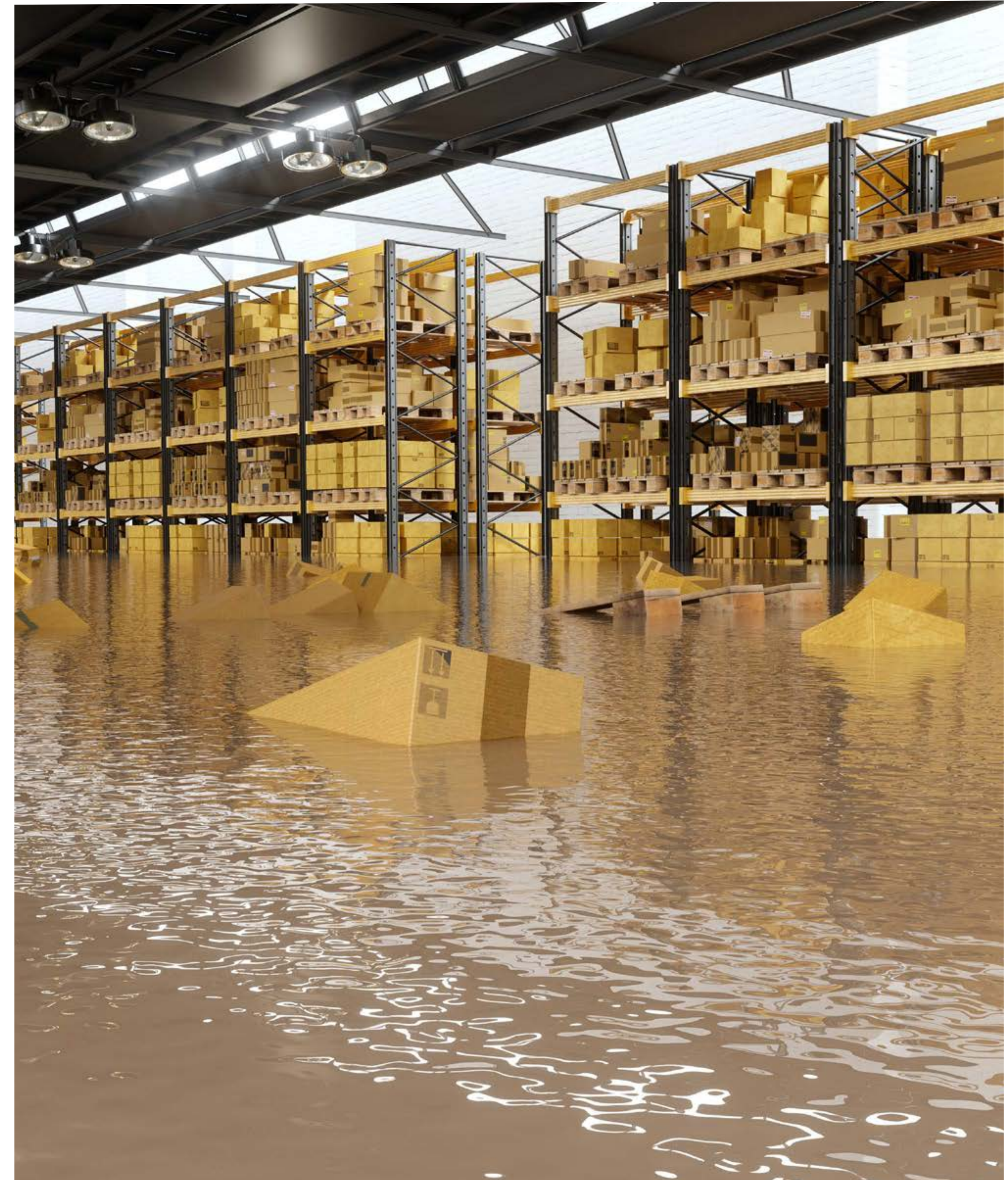
Property & Builder's Risk:

5%–20% Increase

Upward rate pressure continues to hinder the fixed property market for those with earthquake, flood, and wildfire exposures. Natural disasters have driven catastrophic losses while the market is simultaneously impacted by increased claims frequency.

Builders' risk policies are seeing small rate increases. Policies involving wood-frame projects continue to meet challenges both with pricing and finding capacity.

Project extensions for builders' risk also continue to be an issue as markets seek protection by increasing rates and deductibles. Allow 90 days in advance to request and process extensions on wood frame projects and 60 days for all other construction types.



