MarshMcLennan Agency

Q1 2024 U.S. Business Insurance Market Observations

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A business of Marsh McLennan

Executive summary

ALIRT Insurance Research has been studying the U.S. property and casualty insurance market for more than 30 years and reports that they have never seen a hard market like the one we've been enduring for the past six years. Their insights are worth reading. "Taken as a whole, we believe that broad P&C rates will remain firm throughout 2024 and likely 2025, though at a slowly moderating pace," they write.

In this report, we'll cover a range of trending topics.

- The use of parametric insurance is growing in popularity not only for natural catastrophe risks but also for cybersecurity concerns.
- Rising sea levels are putting a spotlight on coastal flooding concerns, and the warmest Atlantic Ocean on record has climate specialists predicting a higher-than-average hurricane season.
- The Securities and Exchange Commission (SEC) adopted their final ruling for climate-related disclosure requirements for Scope 1 and 2 emissions, while eliminating the vendor supply chain Scope 3 emission obligations. All organizations should understand the nuances and time and financial commitments that will be required to comply with the final decision.
- The frequency and severity of strikes, riots, and civil commotion is up significantly, rising 3000% in the last two decades, according to a report from Swiss Re.
- Enhancing safeguards for business continuity during global and domestic social conflict are in dire need of attention.

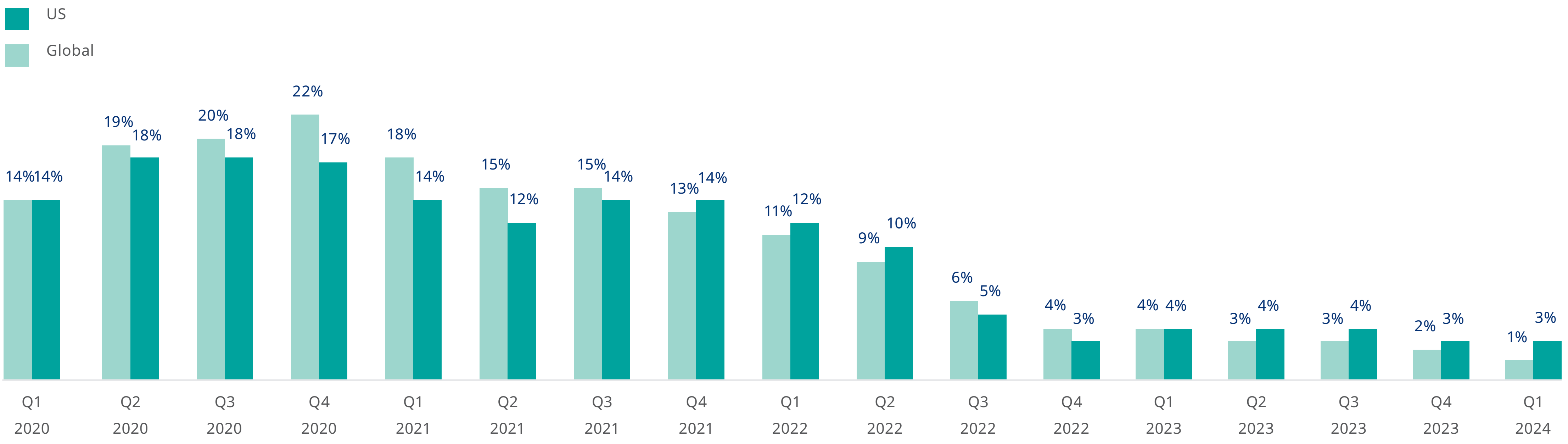
Your future is limitless. Marsh McLennan Agency (MMA) remains steadfast in our commitment to supporting our clients through the challenges ahead. We'll work with you on strategies to achieve the best outcomes.

Denise Perlman, CIC
President, National Business Insurance

Q1 2024 U.S. business insurance market trends and observations

Global commercial insurance prices rose **1%** in the first quarter of 2024, and **3%** for the U.S.—the twenty-sixth consecutive quarter of price increases tracked in the Marsh Global Insurance Market Index.

U.S. composite insurance pricing change



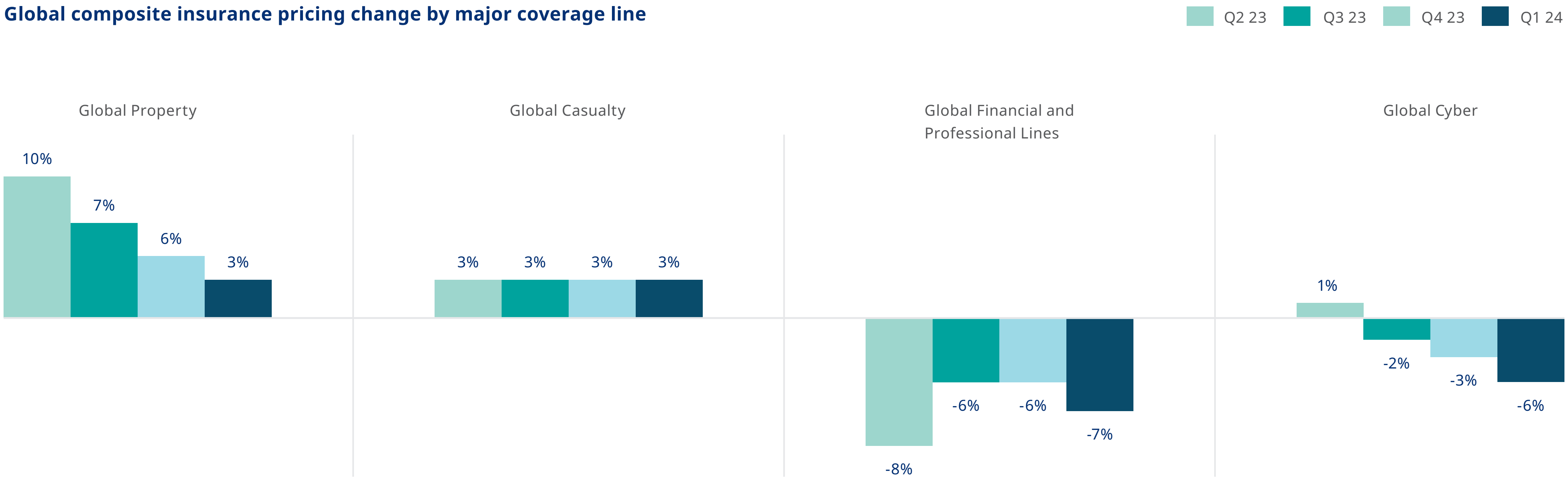
Source: Marsh Specialty and Global Placement - Created with Datawrapper

Global composite insurance pricing change by major coverage line

Global property insurance pricing decreased to **3%** in the first quarter, down from **6%** in the previous quarter, while casualty remained stable at **3%**.

Unlike the other lines, pricing in the U.S. for financial and professional lines decreased by **7%** in the fourth quarter. Cyber also decreased by **6%**.

Global composite insurance pricing change by major coverage line



Source: Marsh Specialty and Global Placement - Created with Datawrapper

01

Property coverages

Property

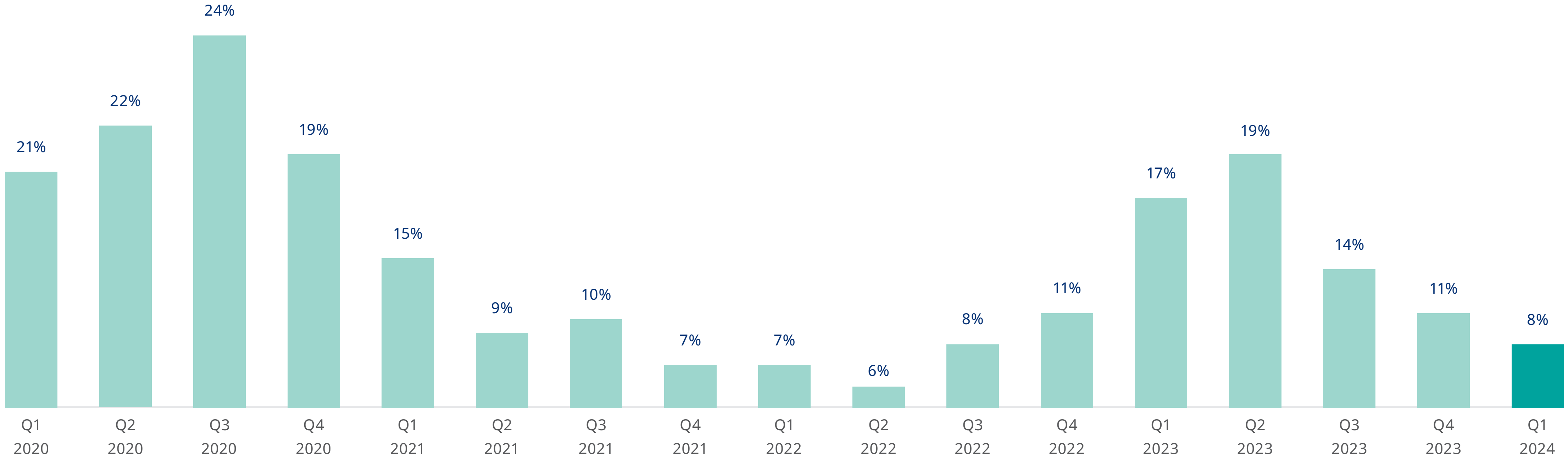
As we shared in the previous quarter, property rates are slowing compared to the last few years. New capacity provides relief for many insureds, particularly on shared and layered programs and placements with heavy catastrophe exposures. Recent market softening hasn't yet benefited insureds with single carrier placements in quite the same way since these accounts are typically less catastrophe-exposed and already benefit from a more competitive rate. However, we are seeing renewed energy in this space, particularly on best-in-class accounts.

