MarshMcLennan Agency

Q3 2024 U.S. Business Insurance Market Observations

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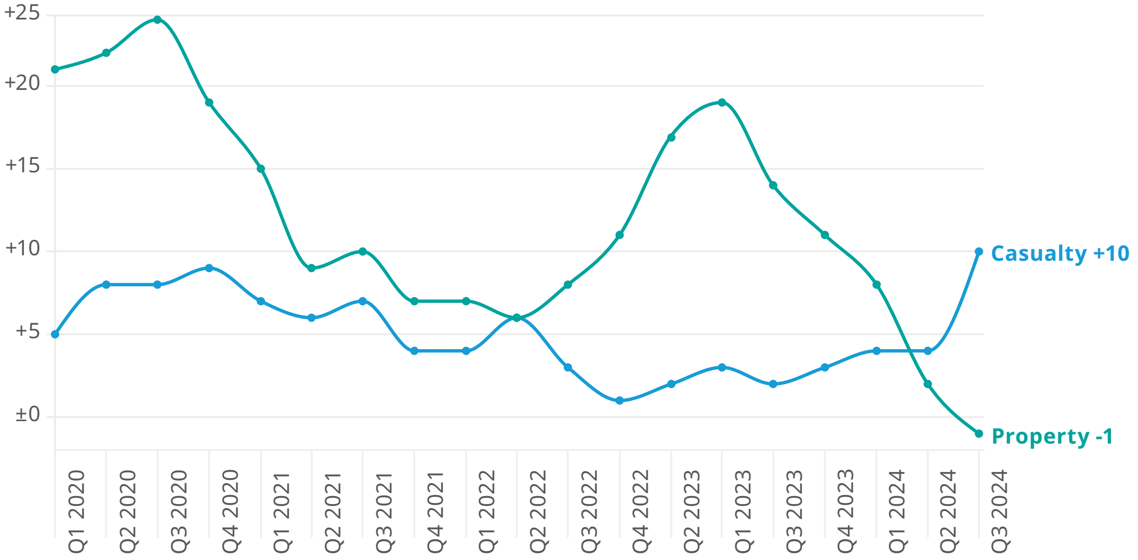
Executive summary

In Q3 2024, property insurance rates showed the most movement among major product lines compared to the prior quarter, while casualty insurance was the only major product line to experience an overall increase.

As anticipated in our Q2 2024 report, a fairly active hurricane season has collided with long-tail casualty reserve development, putting pressure back on both property and casualty rates, with emphasis on the latter. Questions about the impacts of multiple hurricanes on the insurance marketplace are justified, but it’s the turning casualty market that’s in the spotlight. Nuclear verdicts, driven in large part by litigation funding abuse, are a significant factor in the pace of change in the casualty market.

The pace of property rate growth slowed in Q1 2024, while casualty rates started to grow faster

Quarterly % change in **US property** and **US casualty** insurance rates since Q1 2020



Source: Marsh

In this report, we will discuss both the property and casualty market nuances in more detail. In addition, we have developed a separate report to provide more background on why the insurance marketplace, and ultimately the businesses they insure, are being severely impacted by the uptick in third-party litigation funding and abuse.

Furthermore, Strikes, Riots, and Civil Commotion (SRCC) global loss activity and severity continue to worry (re)insurers due to the number of high-profile public elections taking place. Guy Carpenter, in a global specialties update in September, noted that many cedants have been de-risking their SRCC and war portfolios, and instead growing their less volatile terrorism portion of their book.

The threat of a strike by the International Longshoremen’s Association (ILA) on the East and Gulf coasts was narrowly averted in October 2024, but it could still happen in 2025. The union agreed to suspend the strike until January, when it will resume negotiating its collective bargaining contract with the ports. Read more about lessons from this near-miss that businesses can use to strengthen their supply chain risk management and business continuity planning.

Marsh McLennan Agency (MMA) remains steadfast in our commitment to support our clients through the challenges ahead. We’ll work with you on strategies to achieve the best outcomes.

Your future is limitless.℠

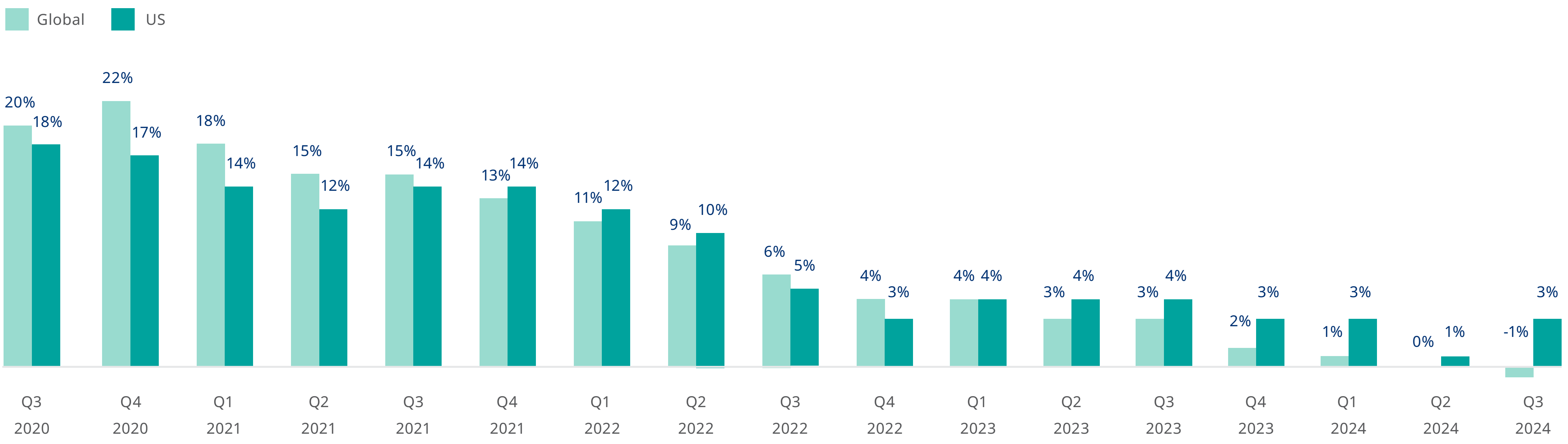
Denise Perlman, CIC

President, National Business Insurance

Q3 2024 U.S. business insurance market observations

The global composite rate tracked in the [Marsh Global Insurance Market Index] decreased 1% in Q3, the first decrease in seven years. However, U.S. commercial insurance prices rose 3% in the third quarter of 2024. Property insurance rates showed the most movement among major product lines compared to the prior quarter, while casualty insurance was the only major product line to experience an overall increase.

U.S. composite insurance pricing change

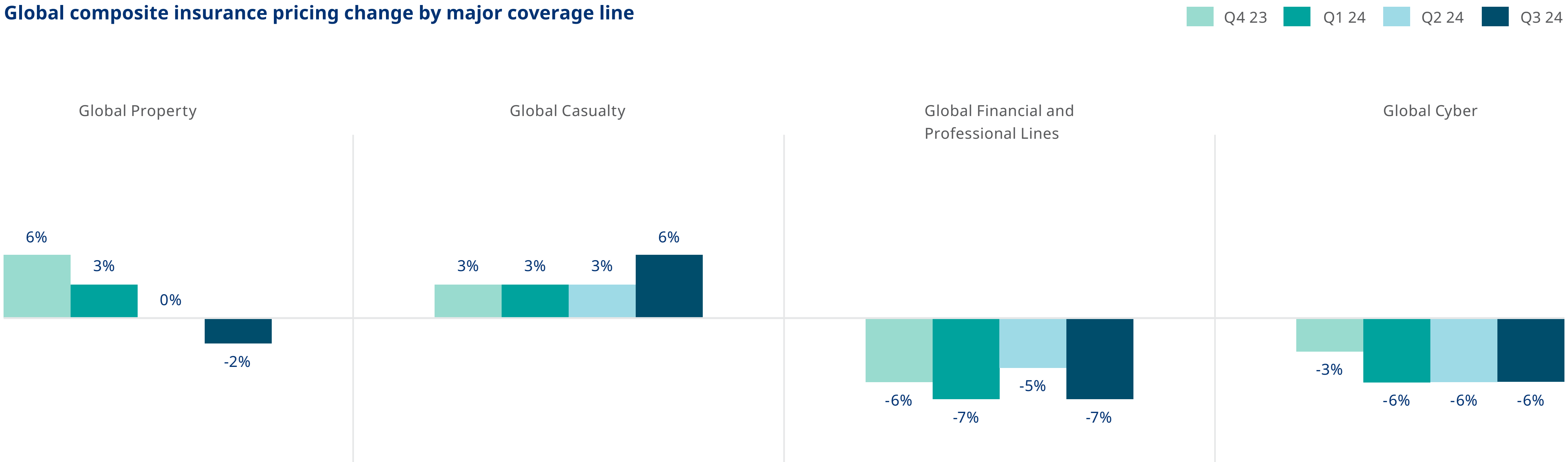


Source: Marsh Specialty and Global Placement

Global composite insurance pricing change by major coverage line

Property rates declined by 2% globally, with rate movement varying by region. Casualty rates increased 6% globally, remaining relatively consistent regionally compared to the prior quarter, aside from the U.S. where they increased significantly (10%) driven in large part by excess/umbrella rates. Financial and professional lines rates decreased 7% globally, declining in every region. Cyber insurance rates declined 6%, with declines seen in every region, as was the case in the prior quarter.

Global composite insurance pricing change by major coverage line



Source: Marsh Specialty and Global Placement

01

Property coverages

Property

Property rates continued to stabilize through Q3. However, Hurricanes Helene and Milton have added an element of uncertainty to the market as we move into Q4.

Hurricane Helene preliminary insured loss estimates

Loss estimates from Moody's Risk Management Solutions (RMS) on October 7 pegged Helene privately insured losses at $8 billion to $14 billion with another $2 billion of insured flood losses for the National Flood Insurance Program (NFIP). NFIP losses are expected to be largely driven by storm surge in Florida as take-up for flood coverage in the deluge-devastated regions in North Carolina is minimal.