Industry Insights

Real Estate:

Unprecedented Challenges for the Real Estate Market

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The commercial real estate industry is facing headwinds. Continued inflation, high interest rates, and an economic downturn may affect real estate performance and prospects. These macroeconomic factors could result in tighter budgets for improving or constructing properties and lower demand for real estate across asset classes, thereby increasing risk.

Risk Capital Remains Constrained

Property insurance is usually the largest insurance spend of real estate firms, which have experienced significant rate increases over the last five years. Over the last two years, insurers have focused their capacity on accounts with favorable risk quality, realistic insurance to value, and good property conditions. Insurers have learned that risk selection continues to be paramount, and we expect to see narrowed risk selection in 2024. To minimize rate increases, real estate firms should focus on property condition, insurance to value, occupancy, and CapEx. Additionally, property concentrations in catastrophic zones will impact how much capacity the insurer takes on and the pricing at which they may do so.

With general liability, insurers have been sounding alarm bells about social inflation, financed litigation, and nuclear verdicts. Many underwriters believe there is no end in sight. Insureds should review their limits annually to consider the increased cost of litigation. What helps is for firms to focus on contractual risk transfer on leases, construction, renovation, and maintenance agreements for work on premises.

For 2024, property rates will continue to increase, and terms and conditions will be restricted across all asset classes due to limited market capacity and increased claims and reinsurance costs. However, there will be variability depending on the class, venue, loss experience, and other characteristics. Casualty rates will increase as well, with insurers focused on excess liability capacity and pricing again.

To minimize rate increases, real estate firms should focus on property condition, insurance to value, occupancy, and CapEx.

2024 Trends and How to Ensure Continuing Coverage

Multifamily:

With round-the-clock occupancy, little control over resident activities, and limited access to unit interiors, owners may struggle to control their exposure to loss. Property condition is paramount. Updates to pavement, electrical, roofs, plumbing, and HVAC systems are critical.

Retail:

Tenant occupancies, CapEx estimates for older buildings, and vacancy rates will be key underwriting considerations for carriers. Owners should provide the details their brokers need to show they are above-average risks.

Industrial:

Current tax credits incentivize the use of solar panels; however, insurers are not comfortable with solar panels on roofs because there is an increased fire risk. Owners should work closely with insurers on the specifications and installation of solar panels to get underwriters on board early in the process.

Three Actions to Take Today

1. First, it is vitally important that you document specific risk improvements year over year. Look to your insurance broker for advice about where to invest scarce CapEx dollars. We recently advised a large property owner to replace a certain kind of door in their property. The door replacement reduced the liability claim frequency by 40%, and the client benefited from a 25% rate reduction at the next renewal.

2. Second, you need an expert broker who will engage with your lenders during the financing or refinancing process. Satisfying requirements has become more difficult. Your broker should clearly explain all your options and should be able to negotiate insurance requirements in your favor.

3. Third, review your broker's carrier relationships along with your risk and insurance program. Having a broker that understands your risks and has strong insurer relationships to negotiate deals is critical. With increased scrutiny on risk quality or mix, sometimes carve-outs are required to preserve the master program or to access less expensive programs. Brokering in a challenging market environment requires subject matter expertise and experience. The record of accomplishment and experience of your broker team will help secure competitive options.

As the economy rebounds and investment activity accelerates, you want to be well-positioned in the insurance market with an exceptional risk profile. You should be able to rely on your broker's good judgment and expertise in the face of uncertainty, limited data, and competing demands for capital to develop or maintain your risk and insurance program. The broker's role is to protect your assets and reduce the variability of profits and losses to enable you to grow and/or increase returns.

Industry Insights

Manufacturing and Food Processing:

Managing Risk and Cost Containment

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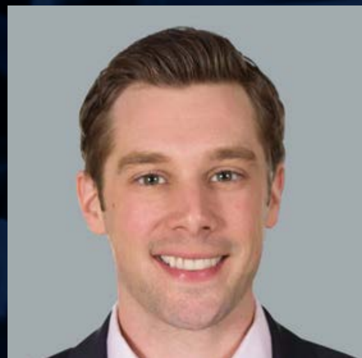

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Manufacturers, food processors, and distributors face a variety of challenges when it comes to their insurance policies and coverage. These often depend on the type of company—those producing shelf-stable food products or benign component parts will likely still be able to get good rates and conditions. However, companies producing high-hazard products, products more likely to spoil easily, and building materials can expect more scrutiny from insurers and often higher rates.

Despite this, a broker who understands your exposures and can articulate those to carriers can get you the best terms and conditions. For example, inflation has driven up the cost of products, and a good broker can make a case for your rating to be based on pounds of product versus revenue.