We welcome readers to learn more in our separate commercial property insurance trends report. If you missed our recent webinar, "Positioning your organization for the optimal outcome: how to adapt in a transitioning property market," you can catch the replay.

Rate trends

Rate increases averaged **8%** in Q1 2024 for larger risks and more for accounts with loss history challenges, and/or much higher for catastrophe exposed properties.

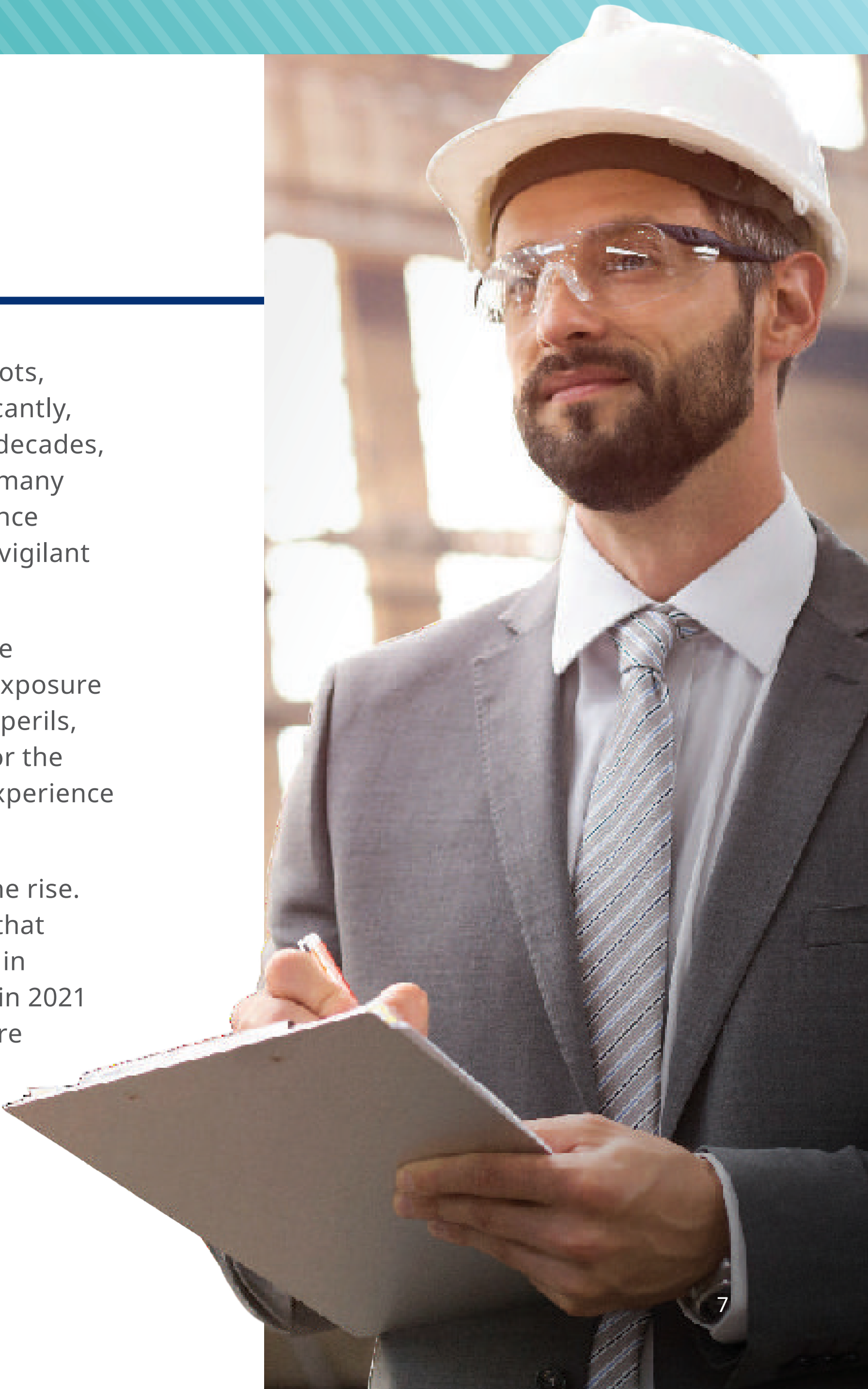
U.S. composite insurance pricing change: property



Source: Marsh Specialty and Global Placement - Created with Datawrapper

Conditions and observations

- Many insurers have aggressive growth targets for 2024. These are contributing to a more predictable property market.
- New capacity can be accessed on shared and layered accounts, putting pressure on carriers that may have taken advantage of opportunistic pricing during the height of the hard market.
- Many property risks are being re-marketed to take advantage of insurer growth goals and new capacity.
- Certain historically challenged occupancy classes remain heavily scrutinized, such as loss-affected frame-constructed habitational risks, recycling operations, foundries, heavy manufacturing sectors, and wildfire-prone properties.
- Insurers have not eased their stance on ongoing loss control improvements by insureds.
- There is continued pressure for insureds to provide accurate valuations. However, the heavy scrutiny has moderated for best-in-class risks that have addressed this area in recent years.
- The frequency and severity of strikes, riots, and civil commotion (SRCC) is up significantly, rising more than 3000% in the last two decades, according to a report from Swiss Re. In many geographies, SRCC is mandatory insurance coverage, and it is important to remain vigilant when addressing this exposure.
- The aggressive pace of builders' risk rate increases has stabilized depending on exposure to natural catastrophe risks, secondary perils, geotechnical conditions, crime scores for the building location, and the overall loss experience of the general contractor.
- The use of parametric insurance is on the rise. The April 2024 AM Best's Review noted that Allied Market Research projects growth in parametric insurance from $11.7 billion in 2021 to $29.3 billion by 2031. The offer of more objectivity, simplicity, transparency, and certainty of claims settlement is attractive to insureds.



2024 Atlantic seasonal hurricane forecast

Colorado State University's 2024 Atlantic seasonal hurricane forecast was released on April 4. It anticipates that this hurricane season will be extremely active, noting that:

- Current El Niño conditions will likely transition to La Niña conditions this summer/fall, leading to hurricane-favorable wind shear conditions.
- Sea surface temperatures in the eastern and central Atlantic are currently at record warm levels and are anticipated to remain well above average for the upcoming hurricane season.
- A warmer-than-normal tropical Atlantic provides a more conducive dynamic and thermodynamic environment for hurricane formation and intensification.
- This **forecast is of above-normal confidence** for an early April outlook. A well above-average probability of major hurricanes making landfall along the continental U.S. coastline and in the Caribbean is anticipated.
- As with all hurricane seasons, coastal residents are reminded that it only takes one hurricane making landfall to make it an active season. **Thorough preparations should be made every season, regardless of predicted activity.**

While these long-term forecasts don't always materialize, they remain a strong bellwether that reinsurers will be watching.

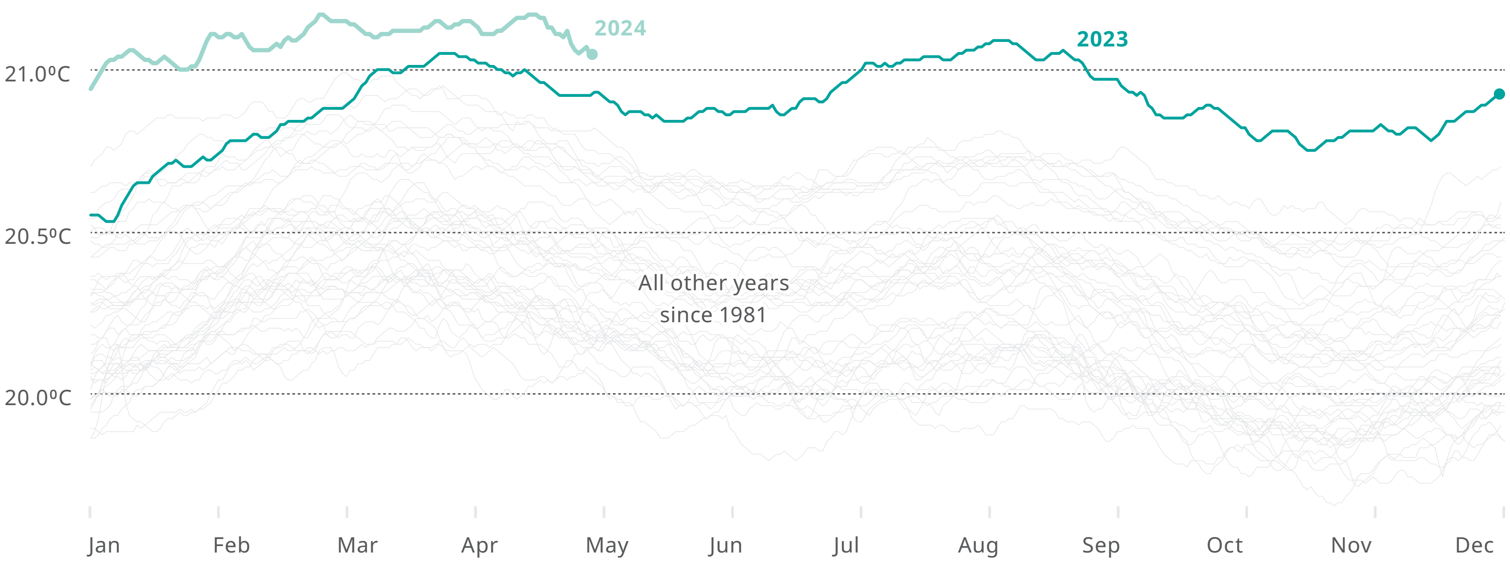
An upward trend in the strongest hurricanes

Guy Carpenter asks an interesting question: Category 6? At the start of February, the academic journal Proceedings of the National Academy of Sciences released a new publication by Michael Wehner and Jim Kossin, which showed a significant increasing trend in the number of Category 5 hurricanes during the satellite era between 1980–2021.