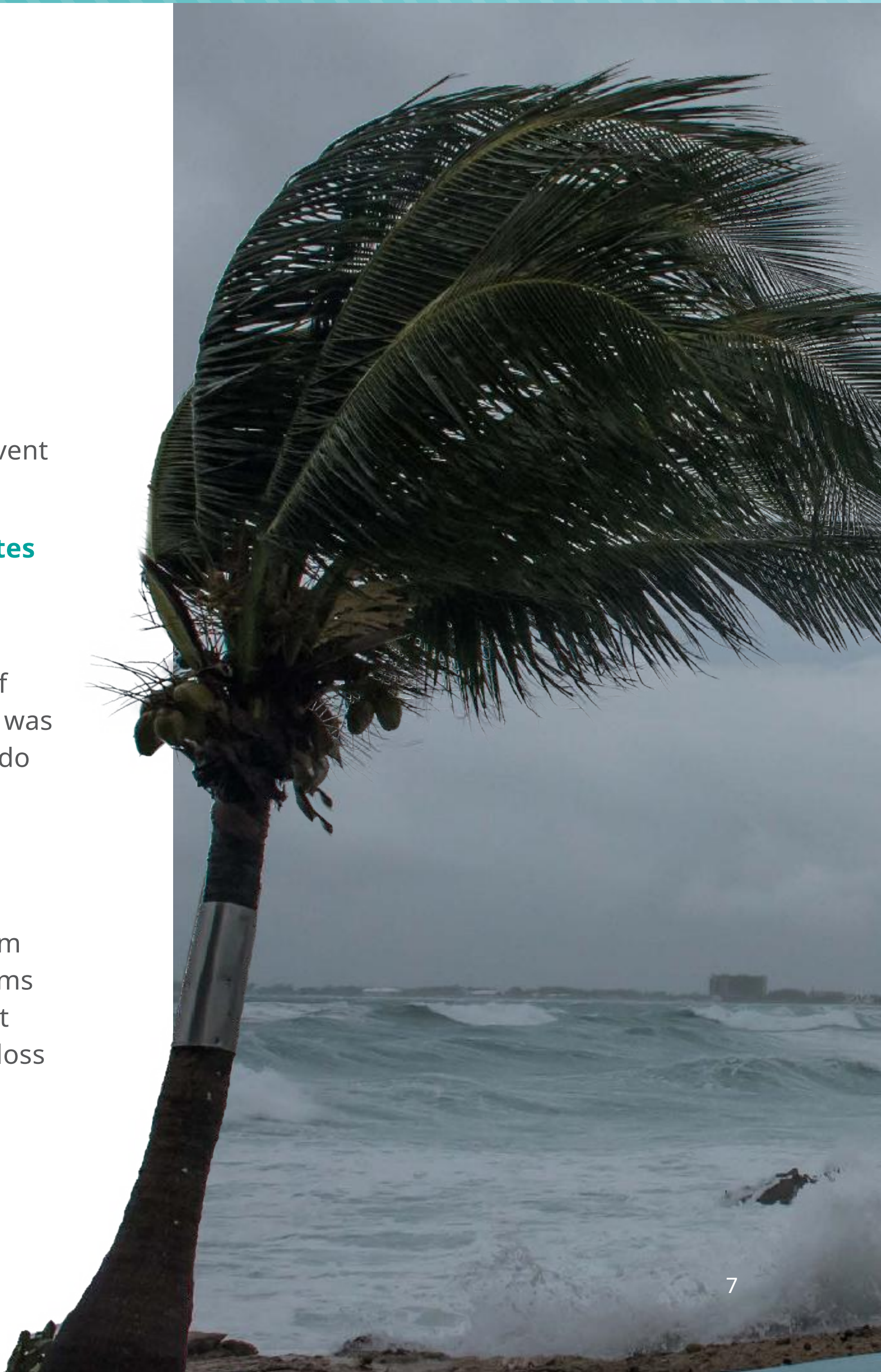
Additionally, the available limits from the NFIP are low, meaning a sizable portion of additional water damage losses could seep into the private market through standalone excess flood policies. Helene could become one of the top 10 largest losses for the NFIP, Guy Carpenter noted in its post-event report.

Complexity of back-to-back hurricane events

On October 14, Moody's RMS issued a provisional U.S. private market insured loss range of $35 billion to $55 billion for the combined impacts of Hurricanes Helene and Milton. There is an especially wide range of loss projections for Milton due to the complexity of the event overlapping with Helene.

Hurricane Milton preliminary insured loss estimates

While the storm was less destructive than initially feared, as it was downgraded from a Category 5 to a Category 3 hurricane before it made landfall south of Tampa, the insured loss tally remains unclear. Milton was a bigger wind event that also induced a deadly tornado outbreak. The wind and wind-driven water damage claims have a greater likelihood of being covered by insurance, whereas flood is not typically covered in commercial property policies. It is likely that the water damage caused by surge and precipitation from Helene will be complicated by wind-driven water claims stemming from Milton. Potential legal disputes about which event caused the water damage could lead to loss cost creep.



Insured loss estimates vary across multiple sources for Milton:

	Entity Issuing Loss Estimate	Loss Range	Commentary
Insured losses	KBW	$30B to $40B	Lower than earlier expectations
	Neuburger Berman	$40B to $50B	Increased potential for claims litigation, otherwise $25B to $30B
	Icosa Investents	$20B to $70B	Cat bond market impact of 0% to 6%
	Fitch	$30B to $50B	Assumes Ian was a $60B loss
	Morningstar	$30B to $60B	Avoided $100B+ scenario missing Tampa
	Fitch	$30B to $50B	Assumes Ian was a $60B loss
	Moody's Analytics*	$27B to $41B	Assumig $8B to $14B for Hurricane Helene
	KCC	$36B	Inclusive of auto and business interruption
	Versik	$30B to $50B	Vast majority of losses attributable to wind

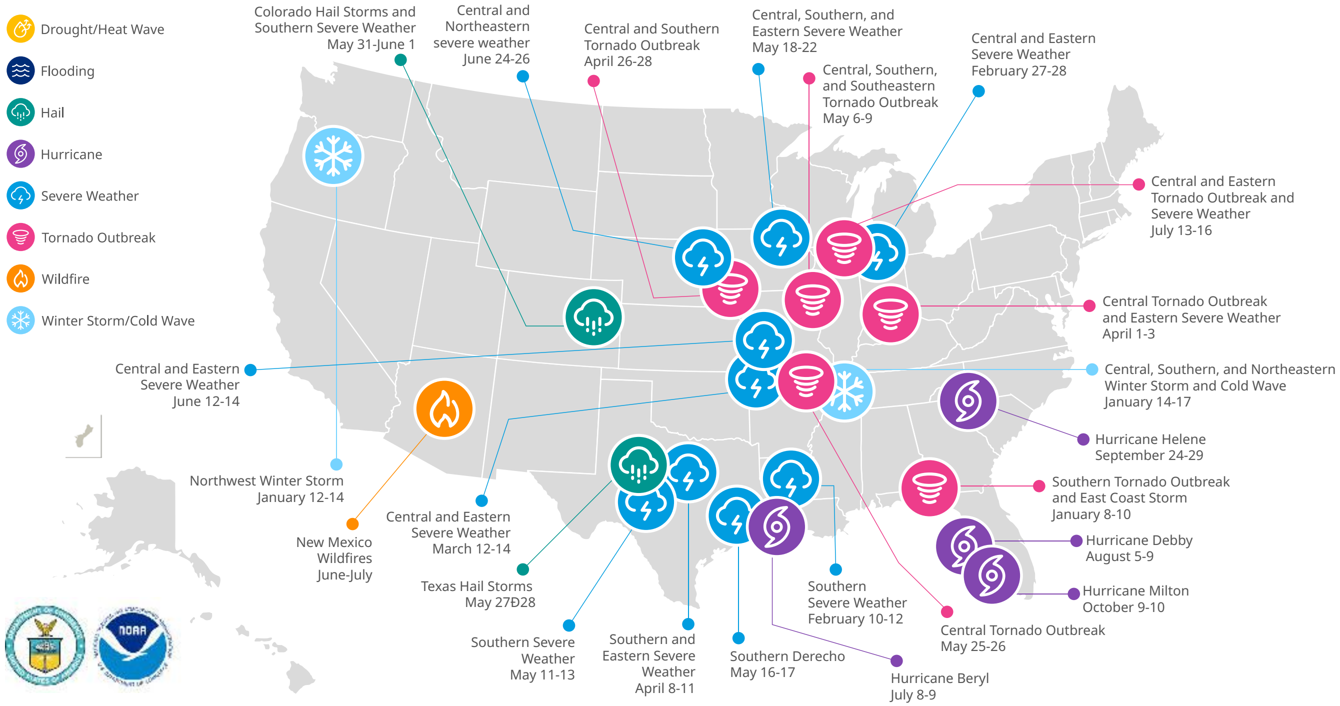
Loss range may change with Milton-specific post event report to be issued by Moody's
Source: Financial Times , AM Best , Bloomberg. Reuters, Fortune. Public insured loss estimates as of October 16, 2024.

Read more in numerous post-event reports from Guy Carpenter.

How will Helene and Milton affect a property market that has been broadly accepted to be improving throughout 2024?

Although it is still too early to get an accurate insured loss quantum, these events will most likely impact (re)insurer earnings (Q3 for Helene and Q4 for Milton) and end up as unwanted but manageable balance sheet disruptions rather than truly market-changing events. Certain insurers may temporarily press pause on any rate reductions in Florida but, at this juncture, it would be premature to make any firm determinations. With that being said, the market is well capitalized, and it is unlikely that there will be any significant retraction of capital in the wake of these storms. The Florida homeowner’s market will be ever more stressed in 2025, but from a commercial insurance perspective the expectation is for the market to continue to improve, and we could start to see the introduction of new capital into the direct marketplace over the next 12 months. New reinsurance capital may come about by supporting those with a proven track record; however, it will be cautious and limited due to lessons learned and the increase of loss frequency and severity over the past decade.

U.S. 2024 billion-dollar weather and climate disasters



This map denotes the approximate location for each of the **24 separate billion-dollar weather and climate disasters that impacted the United States through October 2024.**

Visit the MMA Hurricane Resource Center. Prepare. Protect. Recover. We are here to help.

Increase in billion-dollar weather and climate disasters

The billion-dollar weather and climate disasters tracked by NOAA continue to accumulate. As of October 27, the U.S. has experienced 24 confirmed events with losses exceeding $1 billion in 2024. These events included 17 severe storms, four tropical cyclones, two winter storms, and one wildfire. Another potential billion-dollar event that NOAA has not included in the map yet, awaiting finalized calculations, is the damaging flooding impacts seen in several Midwestern states in late June. Once again, this is above the five-year annual average of 20.4 events (CPI-adjusted).

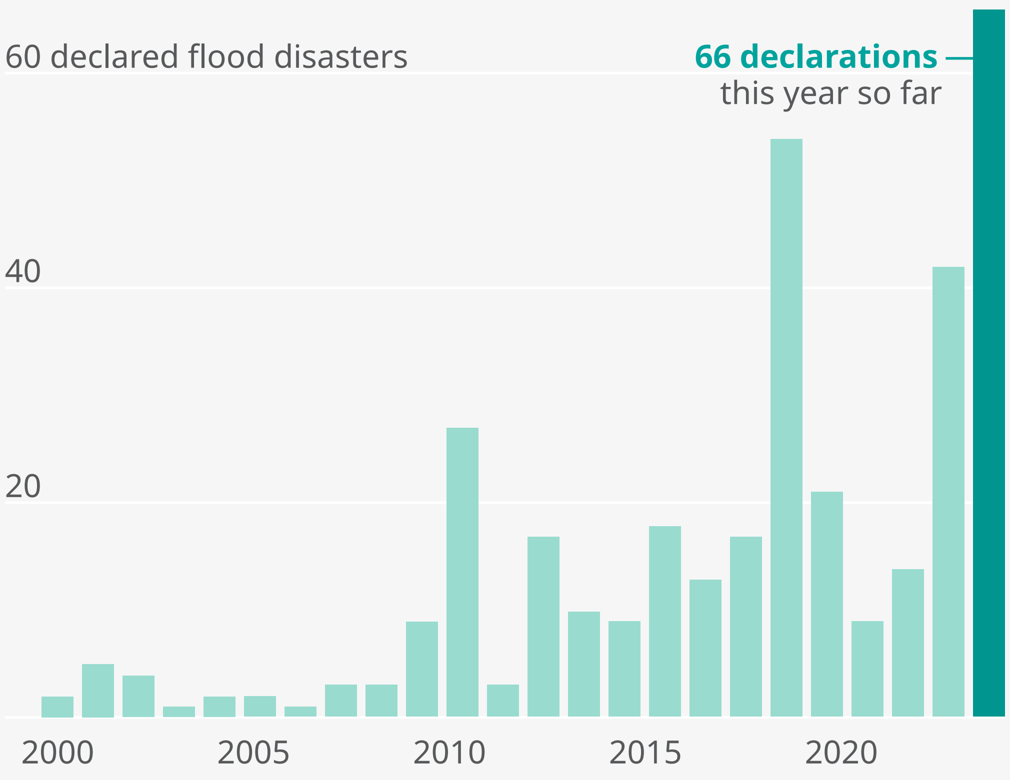
The flood protection gap is widening.