For our outlook on premiums in 2024, read the property and casualty sections in this *Guide*.

Five Risk Concerns and What to Do About Them

1. **Aging buildings (40 years or older) can be a big red flag and cause nonrenewal of policies.** In this case, companies may not be able to get insurance through domestic markets and they must go through surplus lines markets, resulting in higher costs. Work with your broker early to identify red flags, such as lack of/or outdated sprinklers, and address them before renewal.

2. **Given the high turnover in the driving workforce, rushed training, and an increase in accidents, companies are proactively installing telematics and backup cameras in their fleet vehicles.** This isn't a prerequisite for insurance carriers, but some are asking about it. The use of these technologies can certainly help decrease at-fault accidents, which will help when it comes time to negotiate rates.

3. **Another major concern in the manufacturing industry—the presence of PFAS (per- and polyfluoroalkyl substances) in their products.** PFAS are carcinogens that can be found in many products, and while it wasn't something

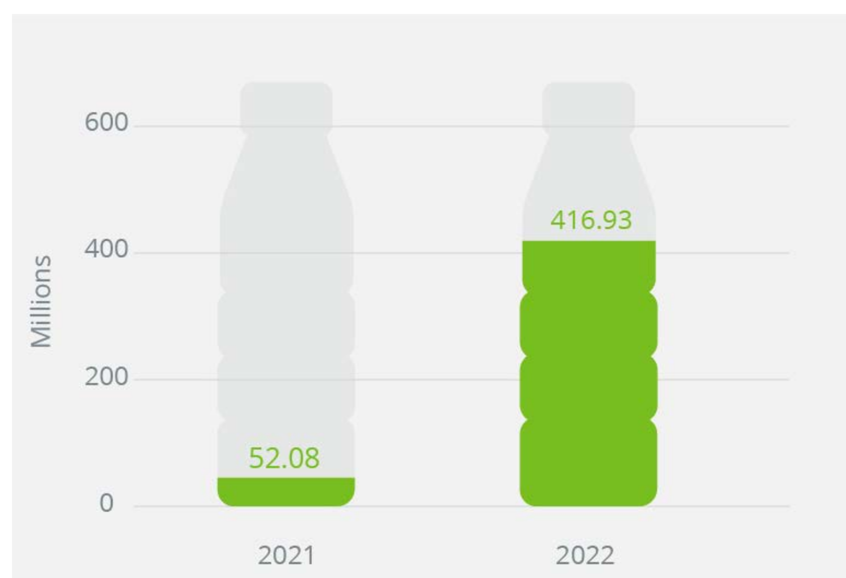
that had to be disclosed in the past, it's now under intense scrutiny. Carriers are starting to add PFAS exclusions to liability policies and more will likely follow in the next few years. Companies have started testing to understand their PFAS exposure and looking for alternative sources of products with no exposure.

4. **Due to the supply chain disruptions caused by COVID-19, many companies overstocked and now hold excess inventory.** Companies may have doubled or tripled their average inventory and may not have been updating their carrier; as a result, their insurance costs will likely rise at renewal. Those leveraging third-party logistics (3PLs) to handle the overflow of product may find themselves underinsured as stock is likely not insured at replacement cost, if at all. The best way to manage this is to work with a broker who can build a stock throughput policy to provide cargo, transit, and inventory coverage all in one policy.

5. **Finally, a continuing major risk for food manufacturers is product contamination.** Recalls multiplied in 2022, and the high number of recalls continues into 2023. A contamination or recall wreaks havoc by affecting public relations, product disposal, business interruption, lost wages, medical care, legal, and more.

The good news is that the market is robust right now, with many carriers wanting to write product contamination, leading to lower prices. To secure the best pricing and terms, consider the impact a large product contamination event could have on your business, and ensure you have a robust plan in place to deal with an event. This can include developing a strong crisis management plan and ensuring your finance teams are prepared so they can reduce your claim payout time.

In 2022, the FDA Recalled 700% More Units of Food & Drink Than the Prior Year



Source: Sedgwick State of the Nation 2023

About Woodruff Sawyer

As one of the largest insurance brokerage and consulting firms in the US,
Woodruff Sawyer protects the people and assets of more than 4,000 companies. We provide expert counsel and fierce advocacy to protect clients against their most critical risks in property and casualty, management liability, cyber liability, employee benefits, and personal wealth management. An active partner of Assurex Global and International Benefits Network, we provide expertise and customized solutions to insure innovation where clients need it, with headquarters in San Francisco, offices throughout the US, and global reach on six continents.

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