Their findings align with several other research publications. The suggestion that the top end of the Saffir-Simpson wind scale might need to be extended to higher wind speeds (Category 6) has received a lot of attention in the climate science media.

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

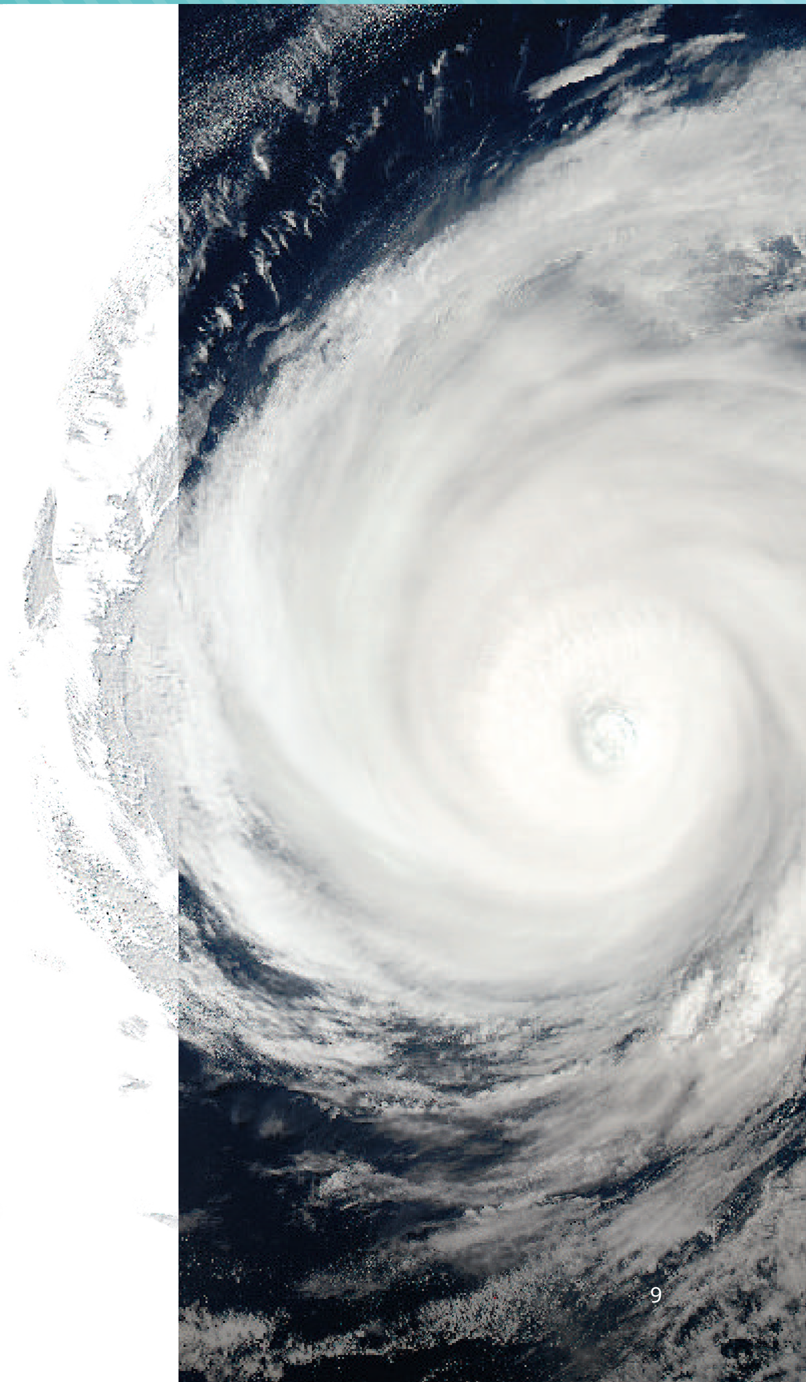
Daily global sea surface temperatures



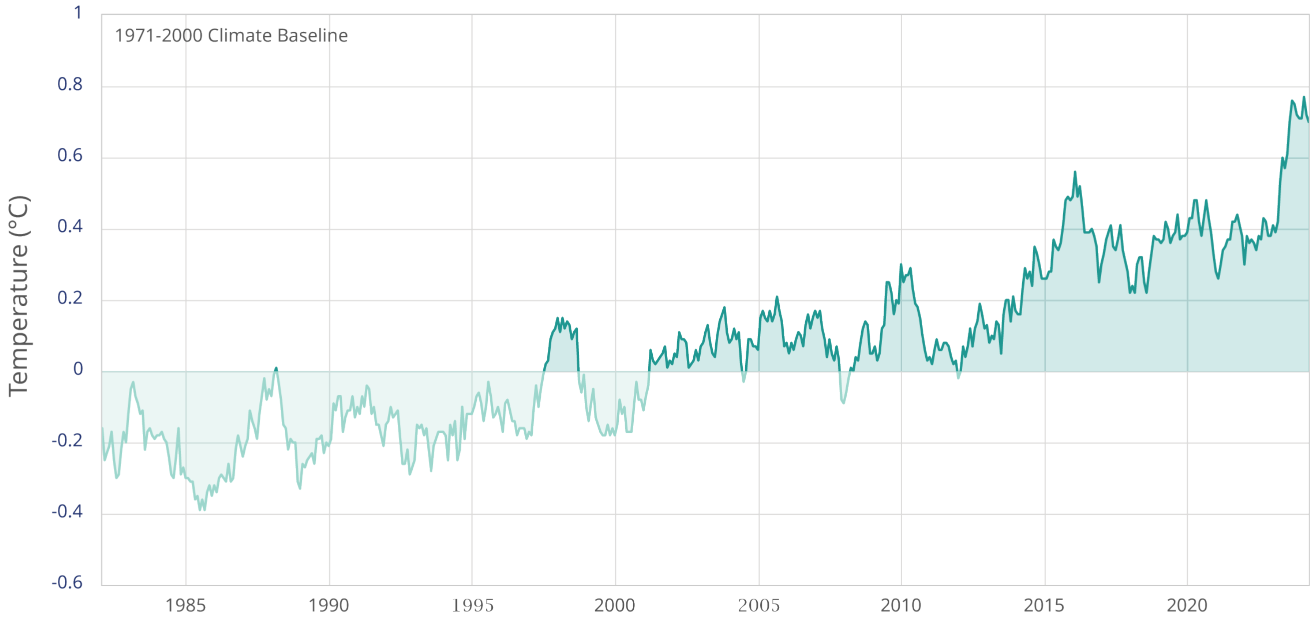
Source: Climate Reanalyzer, Climate Change Institute at the University of Maine, based on data from NOAA Optimum Interpolation Sea Surface Temperature (OISST) Note: Data through April 8, 2024. By the New York Times

In addition, coastal flooding risks can be expected to rise as ocean temperatures shatter records. As reported in The New York Times on April 9, these conditions were described by Benjamin Kirtman, a professor of atmospheric sciences at the University of Miami, as “unprecedented,” “alarming,” and an “out-of-bounds anomaly.” Combined with the rapidly subsiding El Niño weather pattern, there is mounting confidence among forecasting experts that there will be an exceptionally high number of storms this hurricane season.

To put this into better context, in the North Atlantic, average sea temperatures are warmer than any other time on record.



Monthly Sea Surface Temperature Anomaly (^{0}C), North Atlantic (0-60^{0}N, 0-80^{0}W)



Source: Marsh Specialty and Global Placement. Dataset:NOAA OISST V2.1 | Image Credit: Climate Reanalyzer.org, Climate Change Institute, University of Maine

Now is not the time to be uninsured or underinsured for flood coverage. Access this technical multi-agency report to see projected flood risks for your property through the year 2150. In addition to the National Flood Insurance Program, we offer alternative options in the private marketplace and parametric insurance. You can also incorporate preventive solutions into your risk management efforts, such as Internet of Things sensors and strategies to safeguard from power outages or surges.

Property flood claim trends

1 Increased frequency of claims

There has been a continued increase in the frequency of property flood claims in recent years, which can be attributed to various factors, including climate change, changing weather patterns, and increased urbanization in flood-prone areas. The combination of these factors has resulted in an uptick in the number of claims filed for flood-related damages, including water intrusion, structural damage, and business interruption losses. This trend underscores the importance of proactive risk management and obtaining appropriate insurance coverage to mitigate the impact of flooding.