Since the 1990s, the cost of flood damage has roughly doubled each decade. The federal government issued two disaster declarations for floods in 2000. As of October 22, 2024, it has issued 66.

According to Moody's RMS, the increased risk has made flooding "a peril that can affect every postal code in the U.S." A recent report by the Senate Joint Economic Committee estimates flooding costs the U.S. economy between $180 billion and $496 billion annually from a combination of direct damages and business activity interruption. Talk to Marsh McLennan Agency about flood coverage as well as risk mitigation options.

These recent hurricane events underscore a broader challenge with the flood insurance protection gap. The flood insurance gap also has significant implications for disaster recovery efforts. Following extreme flood events, communities with low insurance coverage take-up may face a slower recovery due to the financial strain on uninsured/underinsured homeowners and businesses placing too much reliance on federal disaster relief funds, which may not fully compensate for the loss.

A surge in flood disasters

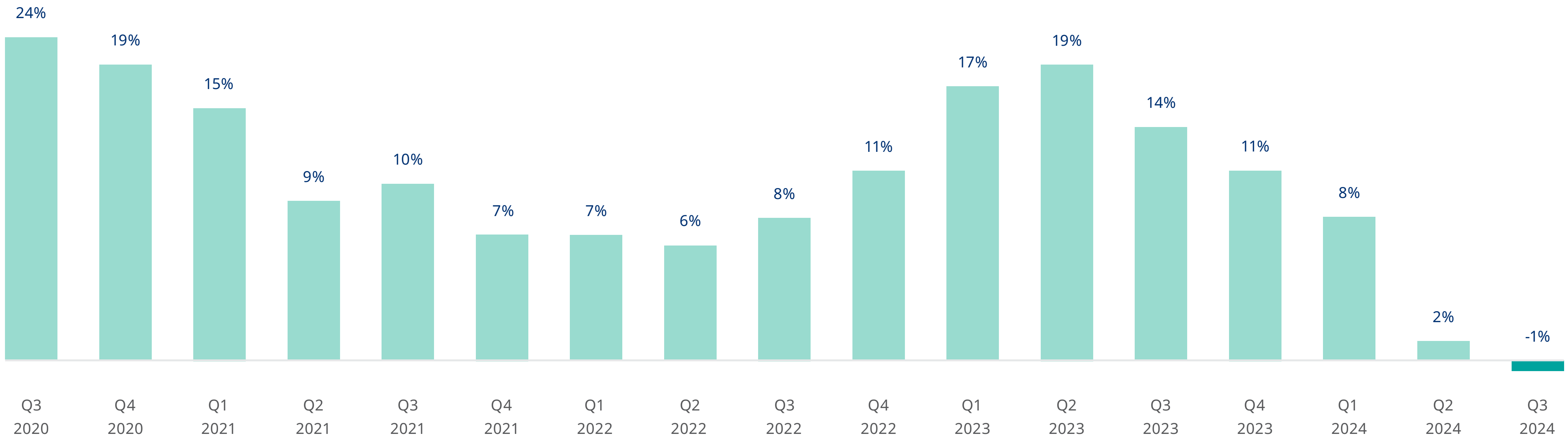


Source: Federal Emergency Management Agency.
Note: The 2024 total reflects declarations as of October 22, 2024.

Rate trends

According to the Marsh Q3 2024 U.S. composite property insurance index, rates declined an average of **1%** (compared to a 2% increase the prior quarter); however, mid-size organizations averaged an increase of 5%, particularly for accounts with loss history challenges and catastrophic exposed properties.

U.S. composite insurance pricing change: property



Source: Marsh Specialty and Global Placement

On single carrier placements, where there are typically fewer catastrophe-exposed locations, insurers are still seeking rate increases, typically in the low- to mid-double digits. More complex shared and layered programs continued to experience rate reductions and this trend will linger as more new capital enters the market and insurers remain committed to growth.

For shared and layered accounts renewing in Q1 2025 that were not impacted by Helene or Milton, there may be meaningful savings to be had as this sector of the market did not truly start to decelerate until the beginning of Q2 2024. If these risks did not benefit from the changing market at their last renewal, they should expect to capitalize on the market conditions when they renew in early 2025. For accounts renewing after Q1, there will still be opportunities for year-on-year rate reductions as insurers continue to compete for shares on these programs, unless they are loss-prone accounts, tough business segment classes, or in areas susceptible to catastrophic risks.

Property insurers remain cautious when considering new ground-up (single carrier) business, particularly with respect to the Midwest and Southeast U.S. regions due to accumulative concerns about severe convective storm and named windstorm events. Loss-free, softer occupancy risks with best-in-class commitments to risk management and valuation adequacy will continue to be the most sought-after new business in the single carrier segment.

Conditions and observations

The insured's commitment to a solid valuation methodology and risk engineering compliance is still a cornerstone requirement to keeping property rates in check.

Well-protected, moderately valued, manufacturing property is plateauing with flat to lower increases.

Wind and hail deductibles in the Midwest appear to be leveling off between 2% and 5%, and insureds can still get flat deductibles in some instances.

Multi-family/habitational real estate, food manufacturing, senior living and long-term care, mid-size chemical manufacturers, and providers of flammable/ignitable liquids are all sectors of the market that remain heavily scrutinized by insurers.

We continue to see tough industrial (e.g., foundry, recyclers, plastics) moving from single carrier placements into the excess and surplus lines shared and layered market.

Lenders are beginning to question, and even reject, catastrophe modeling results provided by insurers that are not using the latest Moody's RMS RiskLink v23 model. Marsh McLennan Agency's in-house catastrophe modeling can alleviate these circumstances that might otherwise disrupt timely renewals. Guy Carpenter has reviewed the model extensively and prepared a report to support model change management.

Strikes, Riots, and Civil Commotion (SRCC) global loss activity and severity continue to worry (re)insurers due to the number of high-profile public elections taking place. Guy Carpenter, in a global specialties update in September, noted that many cedants have been de-risking their SRCC and war portfolios, and instead growing their less volatile terrorism portion of their book.

Insured loss estimates from recent riots

Event	Year	Insured Loss
France riot	2023	€730mn
South Africa riot	2021	ZAR 37bn
Colombia riot	2021	< $150mn
Black Lives Matter Riot	2020	> $2bn
Chile riot	2019	$3 - $4bn
Bolivia riot	2019	$164mn
Hong Kong riot	2019	$100mn
Yellow vest protests	2018	€217mn

Source: Swiss Re, France Assurers, Assureurs, Saria, Axios and PCS

The recent U.S. East and Gulf coast ports strike highlighted vulnerabilities, particularly for perishable foods, automotive, medical equipment, and pharmaceutical commodities. The union agreed to suspend the strike until January, when it will resume negotiating its collective bargaining contract with the ports. Marsh McLennan Agency can help your business strengthen your supply chain risk management efforts and business continuity planning.

- Marsh announced the launch of a new exclusive AI-powered trade disruption facility for ports and terminals that provides coverage against business disruption arising from trade disruptions. Also, following the collapse of the Francis Scott Key Bridge and subsequent disruption at the Port of Baltimore, a port blockage insurance facility is also available.
- Additionally, credit risk and cash flow issues related to prolonged strikes can be averted by using trade credit insurance as long as coverage is in place before goods are in transit.

Coverage for wildfire risks remains extremely limited. According to the National Interagency Fire Center, as of October 8, 2024, large wildfires are active in 11 states. While the number of fires from the same period over the last five years is at its lowest, the number of acres burned is one of the highest on record. The highest wildfire activity is taking place in Idaho (13 fires affecting nearly 500,000 acres) and Oregon (9 fires affecting nearly 250,000 acres).

Current national wildfire statistics

Year	Fires	Acres
2024 (1/1/24-10/13/24)	41,870	7,810,257
2023 (1/1/23-10/13/23)	47,340	2,518,555
2022 (1/1/22-10/13/22)	56,842	6,937,344
2021 (1/1/21-10/13/21)	47,442	6,496,251
2020 (1/1/20-10/13/20)	45,749	8,285,894
10-year average year-to-date		
2014-2023	48,190	6,266,275

Source: *National Interagency Fire Center*

2024 by-the-numbers

30 incidents
Total number of large wildfires

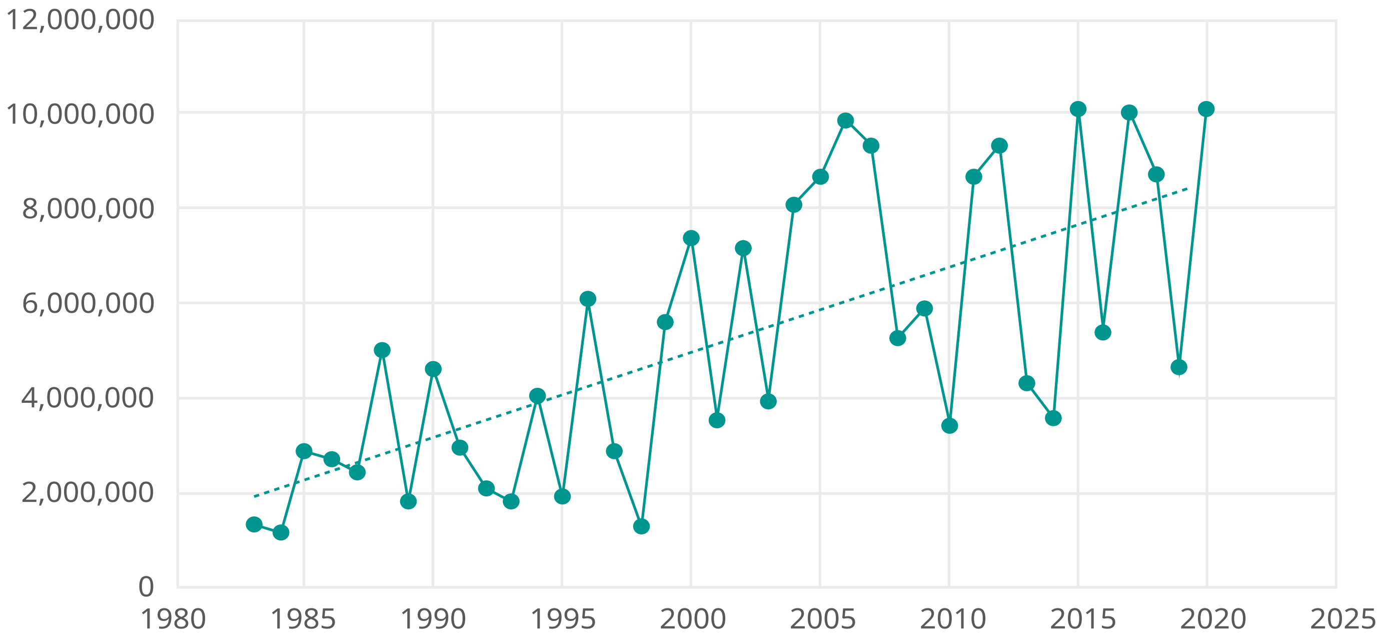
2 total
Large wildfires

41,870 incidents
Year-to-date wildfires

1,236,380 acres
Acres burned on large fires

7,810,257 acres
Year-to-date acres burned

Number of acres affected by wildfires in the U.S. since 1983



Source: Data from NIFC North Carolina State lands are exempt from 2004 fires and acreage.