2 Impact of climate change

Climate change is expected to have a significant impact on flood risk and related insurance claims. Rising sea levels, changing precipitation patterns, and more intense storms can increase the frequency and severity of flooding events. As the Earth's climate continues to warm, it leads to shifts in weather patterns and an increase in extreme weather events. These changes can result in more frequent and intense rainfall, leading to a higher likelihood of flooding. Rising global temperatures also contribute to increased risk of coastal flooding and storm surges.

3 Rising claim costs

The rising costs associated with commercial property flood claims have become a growing concern for insurers and property owners. Flood damage can be extensive, resulting in significant repair and restoration expenses and additional costs related to business interruption. Floodwaters can cause significant structural damage to commercial properties, including foundations, walls, flooring, and electrical systems. The force of the water can lead to structural instability, requiring extensive repairs or even complete reconstruction.

4 Technology driven claims handling

Insurers are leveraging technology to streamline and enhance the claims handling process, resulting in numerous benefits for both insurers and policyholders. This includes the use of drones for aerial assessments, satellite imagery for damage evaluation, and digital platforms for claims reporting and communication. These technological advancements can expedite claims processing and improve accuracy. Digital platforms enable real-time communication and play a crucial role in facilitating efficient claims handling.

5 Increased focus on resilience and risk reduction

Insurers and property owners are increasingly recognizing the importance of resilience and risk reduction measures to mitigate the impact of flooding. This includes implementing flood-resistant building designs, elevating critical equipment and utilities, and utilizing flood barriers or flood-proofing techniques. Emphasis on resilience and risk reduction can help manage claim costs and minimize the extent of damage caused by floods, resulting in reduced severity, leading to lower claim costs and potentially faster claim settlements.

Cargo/inland marine

Reuters reported in April that insurers could face losses of up to **$4 billion** after the Baltimore bridge collapse. This would make the event a record shipping insurance loss. Underwriters across several product lines, including property, cargo, marine, liability, trade credit, and contingent business interruption, are all in scope. If losses ultimately come close to this **$4 billion** estimate, that would surpass the record insured losses of the 2012 Costa Concordia luxury cruise liner disaster.

While total losses are expected to be high, they are unlikely to be significant for individual reinsurers since the risk is spread across many insurers. The cargo stock throughput (STP) market is unaffected with robust capacity and rates remaining stable.

Rate trends

Rates are trending flat to **5%** increases, with losses driving higher increases. Competition can often result in flat renewals.

Conditions and observations

- STP policies offer extremely broad global transit coverage. They also offer the opportunity to carve out inventory exposures from property risks with higher deductible pressures and heavy catastrophe footprints.
- The market is challenging for higher risk exposures such as spirits and heavy warehousing.
- In addition to the Russia, Ukraine, and Belarus exclusions universally imposed on cargo STP policies, insurers continue to heavily scrutinize exposures in Israel, Gaza, and Palestine. There are also certain location-specific exclusions now being mandated by some writers of cargo STP risk.

02

Casualty coverages

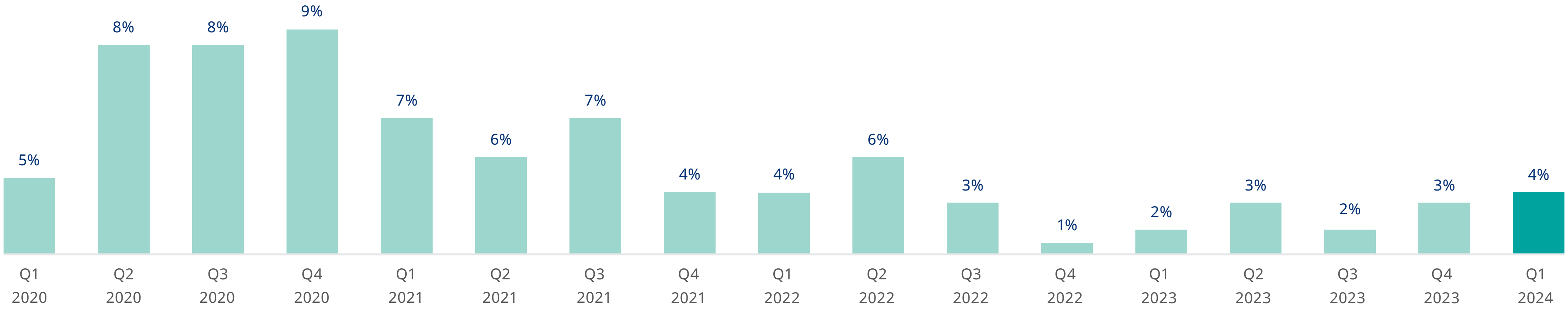
The U.S. property and casualty insurance sector experienced its worst underwriting loss in a decade in 2023. AM Best issued a special report outlining their credit rating downgrades of 55 insurers. This is compared to 30 downgrades in the previous year. Worsening economic and social inflation, reinsurance costs, and persistent inflation contribute to rising loss costs.

Abuse of the legal system is greatly driving costs, with predatory law firms spurring a large portion of the claims activity, forcing many insurers to raise their rates. In April, Bloomberg reported that “social inflation” came up on insurers’ earnings calls about 130 times in the past year and more than 550 times from 2020 to 2023, compared with fewer than 80 references in the previous four-year period.

There appears to remain enough new capacity driving competition that is preventing rates from climbing in line with loss costs, especially for automobile liability. However, numerous sources agree that challenges for the casualty marketplace will continue to intensify.

U.S. composite insurance pricing change: casualty

According to the Marsh Q1 2024 U.S. composite casualty insurance index, pricing increased to **4%**.



Source: Marsh Specialty and Global Placement - Created with Datawrapper

Automobile/fleet

Rate trends

Average rate increases were **8% and higher** for business classes with large fleets, tougher risk profiles, and adverse claims experience. We are even starting to see higher rate increases on smaller fleets.

Conditions and observations

- There remains a lack of monoline markets for difficult risks as losses continue to stack up for reinsurers.
- There is pressure from insurers to add liability deductibles and/or increase physical damage deductibles when there is loss frequency. Insurers are also resistant to quoting primary limits of over $1 million when needed for umbrella/excess coverage.
- The frequency of non-renewals has waned over the past quarter, and insurers are quoting with more deductible options
- Given the long tail on many liability claims, the numbers are not in for the past five-plus years, but the trajectory isn't expected to improve. In a survey report published by the American Transportation Research Institute, lawsuit abuse reform is one of three issues, along with fuel costs and driver shortages, that were ranked as top 10 concerns in the inaugural 2005 survey that persist today. Additionally, an issue tied closely to lawsuit abuse reform is insurance cost and availability. Once again, the latter is on the list of emerging issues after dropping out of the top 10 last year.
- Some insurers have been tightening driver requirements. Robust fleet safety remains crucial so underwriters can ensure an organization is invested in risk mitigation.

A study last year by the U.S. Chamber of Commerce revealed that the average award for 154 verdicts and settlements involving truck accidents between June 2020 and April 2023 was $27.5 million. The average award for plaintiffs' verdicts was $31.8 million, whereas the mean figure for settlements was $10.6 million.

General liability

Rate trends

Rates increases are still in the **3%** range and higher for certain business classes and when the insurer doesn't also write the workers' compensation coverage.

Conditions and observations

- We are seeing more capacity and carriers quoting with more deductible options.
- Insurers are more willing to consider an alternate rating basis (i.e., the number of units produced versus sales, as long as it is auditable).
- Rising litigation concerns, increasing medical expenses, and heightened risks related to per- and polyfluoroalkyl substances (PFAS) are driving factors in the rate increases insureds are experiencing in the general liability insurance market.
- Insureds should make every effort with their legal counsel to create workplace policies and procedures aimed at minimizing PFAS exposures.
- Global instability continues to put pressure on the market.
- Underwriters continue to apply a higher level of scrutiny on medical devices and aviation-related risks.
- Sexual abuse and molestation coverage continues to be difficult to obtain.
- Risks involving cryptocurrency and/or nonfungible tokens remain extremely difficult to place.

Umbrella/excess

Rate trends

Pricing is still elevated, especially for higher limit excess lead placements. However, it may start to stabilize with many insureds getting smaller annual increases when structured layered programs are established.

Conditions and observations

- We are seeing competition from regional, specialized carriers and new programs.
- Nuclear verdicts and litigation funding are common terms carriers use to explain their pricing and capacity positions.
- Litigation shifts, including third-party funding and social inflation, largely contribute to escalating claims costs and elevated rate trends.
- Constrained capacity remains an issue for certain business classes, including heavy automobile and sexual abuse exposures.

Workers' compensation

Rate trends

Rates generally remained flat or in negative territory with decreases of around **-3%**.