Based on the number of properties at extreme risk from wildfires, the top five riskiest states were:

California	Texas	Colorado	Arizona	Idaho
2,040,600	717,800	373,900	242,200	175,500

Source: BankRate

Source: National Interagency Fire Center

It often feels impossible to obtain coverage for wildfire risks, but certain business segments can benefit from traditional and parametric insurance capacity when there is an advantageous spread of risk and strong loss mitigation efforts in place. We can also provide wildfire loss mitigation risk consulting services to help clients improve insurability.

What is parametric insurance?

Parametric insurance is a non-traditional index-based insurance mechanism that offers pre-defined payouts based upon a trigger event regardless of physical damage. Trigger events depend on the nature of the parametric policy and can include environmental triggers such as wind speed, flood depth, earthquake intensity, wildfire breaches a predetermined threshold, and more. Talk to MMA to learn more as parametric insurance is a meaningful way to complement traditional insurance gaps including coverage for large deductibles within traditional insurance policies and coverage for business interruption losses.

Cargo/inland marine

The cargo stock throughput (STP) market remains stable with new capacity continuing to enter the market.

Rate trends

- For best-in-class accounts, flat to **-5%** rate reductions are a realistic outcome.
- There was a decrease in cargo rate increases in H1 2024 (+4.2% in Q1, down to +2.4% in Q2). We are seeing the same downward trend in Q3.
- Q3 2024 transit-only and STP rate increases have slowed compared to what was seen in Q2 2023. This same downward trend was evident in Q3.

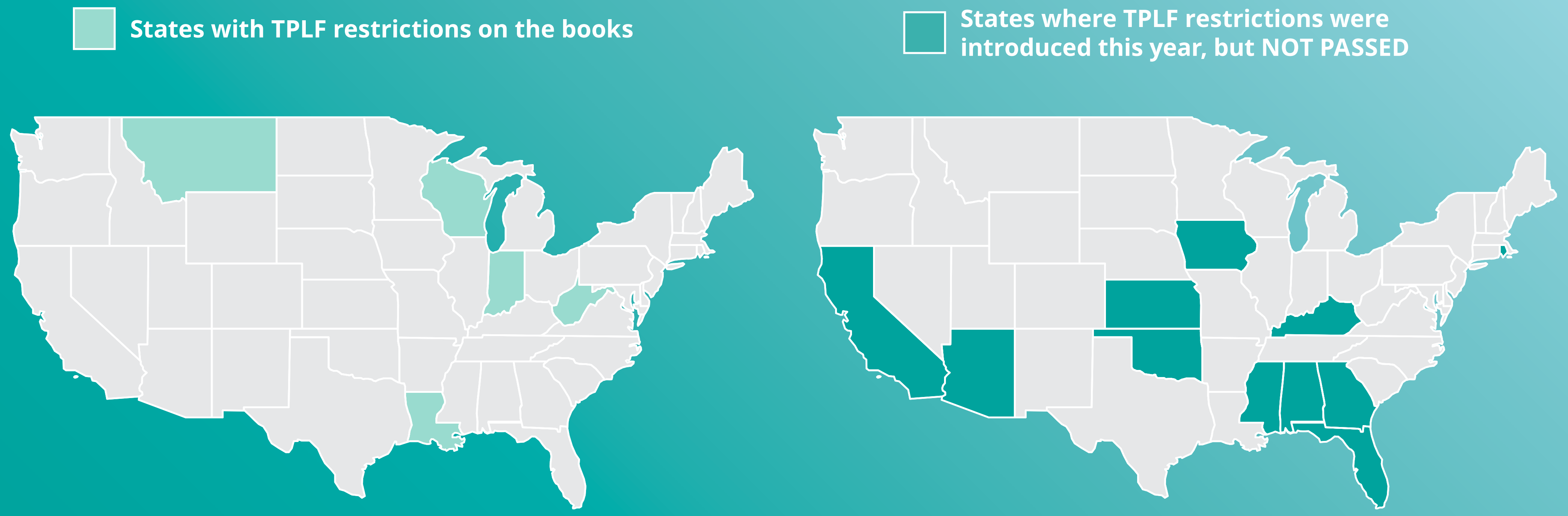
Conditions and observations

- Cargo STP continues to be a viable option for inventory-sensitive accounts that are insured based on a selling price value.
- While profitability remains a priority for all major cargo markets, most insurers must balance this with their growth goals for 2024.
- Coupled with many new entrants into the STP space (both domestically and in London), we are seeing more competition for new business.
- Severe transit and inventory losses from both natural catastrophe and other perils are keeping underwriting leadership actively engaged in validating rate adequacy and capacity offered.
- Most insurers continue to require a level of rate adequacy for STP catastrophe exposures but average cargo and STP rates continue to improve.
- The cargo market has experienced an increasing number of General Average losses and other significant vessel casualties, large distribution center and warehouse fires, and hurricanes with widespread destruction. The market remains challenging for higher-risk exposures such as wine and spirits, pharmaceutical companies, automobile manufacturers, and heavy ("mega") warehousing exposures.
- Global cargo clients with exposures in Russia, Ukraine, Belarus, and Crimea will likely be subject to territorial exclusions for all shipments to, from, and within this region.
- Coverage for risks to, from, and within Israel, Palestine, and the Red Sea must now be closely monitored due to ongoing hostilities in the region. Some insurers are requesting exposure details, especially for bulk cargo shipments in this region, which may lead to restrictions and/or territorial exclusions.

02

Casualty coverages

Third-party litigation funding (also known as legal abuse or social inflation) is in focus as it is driving up settlement costs and leading to significant increases in insurance company reserve adjustments. States are introducing laws either aimed at curbing or adding transparency to the practice, with more potentially to follow.



Source: U.S. Chamber of Commerce Institute for Legal Reform; Insurance Insider analysis of State Statutes

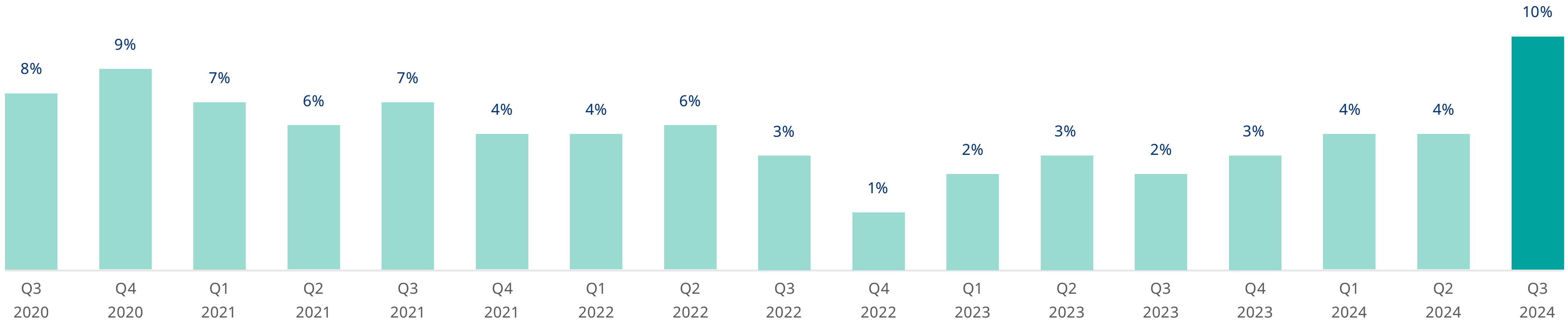
Social inflation has increased U.S. liability claims by 57% in the last decade, with its impact on casualty claims growth set to outweigh the industry earnings benefit from higher interest rates in one to two years, according to Swiss Re.

Opponents say litigation funding increases the length and ultimately the cost of legal cases, while supporters claim it levels the playing field for individuals going up against powerful organizations. At a minimum, the insurance industry agrees that transparency is needed when otherwise disinterested financiers are behind the scenes funding false claims, leading to disproportionate claim settlements. But is transparency enough?

Even more troubling, reported by The Insurer, is that "they have also raised concerns that foreign parties are funding litigation to gain access to confidential data made available during lawsuits." Opponents including the American Property Casualty Insurance Association (APCIA) and the U.S. Chamber of Commerce have voiced their concerns and are pointing out many flaws. Additionally, we recently published details about trucking industry verdicts.

U.S. composite insurance pricing change: casualty

According to the Marsh Q3 2024 U.S. composite casualty insurance index, pricing increases averaged **10%** (a 6% jump over the previous quarter). Excluding workers' compensation, rate increases averaged 14% (double the trend in the prior quarter). The shift in the casualty market we anticipated is taking hold.



Source: Marsh Specialty and Global Placement

Automobile/fleet

Rate trends

Average rate increases were **8%** and with double-digit increases for businesses with heavy trucks and/or adverse claims experience.

Conditions and observations

- Key market drivers remain unchanged: inflation, supply chain disruptions, technology challenges, an increase in fatalities, and an uptick in excessive jury verdicts.
- There is continued resistance across the marketplace to quote limits over $1 million, creating challenges for the higher primary limit requirements from umbrella and excess markets.
- Underwriters are concerned about contingent auto liability when insureds are hiring third-party truckers.
- Trucking and hired non-owned risks continue to present challenges, and underwriters are enforcing new driver requirements such as a minimum of three years of driving experience and a minimum age of 23.

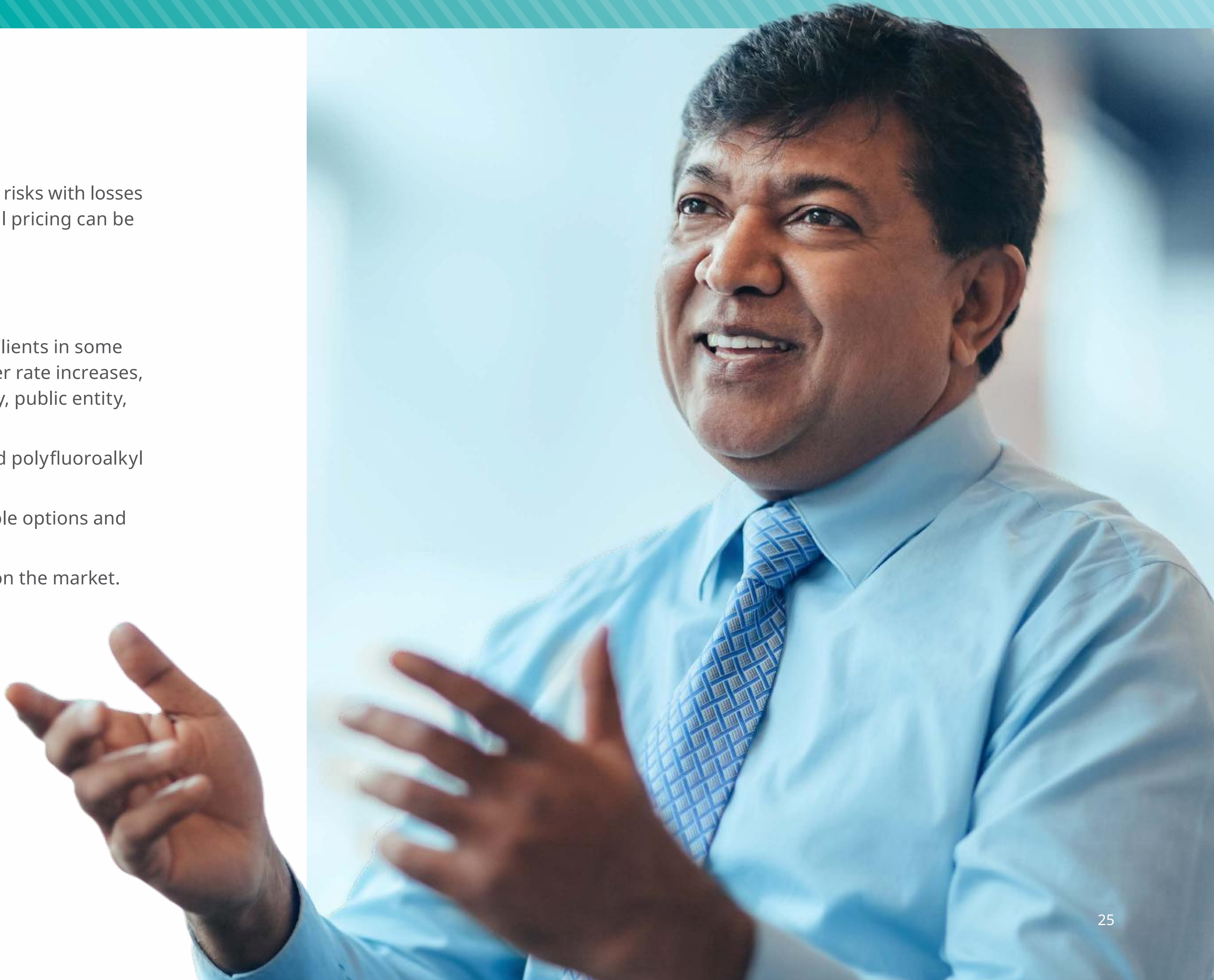
General liability

Rate trends

Rate increases are averaging **4%** and higher for risks with losses and/or product liability exposures. Flat renewal pricing can be achieved in some instances.

Conditions and observations

- General liability rates remained consistent. Clients in some industry classes generally experienced higher rate increases, including real estate, habitational, hospitality, public entity, and education.
- Insurers’ concerns are increasing for per- and polyfluoroalkyl substances (PFAS) exposures.
- Insurers continue to quote multiple deductible options and capacity remains favorable.
- Global instability continues to put pressure on the market.



Umbrella/excess

Rate trends

- In the umbrella and excess liability market, risk-adjusted rates tracked by the Marsh Global Insurance Market Index increased **21%** compared to 10% in the prior quarter. Where there was no program structure change, rates increased 20% and 5%, respectively.
- Rates on umbrella programs with favorable loss experience and low-hazard exposure increased in the 10% to 15% range, while those with adverse loss development and exposure concerns typically saw program changes and rate increases of 30% and higher.

Conditions and observations

- We continue to see carriers reduce their capacity on more difficult exposures, including some segments of construction and manufacturing.
- We were previously experiencing limit reductions from $10 million to $5 million in past years. Now there are instances of $10 million limits being reduced to $2 million to $3 million.
- Some insurers focused on limiting or excluding coverage in such areas as per- and polyfluoroalkyl substances (PFAS), biometric, sexual molestation liability, endocrine disruptors, and Israel/Palestine and Russia/Ukraine conflicts.
- The cumulative loss cost trend has outpaced rate increases over the past five years.
- Legal system abuse (aka social inflation or litigation finance) is beginning to complicate the ability to obtain affordable coverage with adequate limits, with many excess/umbrella markets requiring at least $10 million in primary limits before they will quote. Third-party funding of lawsuits is leading to a disproportionate number of nuclear verdicts (typically defined as awards exceeding $10 million); large and small organizations alike are experiencing the accelerated litigation costs and it is greatly impacting insurance affordability.
  - For some perspective, the Institute for Legal Reform published "Tort Costs in America: an Empirical Analysis of Costs and Compensation of the U.S. Tort System." The institute discovered that tort costs grew at a faster rate than GDP even prior to the 2020 pandemic, negatively impacting consumers, businesses, and the economy.
  - While legal system abuse is a global issue, Swiss Re analysis estimates that the U.S. ranks No. 1 with a 52% share of activity.
  - The U.S. regulatory framework recognizes that a lack of transparency of third-party funded lawsuits is a key area that needs to be addressed. There are many proponents of legal reforms who all agree that defendants should have a right to know when a third-party firm is financing a lawsuit against them.
  - Insurers continue to monitor and reevaluate capacity on individual risks due to this U.S. litigious environment, and reinsurers press for reduced volatility.
- Increasing underwriter scrutiny is driving umbrella and excess underwriters to require an inordinate amount of detail in marketing submissions, including incumbent insurers at renewal.

Workers' compensation

Rate trends

Rates generally remained flat or in negative territory, with decreases of around **-2%**.

Conditions and observations

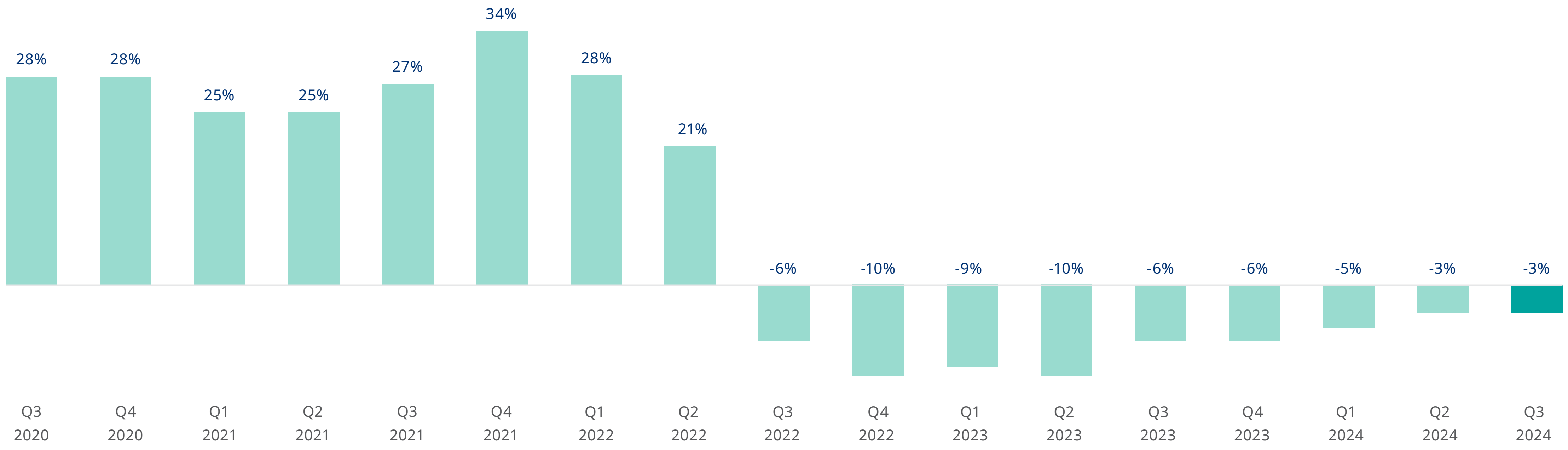
- Carrier appetite for workers' compensation remains high for insurers, although there is growing concern about increasing reserves and rising medical costs.
- Workers' compensation can still be leveraged to temper general and automobile liability rate increases.
- Market is seeing continued competition from regional and specialized insurers, with new programs providing additional capacity.

03

Management and executive liability coverages

According to the Marsh Q3 2024 U.S. renewal management and executive liability insurance index, pricing decreases remained at **-3%** (excluding cyber).

U.S. composite insurance pricing change: management and executive liability



Source: Marsh Specialty and Global Placement

Public directors' and officers' (D&O) liability

Rate trends

- Directors’ and officers’ (D&O) liability rates continued to decline, though the pace of decreases moderated to 4%, compared to 5% in the prior quarter. Although larger decreases may be available for post-transaction IPO or deSPAC or for insureds that have had material improvements in their risk profile.

Conditions and observations

- The public D&O market remains stable with abundant capacity.
- Many carriers are seeking to transition away from high excess D&O layers due to thin pricing, favoring Side A or lower layers like primary and first excess. The competition is driving rates down for the lower excess layers.
- Insureds that maintain long-term relationships with their insurers have more stable program pricing over time.
- Rate locks and guarantees are subject to specific conditions such as loss ratio and are more readily available for small market cap companies.
- Carriers are interested in quoting more limit within a D&O program which is leading to the restructuring of programs and reducing the number of insurers and layers that improve the competitive landscape.
- Life sciences organizations, at all stages of their development, remain challenging due to below average (but adequate) market capacity.
- Aggressive pricing from excess carriers is decelerating but there is still willingness to provide true follow-form coverage for increased limits.
- Entity investigation coverage is widely available, typically for no additional premium, and with increasing flexibility around coverage breadth.
- Underwriter scrutiny related to the financial condition of insureds is expanding due to the increase in corporate Chapter 11 and Chapter 7 filings.
- Considering the CrowdStrike outage that disrupted global commerce a few months ago, the D&O market is concerned about long-tail loss development.
- Event-driven litigation continues to present an ongoing threat on a range of issues, including the environment, cyber, product safety, diversity initiatives, and company statements on public policy and social issues.