Conditions and observations

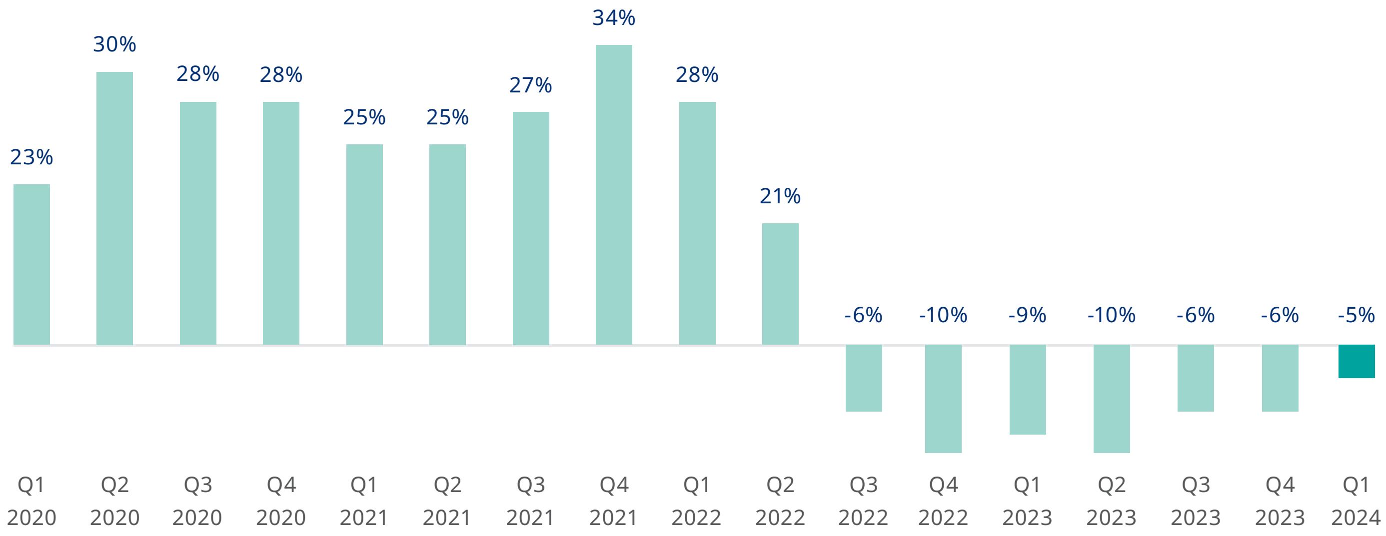
- Market competition remains strong. Most carriers are willing to entertain monoline workers' compensation coverage.
- Factors that could temper the soft workers' compensation market include:
  - Challenges to exclusive remedy (which currently prevents employees from suing their employers)
  - Marijuana legalization
  - Changes to state presumption statutes
  - Mental health and wellness
  - Remote work
  - Changing criteria for the classification of independent contractors
- Workers' compensation can still be leveraged to temper general and automobile liability rate increases.

03

Management and executive liability coverages

According to the Marsh Q1 2024 U.S. renewal management and executive liability insurance index, pricing fell a point, and **average decreases are now at -5%** (excluding cyber).

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



Source: Marsh Specialty and Global Placement - Created with Datawrapper

AM Best warns that the decrease in rates is not sustainable in the long term. Insureds will likely start seeing more layered programs, so more insureds will share the risk. This will help keep the management and executive liability lines of coverage stable.

Large SEC-registered firms are grappling with new regulations forcing disclosure of information related to "material" emissions and climate risks. While legal challenges have delayed some of the forward momentum, the SEC adopted the final ruling for climate-related disclosure requirements for Scope 1 and 2 emissions but eliminated the vendor supply chain Scope 3 emission obligations. Regardless of the reduced extent of this ruling, these new requirements can present implications across various lines of coverage. Directors and officers need to be especially mindful that they will be held to these higher transparency obligations from their investors. For this reason, entity investigation coverage that is often declined by organizations should be reconsidered going forward.

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

Rate trends

- Primary layer rates continue to achieve single to low double-digit reductions.
- Q1 is the slowest quarter of the year with the fewest number of public company D&O renewals. The most recent market cycles have been transitioning in Q3, so the continuation of soft market conditions in early 2024 is not surprising. However, this could change as the year progresses.

Conditions and observations

- Capacity remains abundant, and we continue to see new entrants in the public D&O space. However, retentions may still be higher than insureds would like for smaller public companies.
- We are seeing increased interest and expanding capacity for historically harder-to-place business classes such as health care, micro-cap, and life sciences. This creates opportunities for lower retentions, premium decreases, and policy term and condition enhancements.
- Many insurers are frustrated with the continued soft market conditions for public D&O as they do not believe the premium decreases align with claim and loss trends. There are still open claims filed three to five years ago that will likely impact insurer profitability. Although securities class action frequency has been lower overall in recent years, the number of "standard" cases (Rule 10b-5, Section 11, and/or Section 12 cases) filed in 2023 is the highest since 2019.
- Given the rapid decline in excess D&O rates over the past one to two years, some insurers are pushing back on minimum premium levels for higher excess layers.
- We are still not back to the 2017 to 2021 level of IPOs/transactional business.
- Life sciences organizations at all stages of their development cycles, remain challenging.
- Entity investigation option is often available from primary layer markets and should receive due consideration jointly with insureds. As this extension can be meaningfully dilutive of the ABC limits (including the A coverage therein), it should receive a thorough evaluation before election. Where elected, a limitation to only a portion of the ABC tower and increased limit D&O tower options should be considered. It is estimated that an entity investigation option is elected in less than one in three offerings.

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

Rate trends

- Single-digit shifts above or below current rates are keeping the private D&O market in a stable state.

Conditions and observations

- We're seeing more autorenewals and multi-year deals for private company business.
- Market conditions remain favorable for insureds with an excess of capacity in the marketplace.
- Difficult placements that have historically required wholesale-only markets have become available with traditional carriers.
- Carriers are open to consideration of and often agreeable to requests for expansions of coverage.
- Underwriters remain focused on privacy exposures (e.g., the Biometric Information Privacy Act).
- Higher limits are becoming more readily available for strong risks. However, carriers remain thoughtful about the aggregate limits they are willing to extend on a multi-coverage separate limit policy.
- Underwriting conditions have improved, particularly with respect to mass/class action and excessive fee exposures. Carriers are willing to reduce or, at times, remove these separate retentions.
- Entity investigation sub-limits are often available for no additional charge.

Employment practices liability (EPL)

Rate trends

- We're seeing flat to single-digit rate increases, and accounts with favorable loss history may achieve reduced retentions.

Conditions and observations

- Capacity is still strong.
- Some insurers use multiple retentions to keep a lower retention on the more typical/expected claims.
- Biometric privacy exclusions remain prevalent and are not limited to just Illinois domiciled/employee risks.

Crime

Rate trends

- We're seeing mid to single-digit rate increases. However, more challenging business segments such as technology/fintech, private equity, and risks with heavy foreign exposures are seeing larger increases.

Conditions and observations

- Excess social engineering capacity has been improving.
- Underwriters are trying to avoid cyber overlap coverages such as deceptive fraud.
- Accounts with high revenues ($1 billion or higher) or significant foreign exposure continue to experience greater underwriter scrutiny.

Fiduciary

Rate trends

- Small to mid-size organizations are seeing flat to single-digit rate increases. Retentions have not yet been pushed to higher levels for excessive fee-related litigation.
- Larger companies with more significant 401(k) plan asset values continue to experience higher pricing and excessive fee retentions

Conditions and observations

- We are watching a potential emerging trend of fiduciary class action litigation against welfare plans. If this continues, it could disrupt the fiduciary market in a manner, as we saw with excessive fee litigation. This may include increased underwriting scrutiny on welfare plans and potential hikes in premiums and/or retentions.
- There is a need to supplement coverage applications with risk mitigation/prevention measures, especially with respect to fee structures. Underwriters are looking for capped fees for the record keeper, advisor, and plan.
- Capacity for employee stock ownership plans remains restrained.

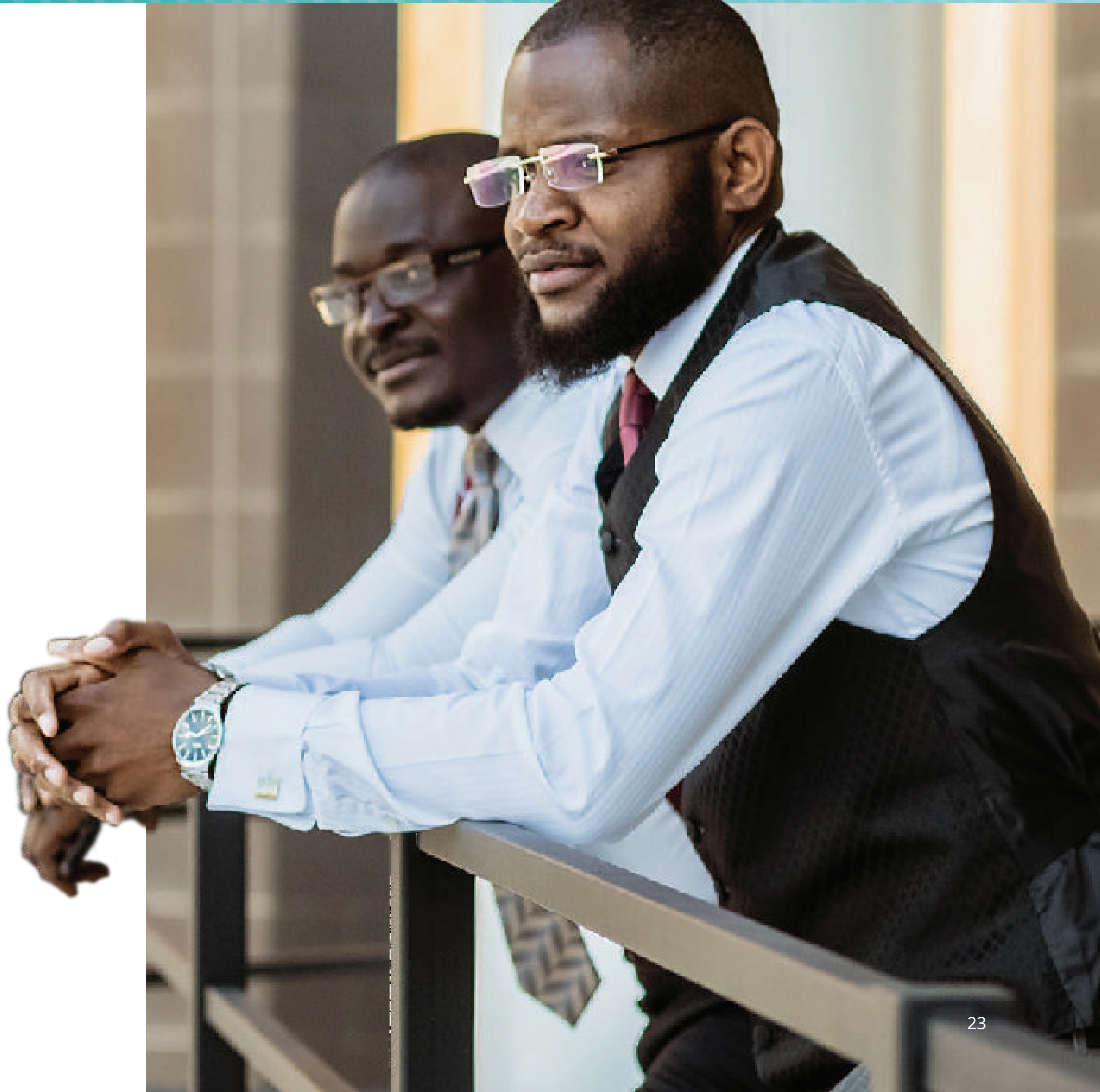
Errors and omissions (E&O)