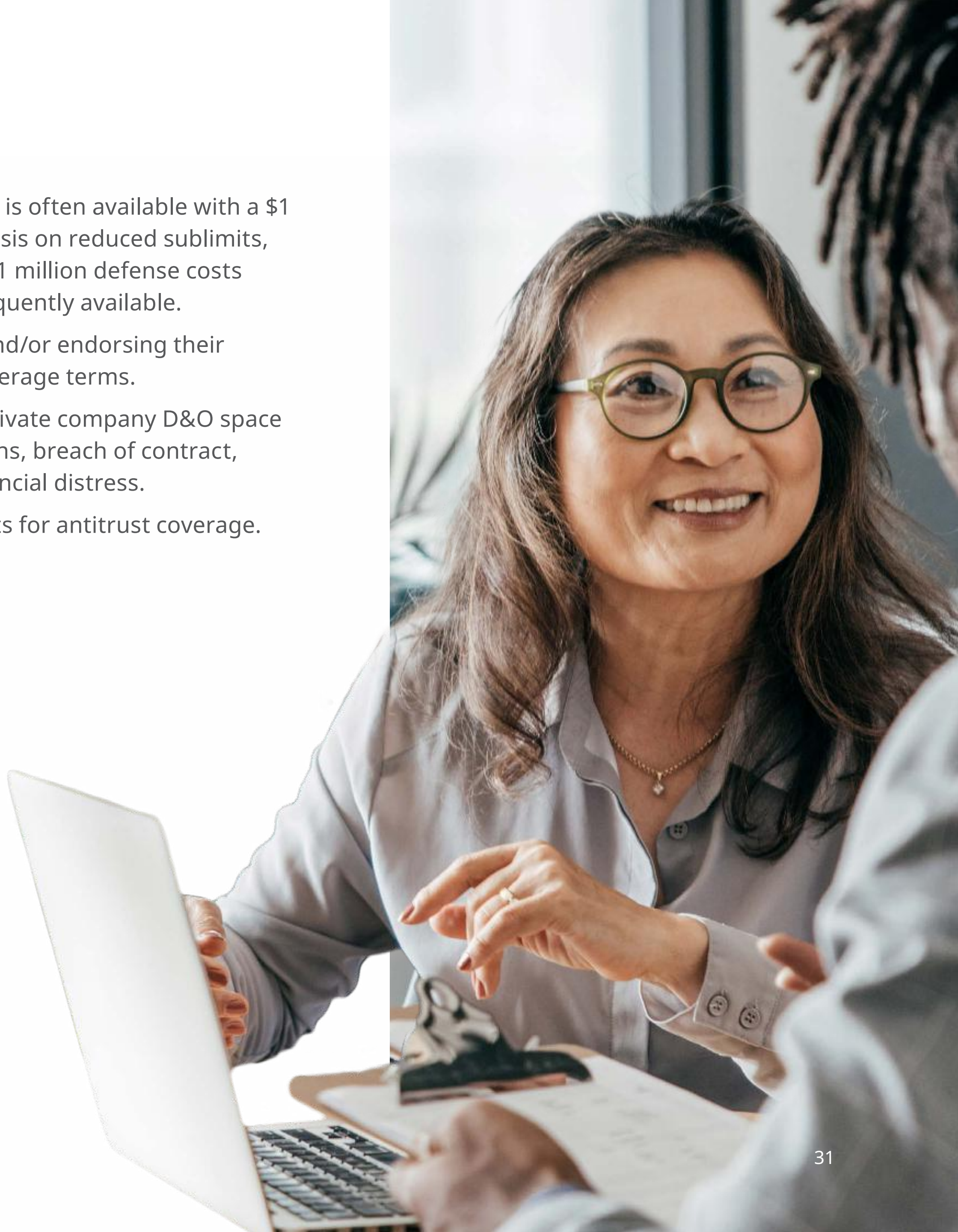
Private directors' and officers' (D&O) liability

Rate trends

- Rates remain stable despite the markets fatigue with rate decreases over the past year. We are seeing modest rate decreases to small increases in the **1% to 5%** range. Real estate risks are seeing high single-digit increases, and life sciences have been in the low double digits—these are the two industries seeing the largest increases.

Conditions and observations

- Rates continued to be driven down by supply and demand economics. With the transactional market stagnant, insurers were forced to grapple with an oversupply of capacity driven by new entrants during the hard market.
- We continue to see more aggressive pricing on marketed accounts offering good opportunities to also lower retentions or obtain higher limits and sublimits.
- Insurers continue to be competitive on excess coverage options in terms of pricing, limits, and drop-down coverage.
- Apart from pre-IPO risks, insurers are eager for new business opportunities.
- Small accounts may be eligible for multi-year deals or streamlined/automatic renewals, including financial institution risks.
- Entity investigation coverage is often available with a $1 million limit, with less emphasis on reduced sublimits, for no additional premium; $1 million defense costs outside the limit remains frequently available.
- Many insurers are revising and/or endorsing their forms to include broader coverage terms.
- Leading loss drivers in the private company D&O space include consumer class actions, breach of contract, major shareholders, and financial distress.
- Markets are offering full limits for antitrust coverage.



Employment practices liability (EPL)

Rate trends

- We are continuing to see flat to single-digit rate increases, and accounts with favorable loss history may achieve reduced retentions.

Conditions and observations

- Capacity is widely available.
- The employment practices market is relatively stable and, in some cases, we are seeing increased competition (especially for risks that don't have exposure in California). There is upward pressure on retentions where the underwriter thinks the risk profile warrants a higher degree of caution.
- Underwriting concerns persist around higher risk perils such as layoffs, average salaries, and high turnover rates. Furthermore, industries of concern include health care, staffing agencies, automobile dealers, restaurants, law firms, financial institutions, technology firms, and start-ups.
- Opportunities for mass class retention reductions are often available with good loss experience.
- Insurers are imposing exclusions in response to the Illinois Biometric Information Privacy Act (BIPA).
- While California EPL rates have moderated, wage and hour coverage remains especially challenging in California and Massachusetts. Additionally, there is less capacity in the market for wage and hour defense costs.
- The cost of defending EPL claims continues to increase, with large settlements and verdicts for class actions and single-plaintiff claims, and we don’t anticipate any slowdown in this activity. The use of artificial intelligence (AI) also has the potential to increase employment risks as HR practitioners’ use of AI expands. Looking ahead, insureds should be mindful that these claim trends are likely to influence pricing.

Crime

Rate trends

- There has been minimal rate movement for insureds with unchanged exposures year-over-year and a favorable loss history. However, more challenging business segments such as technology/fintech, private equity, and risks with heavy foreign exposures often experience small- to moderate-sized increases.

Conditions and observations

- Carriers are looking at capacity on crime in conjunction with their capacity on other management liability lines.
- Risks outside of the U.S. and social engineering schemes continue to drive losses, and the fraudulent schemes are constantly evolving.
  - Crime insurers are paying close attention to client security controls, and in some cases, if clients have not demonstrated adequate controls, we have seen insurers pull back on social engineering coverage. However, $1 million sub-limit options are readily available for insureds with sound controls.
  - Despite this trend, excess coverage capacity for social engineering is improving.
- Risks with revenue over $1 billion or that have significant foreign exposures experience greater underwriter scrutiny, including deductible adequacy.
- Exclusions are increasingly being added to the crime policy to clarify the intent of coverage. These include exclusions for cyber extortion, ransomware, destruction of data, as well as exclusions for losses relating to NFTs, cryptocurrency, and other digital assets.

Fiduciary

Rate trends

- Fiduciary insurance rate decreases averaged **2%**.

Conditions and observations

- We are seeing increased competition for fiduciary liability, including lower retentions for excessive fee or mass/class actions if an insured already had increased retentions imposed in earlier years. Insurers are finding that loss experience to date has been more favorable than anticipated for smaller plans (especially those below $100 million in plan assets), so they may be able to consider lowering retentions that were increased on a blanket approach when litigation outcomes were much more uncertain.
- Insurers continue to monitor and react to lawsuits that seek to apply the liability theories used in Employee Retirement Income Security Act (ERISA) excessive fee litigation to lawsuits involving health plans or pharmacy benefits managers. These lawsuits are troubling for their potential to mirror the scope of the retirement excessive fee cases.
  - Legal costs are high for these specialized ERISA cases, with defense costs, expert fees, and laborious discovery driving costs easily over $1 million. Plaintiffs' fees are often awarded at 25% of the settlement.
- Litigation related to pension risk transfer has increased underwriting focus on defined benefit plans.
- For larger plans, ranging from $1 million to $10 million, retentions are a pain point, and insurers have voiced concerns about the rapid increase in defense costs and expert fees.

Errors and omissions (E&O)

Rate trends

- Rates increases were modest, averaging **1%**. Insurers are adjusting their rates to better reflect long-term loss trends, which has had a positive impact on pricing in the primary layer. This has also attracted new carriers to the E&O marketplace.

Conditions and observations

- Underwriting scrutiny is lessening for the professional exposure in cyber and tech E&O policies as the cyber insurance marketplace still has a stable amount of capacity, especially in the SME/mid-market where insurers are looking to expand market share. Although we are seeing some insurers start to target modest rate increases for some higher hazard industry classes such as health care, manufacturing, and the automotive industry.
- Medical professional liability appears to be leveling off, and more insurers are competing for business.
- The lawyers' professional market has leveled off, including the ability to utilize domestic admitted markets.
- The architects', engineers', and contractors' professional liability market pricing remains elevated, but with plentiful capacity. Increased claim activity, high hazard project types, changes to client disciplines or services, acquisitions, and the location of risk are among the key factors contributing to significant individual client rate changes.
  - Carriers continue to report that evolving technologies, social inflation, scope creep, and certain project types such as condominiums, single-family residential, road and highway construction, tunnels, bridges, and alternative energy projects are contributing to an increase in claim activity.
- Robust risk management, including effective contract review, quality control procedures, and ongoing training for employees, remains good practice.
- The E&O marketplace is closely monitoring emerging risks such as cyber liability, data breaches, and emerging technologies such as artificial intelligence and blockchain. Insurers are developing specialized coverage options to address these evolving risks.

04

Cybersecurity and data privacy

A staggering 75% of U.S. executives ranked cyberattacks as their top business risk in a September study from PricewaterhouseCoopers. That's ahead of margin pressure affecting earnings (70%), geopolitical tensions (68%), and AI legal and reputational risks (63%).

There’s certainly a common thread across these concerns that point back to economic pressures. When an organization has fewer resources to protect against and respond to cyber threats, and inflation leads to insufficient staff, cybersecurity improvements may not get the warranted attention required for an organization to remain resilient. In another example, generative AI’s ability to produce convincing deepfakes adds to the cyber risk environment, as do bad actors from political foes. All of these risk concerns are interconnected.

Rate trends

While pricing can be inconsistent, U.S. **rates decreased an average of 4% to 5%** in Q3 2024, and more for risks that can demonstrate year-over-year security control improvements.

Conditions and observations

- More insurers are aggressively quoting and binding accounts without full multi-factor authentication (MFA) in place, but they limit coverage and will only increase sublimits mid-term if the insured fully implements MFA.
- Competition remains strong, with rates decreasing and many insurers willing to increase capacity and provide options for lower self-insured retentions. Insureds benefit, allowing them to purchase more adequate limits.
  - Thirteen percent of Marsh clients increased their total limits in August 2024 and eighteen percent were able to reduce self-insured retentions.
- As policy wording continues to evolve, some carriers are imposing updated exclusions related to war, privacy regulations, and data collection.
- Marsh observed a 16% increase in cyber claims reported through Q2 2024.
- Supply chain and third-party cyber risks are a growing threat.

60%

of organizations work with more than 1,000 third parties.

71%

of organizations report their third-party network contains more vendors than it did three years ago.

73%

of organizations have experienced significant disruption caused by a third party, whether it be a data breach or ethical violation.

73%

of organizations say their third parties have more access to organizational data assets than three years ago.

80%

of organizations report their third-party diligence questionnaires have increased in recent years.

Please review our top [twelve security controls] being requested by insurers.

- Privacy-related risks around the collection, retention, and sharing of information and data are still very relevant, especially in the face of more states enacting comprehensive consumer protection privacy laws, as well as foreign regulations and industry-specific enforcement rules.
- Artificial intelligence is also causing concerns around security and privacy risk alike, and we are seeing some modest amendments being introduced to account for some of the evolving risks that can be anticipated. It will be important to continue to monitor this coverage evolution. Bodily injury (BI) and property damage (PD) stemming from a security failure and system failure are additional coverage areas to monitor, as we do see an emergence of creative coverage solutions that may be more applicable for certain industries such as health care for BI and transportation, construction, and manufacturing for PD, for example.
- Coverage for newer privacy regulations may be restricted pending controls and specific insurer appetite. The current concerns are focused on wrongful collection, the Biometric Information Privacy Act (BIPA), the Video Privacy Protection Act (VPPA), and pixel tracking.
  - BIPA litigation is proving costly. The first jury trial resulted in damages of $44 million, although Illinois has made some amendments to limit the interpretation of "each incident," which is expected to reduce the potential catastrophic fears among insurers.
  - VPPA complaints are on the rise due to the increased use of chatbots and website tracking technologies.
- Ransomware claims continue to increase; however, data compromise and business interruption have become the risk issue in the spotlight for organizations.
  - While the average demand size for ransomware has increased, the number of companies paying the ransom is down. Thirty-six percent of companies paid a ransom in Q2 2024 compared to 53% in Q2 2021.
  - Data exfiltration occurred in 75% of ransomware events in Q2 2024, leading to other losses such as data breach or business interruption.
  - While ransomware claims are increasing, the majority of cyber events involve unauthorized access without an extortion threat. Eighty-eight percent of reported claims to Marsh U.S. in Q2 2024 didn't involve ransomware.

Cyber claim trend alert

Illinois' BIPA amended: what it means for insurers and policyholders

The governor of Illinois, J.B. Pritzker, recently signed legislation which amends the state's Biometric Information Privacy Act (BIPA) by limiting recoverable damages and adding language to update BIPA's right of action section.

- BIPA imposes penalties of $1,000 for each violation and $5,000 for intentional violations. It requires employees to give permission before employers collect biometric information such as fingerprints which are often used for timekeeping purposes.
- BIPA's new language modifies the retention, collection, disclosure, and destruction section such that a private entity that collects or disseminates biometric information from a person in more than one instance in violation of the law has committed a single violation, and the aggrieved individual is entitled to one recovery.
- Previously, in July 2023, a 4-3 Illinois Supreme Court in Cothron v. White Castle System, Inc., 216 N.E. 3d 918 (Ill. 2023), held in a matter of first impression that BIPA claims accrue each time a biometric identifier or information is collected or disseminated and not only on a first scan or transmission. Based on claims it repeated scanned fingerprints of 9,500 workers without consent, it was estimated the decision could cost the White Castle restaurant chain nearly $17 billion.
- Before the White Castle decision, the Illinois Supreme Court's ruling in Horse Carriers Tims v. Black Horse Carriers, Inc., 216 N.E. 3d 845 (Ill. 2023) established a five-year statute of limitations for BIPA violations, allowing plaintiffs to seek damages for each violation during that period. Together, the two rulings created a significant risk for businesses, potentially leading to massive settlements and undermining the original intent of BIPA to encourage responsible use of biometric information without destroying businesses.
- The updated language means that claims will accumulate at the first improper collection or disclosure of an individual's biometric data, so damages can only be sought for the initial violation, not for any subsequent ones. While the potential damages remain high, this amendment significantly reduces the legal risk and financial liability for businesses facing lawsuits related to BIPA violations.
- With the massive damages exposure, insurers have previously added exclusions to avoid coverage; however, the amendment renders the amount of damages more predictable such that insurers may be more willing to underwrite the risk of liability for BIPA violations in the future. Cyber liability and employment practices liability policies may be affected, with policyholders potentially eligible for coverage depending on their policy terms. If insurers start offering explicit BIPA coverage, the underwriting process will be thorough, requiring detailed information on BIPA compliance practices, and policyholders must be diligent in providing accurate information to avoid issues with coverage later.
- The revisions to BIPA by the legislature do not impact existing court decisions on coverage, and insurers have been using various exclusions to avoid coverage. The interpretation of these exclusions varies, with state and federal courts split on the matter. Marsh McLennan Agency clients should carefully review their policies and consult coverage counsel to determine if coverage exists for BIPA claims.

05

Additional trends and observations

Aviation

Rate trends

The aviation market is moderating. We are seeing minimal rate increases of **3% to 7%** and can achieve flat renewals when competition is introduced for loss-free risks and for fairly newer aircraft. Rates are primarily driven by the individual operator's profile as much as they are by broader market conditions.

Conditions and observations

- New market entrants are introducing new capacity, helping to preserve the rating environment.
- There is growth across the industry that is further impacting supply chain disruption concerns that inflate claim costs, as well as pilot shortages.
- Geopolitical volatility remains a concern for some war risk insurers; however, there is a modest stabilization for hull war and excess war liability placements.

Environmental

Rate trends

Average rate increases were **0% to 5%** for contractor's pollution liability, **0% to 15%** for site pollution, and **10% to 30%** for combined-form liability.

Conditions and observations

- The environmental market appeared to be in transition in Q2 2024. This was thought to be a result of key environmental underwriter staffing changes, along with an influx of new but unqualified submissions entering the market. Renewals and new business were impacted and saw increased environmental scrutiny, reduced underwriting flexibility, quoting delays, and issues with capacity for PFAS, as well as large and high-risk accounts. This trend is expected to continue into 2025 as environmental carriers realign.
- If pursuing coverage, companies should be advised that quotes may take longer to obtain, and underwriters may be less flexible or less interested when quoting submissions without all of the requested information. This is a change from the more flexible market seen in previous years.
- Coverage for PFAS products and locations thought to be contaminated with PFAS remains challenging, although some carriers are still actively offering the coverage. Additionally, excess capacity for higher hazard combined-form liability has seen a noticeable decrease, along with an increase in focused peril restrictions for specific contaminants.
- Several new environmental insurance carriers entered the market in the previous quarter, with several additional carriers expected to open or offer new coverage lines on January 1, 2025. New carriers provide additional capacity and aggressive market leverage to a traditionally small pool of carriers offering coverage for environmental liability.

International

Rate trends

- Renewal pricing remains stable on many international placements; however, property and foreign package rates are on the rise.
- Business travel accident, as well as kidnap and ransom renewal pricing, remains stable.
- Defense Base Act (DBA) pricing continues to tumble.

Conditions and observations

- Foreign direct investment continues to grow for U.S. companies as they explore new markets, sources of production, and/or raw materials.
- U.S. and London underwriters have increased their willingness to offer coverage terms for Ukraine business travel accident.
- Latin American countries are increasing regulations on automobile and general liability exposures, implementing mandatory minimum limits and requiring use of local policies.
- Some global insurers are increasing their lists of countries they will exclude in their coverage territory wording.

Small commercial market insights

A notable positive shift in the small commercial marketplace is an increase in insurers creating customizable products and endorsements that cater to an insured's operations instead of the traditional "one-size-fits-all" approach. This is creating new solutions for new classes of business that haven't always existed.

Rate trends

Overall pricing is increasing in the **4% to 13%** range for business owner's policies (BOPs), with the IVANS Index reporting average BOP increases of **8.76%** (up 0.39% from the previous quarter).

Baseline trends from IVANS with double-digit increases noted for property:

11.8%
Property
0.86% decrease over prior quarter

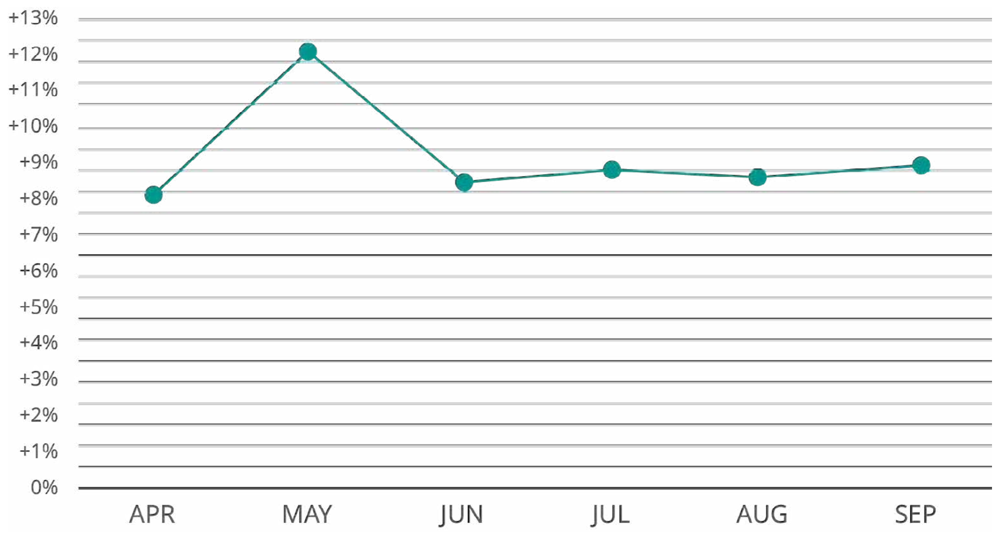
9.67%
Automobile liability
0.01% negligible increase over prior quarter

8.6%
Umbrella
0.35% increase over prior quarter

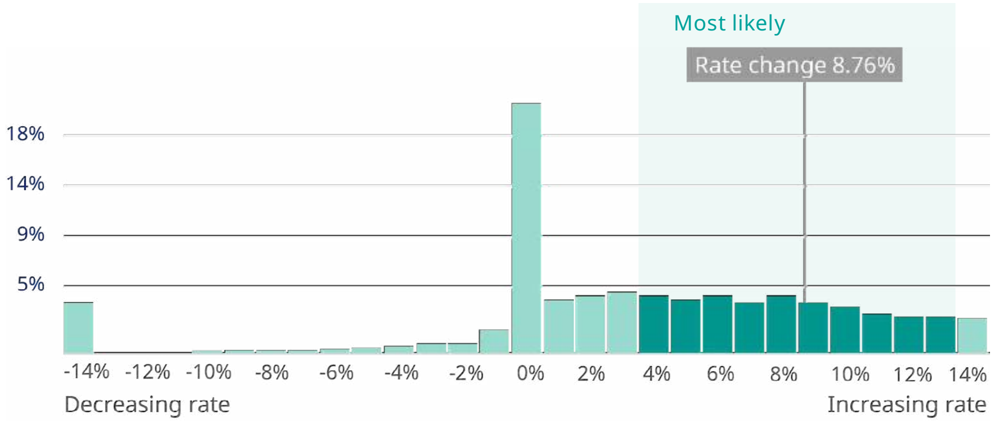
4.48%
General liability
0.41% increase over prior quarter