Rate trends

- Pricing remains stable, with some achieving decreases up to **10%**.

Conditions and observations

- Insurers are adjusting their rates to better reflect long-term loss trends, which has had a positive impact on pricing in the primary layer of the market. This has also attracted new insurers to the E&O market.
- The market is stable, and there may be opportunities to combine stand-alone E&O with a cyber policy.
- Insurers should remain vigilant in deploying robust risk management practices, including effective contract review, quality control procedures, and ongoing employee training.
- E&O policies are being tailored to address emerging risks and evolving client needs. For example, insurers are developing specialized coverage options. This includes cyber liability, technology errors and omissions, and privacy-related exposures to address these evolving risks.



04

Cyber security and data privacy

Rate trends

Rates decreased an average of **-5%** in Q1 2024, and even more for risks with year-over-year security control improvements. As anticipated, the cyber market continues to moderate despite the increase in ransomware events. Additionally, insurers still have concerns regarding the potential for catastrophic and systemic cyber losses that could impact today's stable rate environment in the long term. The sustainability of savings in this volatile market is in question. Therefore, we are seeing a highly differentiated approach to rates from markets amid a spike in competition.

As we reported last quarter, the annual 2024 [Global Risks Report] 19th Edition ranks cyber security and data privacy concerns as the number two risk behind severe weather risks. MMA's recent survey ranks cyber risks as the top concern. Our annual [Business Insurance trends report] has insights on how to strive for stability in the face of unpredictability.

Conditions and observations

- There is an increased focus on ensuring:
  - Adequate affirmative coverage for wrongful and/or unauthorized collection of information
  - Full limits apply for dependent business interruption coverage stemming from security failure and system failure
  - The appropriate privacy regulatory coverage aligns with the evolution of state and international privacy laws
- We are seeing competitive pricing and coverage flexibility especially when conducting a full marketing effort.
- Insurers continue to aid with expanded loss mitigation services.
- Policy wording continues to evolve, with some carriers imposing updated exclusions related to war, privacy regulations, and data collection. Most insurers are willing to negotiate on sub-limits.
- Ransomware claims are driving an increase in business income loss and breach response expenses. Insurers and reinsurers are closely monitoring loss ratios because of these converging trends. However, we are not seeing any issues acquiring full ransomware limits without coinsurance for most of our insureds.
- The competitive market is benefiting insureds with increased capacity and lower self-insured retention options.
- There is increased awareness of cyber incident preparedness needs, particularly with the recent SEC ruling that public companies are required to disclose material cybersecurity incidents.
- As we discussed in the preceding property section, parametric insurance is on the rise. But it’s not just on the rise for natural catastrophe risks. AM Best Review explains how parametric plans may also offer quicker resolution after a cyber crisis. Ask us about cloud downtime parametric risk transfer solutions to minimize contingent business interruption risks.

Cyber claim trend alert

The rising threat of fraudulent vendor claims and strategies to mitigate risk

Claims related to fraudulent vendors requesting goods and products have risen in recent years. This can be attributed to the increasing sophistication of fraudsters and their ability to exploit vulnerabilities in supply chains. Fraudulent vendor claims can impact a wide range of industries, including retail, manufacturing, and e-commerce. Any business that relies on suppliers or vendors for goods and products is potentially at risk. Fraudulent vendor claims can involve various scams, each with different coverage implications. To protect themselves, clients should take proactive measures to implement safeguards and checks to ensure that their goods or products are not redirected to unintended third parties. Like safeguards to prevent wire transfer fraud, organizations need to establish controls to prevent misdirection of goods or products.

Here are a few examples of claim scenarios where purported vendors induced or instructed an insured to send goods or products under fraudulent instructions.

Fictitious vendor

An insured receives a purchase order from a vendor they believe to be legitimate. The vendor provides all the necessary documentation and appears to have a reputable online presence. However, the vendor is entirely fictitious, and the insured unknowingly sends the goods to a non-existent address or a location controlled by fraudsters.

Identity theft

A fraudster impersonates a legitimate vendor by hacking into their email account or creating a fake email address that closely resembles the vendor's. The fraudster then sends fraudulent instructions to the insured, requesting the goods to be shipped to a different address due to a change in delivery arrangements. The insured, believing the instructions to be genuine, sends the goods to a fraudulent address.

Counterfeit purchase order

A fraudster gains access to the insured's systems or email accounts and creates a counterfeit purchase order from a legitimate vendor. The fraudulent purchase order includes instructions to ship the goods to an unauthorized location. The insured, unaware of the fraudulent nature of the purchase order, follows the instructions and sends the goods to the unauthorized location.

Non-delivery scam

A fraudulent vendor convinces the insured to send goods by promising payment upon delivery. The insured ships the goods, but the fraudulent vendor never makes the payment or disappears entirely, leaving the insured with a loss.

Vendor account takeover

A fraudster gains unauthorized access to a legitimate vendor's account and alters the payment and delivery instructions. The insured, believing they are communicating with a genuine vendor, follows the fraudulent instructions and sends the goods to an unintended third party.

Changing the delivery address

A fraudster contacts the shipper and convinces the shipper to change the delivery address to a fraudulent address either by phone or via an app.

Fraudulent bill of lading

change to delivery address

A fraudster contacts the shipper and provides an altered or fraudulent bill of lading that re-directs the shipment to the fraudulent address.

Coverage for these types of fraudulent schemes may be limited,

so it is critical to implement controls and strengthen risk management to prevent losses.

The specific coverage and policies triggered for these types of losses will depend on the nature of the claim and the insurance policies in place. It is crucial to carefully review the terms and conditions of the insurance policies and consult with an insurance professional who can provide guidance based on your specific policy and circumstances. It is important to file a police report in all these situations, as some policy forms may require it as a prerequisite for coverage.

Insureds can implement several safeguards to help protect against goods or products being misdirected to unintended third parties. On this page and the next, we list some key measures to consider.

Vendor verification Implement a robust vendor verification process to ensure that the vendors you engage with are legitimate and trustworthy. This can include conducting background checks, verifying their business credentials, and reviewing their reputation and track record.

Strong contractual agreements Establish clear and comprehensive contractual agreements with vendors that outline the terms and conditions of the business relationship. Include provisions that address the handling and delivery of goods, as well as the responsibilities and liabilities of each party.

Secure communication channels Use secure communication channels when interacting with vendors, especially when sharing sensitive information or instructions related to the delivery of goods. Consider using encrypted email or secure file-sharing platforms to protect against interception or unauthorized access.

Two-factor authentication Implement two-factor authentication for all relevant systems and platforms involved in the procurement and delivery process. This adds an extra layer of security by requiring a second form of verification, such as a unique code sent to a mobile device, in addition to a password.

Internal controls and approval processes Establish internal controls and approval processes to verify and authorize any changes or requests related to the delivery of goods. This can include requiring multiple levels of approval for changes in shipping addresses or vendor payment details.

Regular vendor audits Conduct regular audits of your vendors to ensure compliance with contractual obligations and to identify any potential red flags or irregularities. This can involve reviewing vendor performance, conducting site visits, and verifying their adherence to agreed-upon processes.

Employee training and awareness Provide comprehensive training to employees involved in the procurement and delivery process to raise awareness about the risks of misdirected goods and the importance of following established protocols. Educate them about common fraud schemes and how to identify and report suspicious activities.

Monitoring and tracking Implement robust monitoring and tracking systems to keep a close eye on the movement of goods throughout the supply chain. These can include GPS tracking, barcoding, or RFID tags to ensure visibility and traceability.

Incident response plan Develop an incident response plan that outlines the steps to be taken for a misdirected goods incident. This should include procedures for reporting the incident, conducting investigations, and engaging with law enforcement or insurance providers.

Shipper verification procedures Implement strong procedures and verification measures that shippers must adhere to before changing the delivery address or accepting a new bill of lading. Establish phone verification and other authentication protocols with shippers to guarantee that goods cannot be redirected to a fraudulent address without proper verification and authentication beforehand.

By implementing these safeguards, organizations can help mitigate the risk of goods or products being misdirected to unintended third parties. It is important to regularly review and update these measures to adapt to evolving threats and industry best practices.

05

Additional trends and observations

Aviation

2024 has not ushered in any changes for the tough aviation insurance market in terms of rates, coverages, and available liability limits.

Rate trends

- Renewal pricing in the middle market turbine class is still seeing rating increases while best-in-class risks can get closer to a flat renewal or at least very modest rate decreases.
- Increases in aircraft hull and liability policies have been in the single digits.
- There are a few flat renewals on aviation general liability but not for aircraft liability.

Conditions and observations

- Stubborn inflation in terms of insured values, rising repair costs, and increasing liability claim settlements in some regions continue to influence insurer underwriting and pricing.
- Stand-alone markets for non-owned aircraft liability are few and far between. Insurers help insureds overcome this by providing quota-share options.
- Capacity challenges remain in obtaining higher limits for passenger liability.
- Multi-year terms are being offered again for airport operations and aviation general liability coverage.
- The staffing shortage for pilots, mechanics, and air traffic controllers remains troublesome for the industry. Additionally, the 12-month recurrent training for turbine aircraft continues to experience a scheduling crunch.
- Insurers continue to amend territory coverage wording to exclude Crimea, Ukraine, Russia, Belarus, Sudan, and other geographies grappling with escalating conflicts.
- Supply chain challenges and delays continue to inflate claim costs.

Environmental

The environmental market saw 25% overall growth in the last year, with most insurers reporting a profitable position moving into 2024. Many factors have contributed, including:

- A rise in environmental litigation focus
- Increased media attention and coverage
- Tightening of contract requirements
- New compliance and regulatory requirements from the Environmental Protection Agency (EPA) and state agencies.
- Increased awareness of exposures and available coverages

Rate trends

- Average rate increases were **0–5%** for contractor's pollution and **5%–20%** for site pollution and combined-form liability, with increases of **50%–100%** for policies providing coverage for PFAS exposures.

Conditions and observations

- Recent projections indicate market growth will continue as concerns with emerging contaminates develop, and an estimated 40,000 new projects commence under the Infrastructure Investment and Jobs Act. Insurers actively seek to increase underwriting capacity to accommodate the increase in submissions.
- Air quality issues, PFAS exposure, pharmaceuticals, and social factors have all contributed to a marked rise in claims activity. As a result, standard market carriers actively seek to mitigate their exposure with updated policy language and focused-peril restrictions. Several legacy environmental insurers have noticeably tightened their appetite across targeted industries or contaminants in preparation for pending litigation and claims. In contrast, new insurers with less restrictive appetites have entered the market, and a few existing insurers announced planned product development. All environmental insurers appear to be evaluating their underwriting procedures, with more emphasis on pre-qualification and document review before offering coverage terms.
- Are PFAS "the next asbestos?" Following the EPA's new national drinking water regulation, the insurance industry is moving a little closer to the edge of its seat, waiting to see if long-term PFAS litigation could mirror the long tail that asbestos exposures have presented.
- The SEC adopted the final ruling on climate-related disclosure requirements for Scope 1 and 2 emissions and eliminated the vendor supply chain Scope 3 emission obligations. All organizations should understand the nuances, as well as the time and financial commitments required to comply with the final ruling. Our environmental consultants are here to help.

International

Rate trends

- Renewal pricing remains stable on many international placements.
- Defense Base Act rates continue to fall along with minimum premium requirements due to new market entrants.

Conditions and observations

- Renewals are being scrutinized as various insurers tighten terms and conditions, particularly on umbrella and excess coverages.
- Territorial restrictions continue to expand as the world political systems become more unstable.
- Increased private equity activity and U.S. government contract work overseas present new exposures that all businesses need to address if they are embarking on new overseas sales, travel, and/or growth initiatives.

Small commercial market insights

Rates for small commercial risks continue to increase for buyers of business owner's policies (BOPs). Some insurers are beginning to limit their appetite for new startup businesses but entertaining new business classes. Underwriters are employing predictive modeling more than they have in the past, leading to less creative solutions.

Rate trends

- Overall pricing for small businesses is in the **5%–15%** increase range for business owners' policies (BOPs).
- IVANS Index reports BOP increases of **8.84%** (down 0.88% from the previous quarter).
- For standalone coverage lines, workers' compensation is the only coverage that continues to trend downward from the previous quarter. Here are baseline trends from IVANS, with double-digit increases becoming more common for risks with poor loss experience and for tougher classes of business.

9.58%
Automobile liability
0.39% increase
over prior quarter

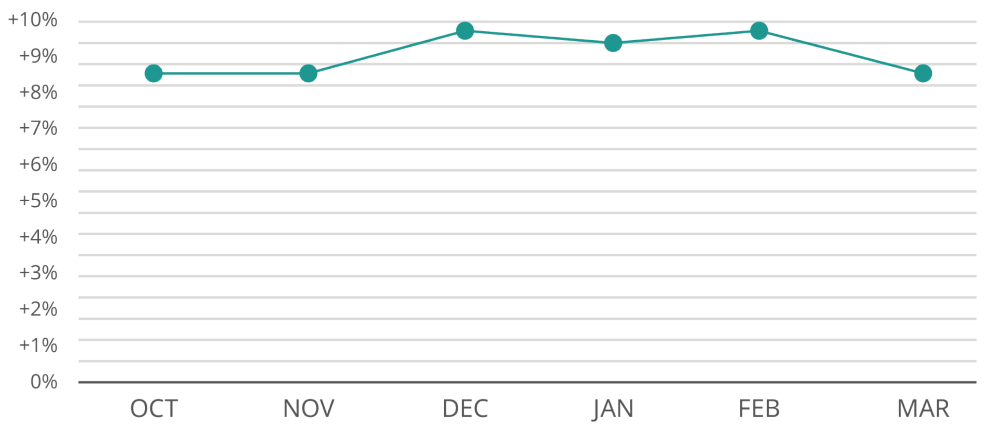
10.5%
Property
0.57% increase
over prior quarter)

-1.57%
Workers' compensation
-0.31% decrease
over prior quarter

6.07%
General liability
0.42% increase
over prior quarter

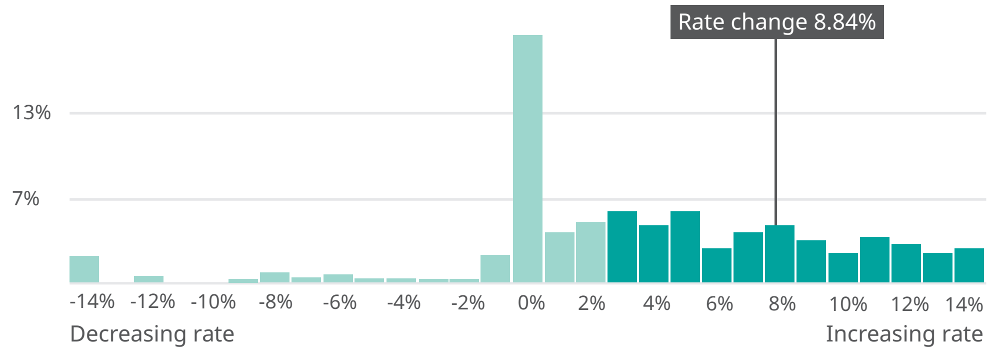
7.10%
Umbrella
0.48% increase
over prior quarter

IVANS Index Premium Renewal Rate Change Trend - Last 6 months



IVANS Index Premium Renewal Rate Change Distribution - March

Most likely



Conditions and observations

Property:

- Overall pricing increases are as high as **30%** at renewal, with insurers less inclined to cover older buildings that have not been updated.
- Increased need for underwriting details, a signed statement of values, and inflation-adjust total insured values (TIVs) are being required by insurers before they will quote.
- Higher TIVs coupled with increased deductibles play a large role in the overall increased pricing that most insureds are experiencing.
- Habitational and lessor's risk remains extremely challenging.

General liability:

- Renewal increases are averaging between **6%–15%**.
- Supplemental application requirements are still slowing down 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:

- Monoline automobile markets continue to contract with many insurers non-renewing.
- We continue to see an even greater impact on hired/non-owned exposures with high renewal rate increases of **15%–20%**, with many insurers eliminating coverage extensions.

Umbrella/excess liability:

We continue to see more insurers reduce limit capacity for higher-risk casualty exposures, especially for umbrella and excess liability coverages.

Workers' compensation:

There are restrictions based on the class of business (staffing, trucking, construction, etc.), but overall pricing is steady.

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 under **5%**.
- Cyber markets continue to require certain security protocols, such as multi-factor authentication.

Trade credit insurance

An increase in global trade continues to spur the growth of the trade credit market.

Rate trends

- The increased need for trade credit insurance (TCI) is met with favorable coverage and maintained rates.
- The emergence of new carriers and appetites allows for continued competition in the space.