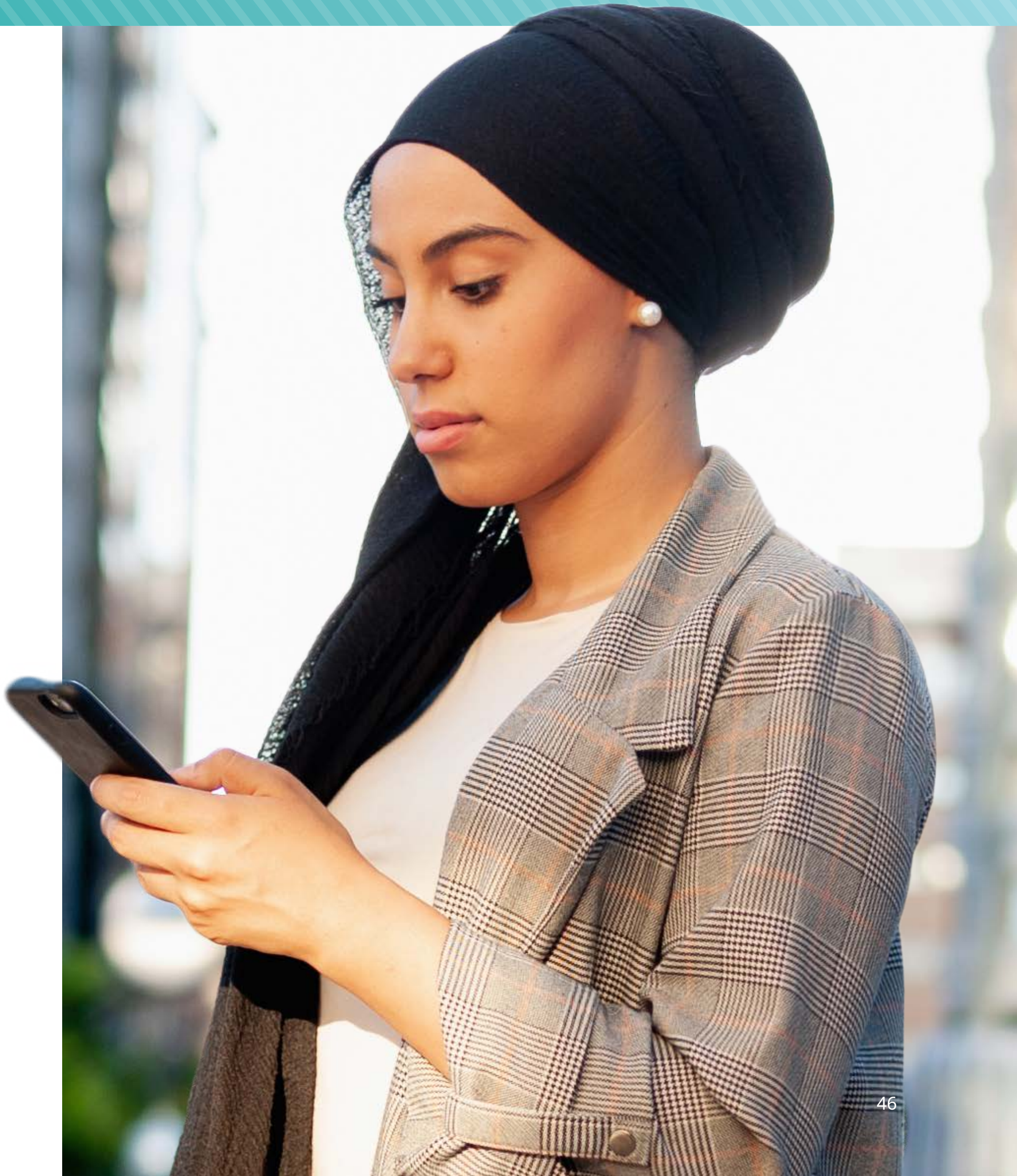
-1.24%
Workers' compensation
0.27% increase over prior quarter

IVANS Index premium renewal rate change trend - last 6 months



IVANS Index premium renewal rate change distribution - June





Conditions and observations

Property

- Overall pricing increases remain as high as 25% to 30% at renewal. Higher total insured values (TIVs) play a large role in the overall increased pricing that most insureds are experiencing.
- Higher wind and hail deductibles and increased rates remain common in states impacted by severe convective storm activity.
- Coverage for wildfire risks remains extremely limited.
- Underwriters are putting more focus on crime scores. If there is higher-than-average crime activity, it can potentially lead to declinations from insurers.
- There is still an increased demand from insurers for underwriting details, signed statement of values, and inflation-adjusted total insured values (TIVs) are being required by insurers before they will quote.
- Strict underwriting guidelines for habitational and lessor's risk remain challenging. Obtaining affordable coverage for older buildings is also problematic.

General liability

- Renewal increases have moderated and are averaging between 3% and 5%, down from the double-digit increases earlier this year. However, this often comes with additional coverage restrictions.
- Supplemental application requirements continue to impact the speed of the quoting process. It remains important for insureds to provide the additional level of underwriting detail quickly to avoid delays with their renewals.

Automobile liability

- We are still seeing substantial rate increases, but those increases have slowed some to an average of 5% on risks with favorable loss experience.
- Non-renewal activity is still problematic as the automobile market remains particularly difficult.

Umbrella/excess liability

- As with larger and mid-size accounts, the umbrella and excess market is challenging and pricing is increasing in the 10% to 15% range. This is requiring the use of more complex layered programs to keep pricing manageable and adequate coverage in place for insureds.

Workers' compensation

- Overall pricing has been coming in flat or with a slight decrease.
- Without favorable loss experience, certain classes of business remain challenging (staffing, trucking, construction, etc.).

Management and executive liability

- The market for cyber, D&O, and professional liability has continued to improve with many insureds able to avoid an increase or obtain modest increases.
- Directors' and officers' liability coverage rates have been on a modest decline.
- Employment practices liability coverage rates are coming in flat to 3% increases, which is an improvement from prior quarters.
- Cyber market conditions have improved, with more insurers eager to offer options if key security protocols, such as multi-factor authentication, are in place. Additionally, rate increases appear to be leveling off.

Trade credit insurance (TCI)

Global conflicts will continue to affect global exports and will be a key driver in the increased need for TCI. Additionally, the easing of federal interest rates will not result in immediate impacts for businesses, leading to increased potential bankruptcies and delayed payments. The TCI market is very aggressive, with rates and coverage availability for middle market buyers due to help policies. this will be provided to banks when rates begin to stabilize.

Rate Trends

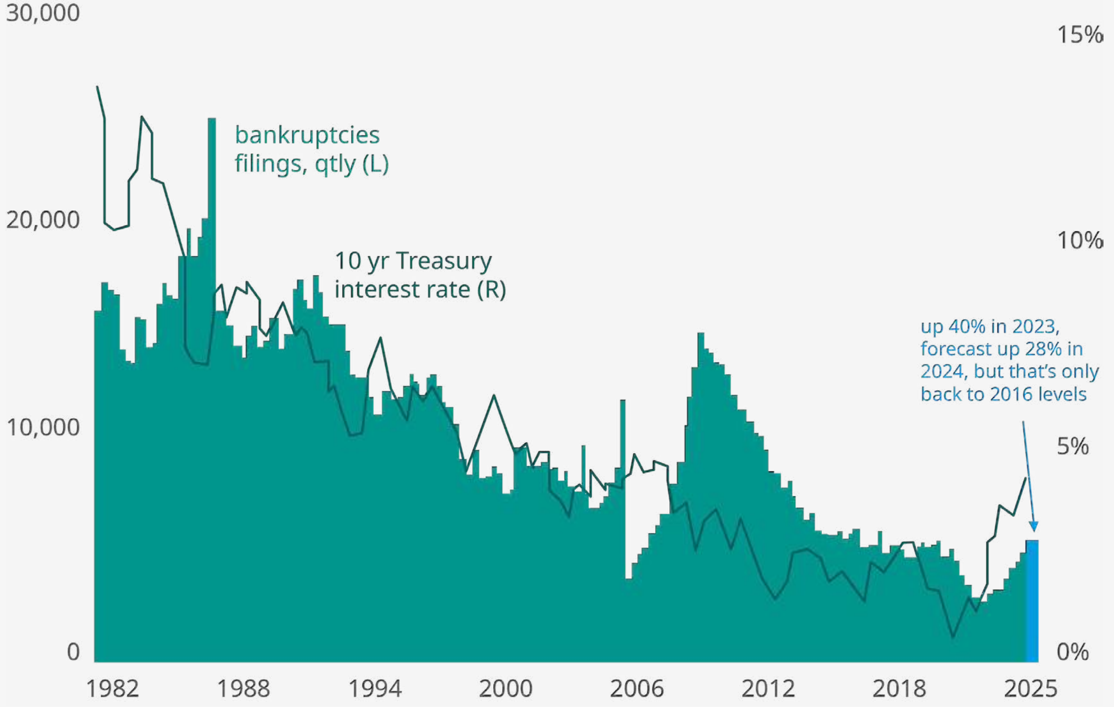
- The consistent growth of new policies and growth in international trade has helped to assist in rate moderation for new policy holders. This growth is driven by new U.S. business for trade credit insurance carriers.
- Moody's has continued its strong credit underwriting stance for insurers despite the continued increase in U.S. bankruptcies. Companies that have failed were already forecasted. Overall credit ratings remain strong, and with federal interest rate cuts, there is still potential for improvement into Q4.
- The middle market is still the biggest opportunity for insurers into Q3 and through 2024.

Conditions and observations

- There is more competition on rates for single debtor or large concentration deals across the market.
- Appetites on limits over $50 million have become more difficult to obtain. Large claims and catastrophic events like recent hurricanes have credit insurers more critical and reluctant on single limits over $50 million.
- Demand in credit insurance is also continuing because of the surge in bankruptcies in Q3 2024. There is a 25% year-over-year increase across all industries.
- The real estate market has seen the highest number of bankruptcies, but health care and chemical industries have also driven up TCI rates. These sectors will experience more stringent underwriting in Q3 and into the future.
- Moody's ratings on countries in the European Union and Middle East have shifted due to recent conflicts in Q3, impacting TCI availability in these countries.

A recession is not being forecast, but long-term interest rates do not fall as much or as fast as when the Fed cuts rates, which will maintain pressure on bankruptcies for some time.

Business bankruptcy filings vs. interest rates



Source: Allianz Trade: Economic Forecast

Safeguarding business continuity and resiliency: finding a path to adaptability

We'll be monitoring outcomes from the presidential election in the U.S. that could significantly impact commercial insurance buyers in several ways:

1
Regulatory changes

2
Economic policies

3
Climate and environmental policies

4
Litigation environment

5
Market stability

6
Cybersecurity and data privacy

Marsh McLennan Agency is here to help you navigate these changes. Reach out to us to explore alternative risk solutions and learn how informed analytics can support your insurance buying decisions.

Note: Many of the rate trend graphics contained in this report are from Marsh McLennan and may not always include small to middle market data. All references to rate and rate movements in this report are averages unless otherwise noted. For ease of reporting, we have rounded all percentages regarding rate movements to the nearest whole number.

Special thanks to our Marsh McLennan Agency business insurance market observations contributors:

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What to expect from Marsh McLennan Agency

We'll partner with you to create a strategic plan that aligns with your short- and long-term organizational goals. We offer choices, alternatives, and advice. We are your resiliency-focused risk champion.

To learn more, contact a Marsh McLennan Agency colleague today.

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Marsh McLennan Agency (MMA) provides business insurance, employee health & benefits, retirement & wealth, and private client insurance solutions to organizations and individuals seeking limitless possibilities. With 11,000 colleagues and 200 offices across North America, MMA combines the personalized service model of a local consultant with the global resources of the world's leading professional services firm, Marsh McLennan (NYSE: MMC).

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