Conditions and observation

- The credit insurance market remains in steady growth despite end-of-2023 financial outlooks. Large reserves and financial buffers have allowed TCI carriers to remain aggressive.
- The overall credit insurance market's appetite has increased by 17% in transactional risk through Q1 2024.
- Credit underwriting has remained strong, and the outlook is expected to continue.
- Economic conditions have fallen fourth to TCI market concerns behind escalating geopolitical tensions, a major cyberattack, and political or legislative constraints on credit insurers' ability to reduce their exposures when necessary.
- Increased demand for TCI has risen in Q1 2024, allowing for a more aggressive market

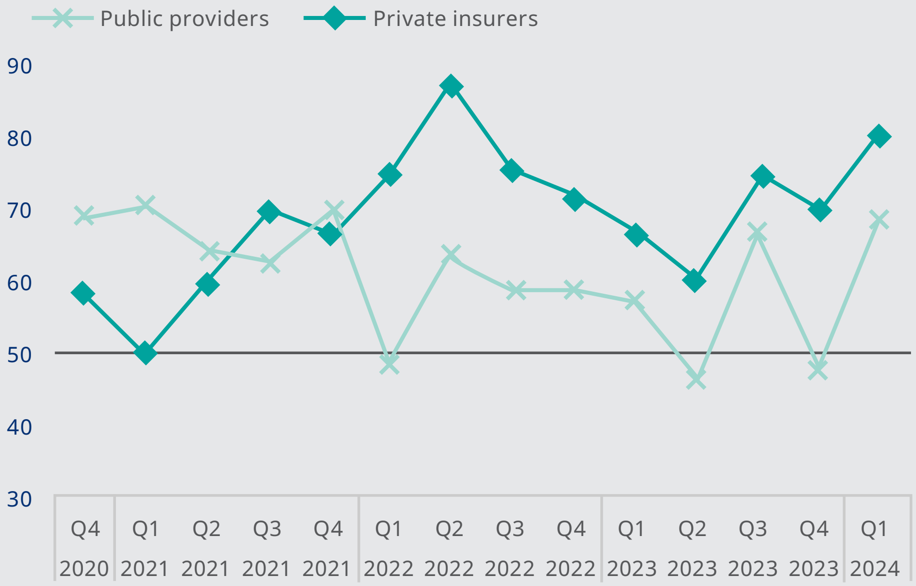
Political risk insurance (PRI)

Demand for PRI is expected to increase in our current global politically charged environment. PRI is a tool for businesses to mitigate and manage risks arising from adverse actions or inactions of governments. As explained by the National Association of Insurance Commissioners, while PRI has not fully developed into a mature market, approximately 60 insurers operate globally that offer PRI and can tailor solutions for any investor's needs.

Short-term commercial and political risk

Index (50 → No Q/Q change)

Figure 1: Current and expected *future level of demand*



Source: Berne Union Q1 Confidence Index

Safeguarding business continuity and resiliency: finding a path to adaptability

Enhancing safeguards for business continuity during global and domestic social conflict should be at the forefront of most organizations' minds. Establishing incident response protocols, prioritizing response actions, and understanding insurance coverage options will all improve a business's resiliency in times of uncertainty.

Schools, health care, municipalities, retail, restaurants, hospitality, and businesses with a high dependency on global supply chains are especially impacted. The Pew Research Center found that about one in four U.S. teachers say their school went into a gun-related lockdown in the last school year. Additionally, more Americans died of gun-related injuries in 2021 than in any other year on record. They also noted that U.S. gun death rates are much higher than in most other developed nations.

20K+
U.S. workers

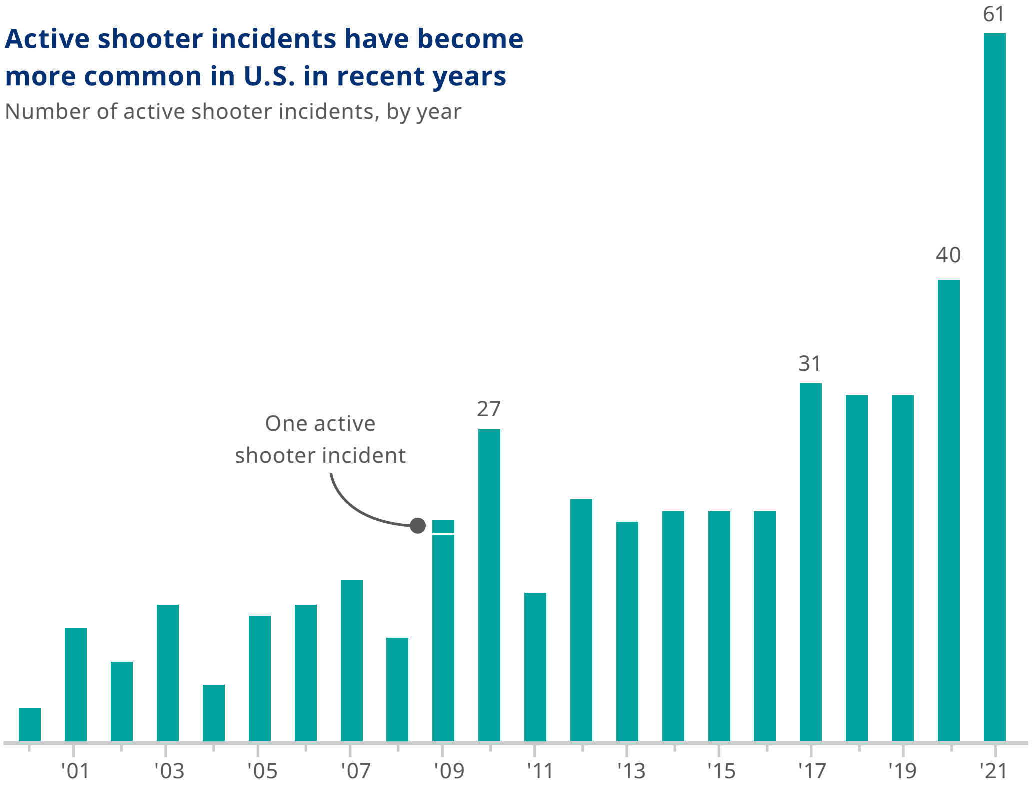
experience physical trauma in the workplace each year according to the Bureau v Labor Statistics.

$121
billion annual cost

of these incidents to employers, according to the Department of Justice. We have seen some of these incidents result in Employer Liability claims.

Active shooter incidents have become more common in U.S. in recent years

Number of active shooter incidents, by year

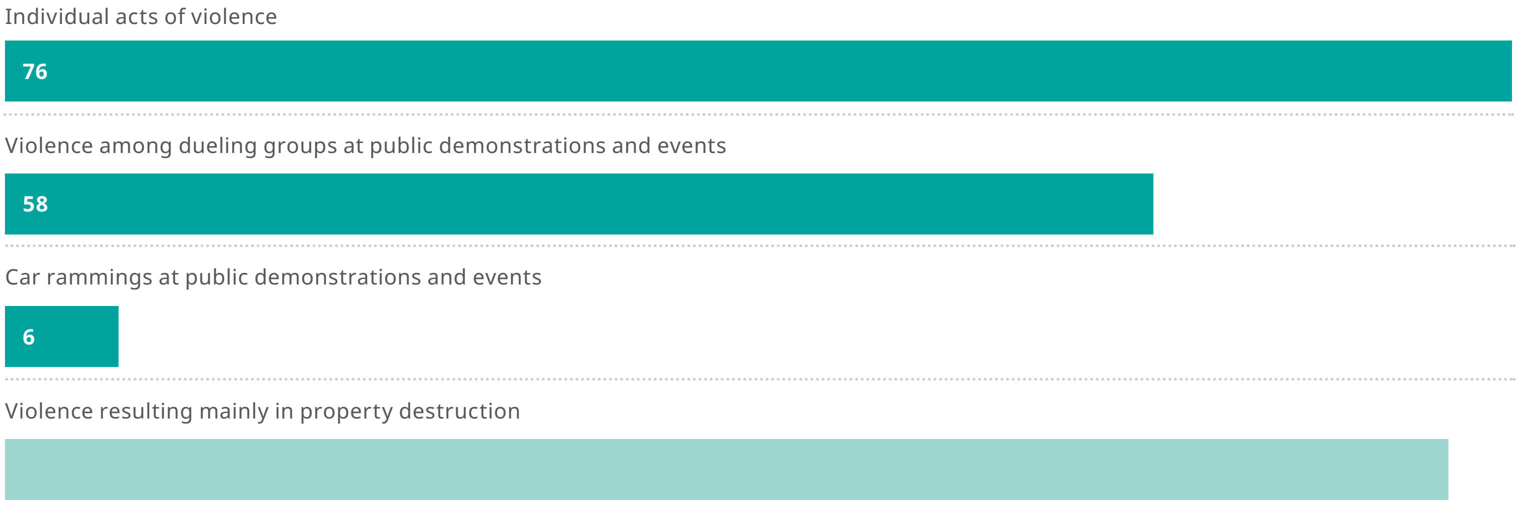


Note: "Active shooter incidents" are defined by the FBI as "one or more individuals actively engaged in killing or attempting to kill people in a populated area."

Source: PEW research center

Political violence since the Jan. 6 attack on the U.S. Capitol

Reuters identified 213 cases of political violence. Two thirds of those cases were physical assaults and confrontations; the other third involved mainly property damage. Of the 76 individual acts of violence, 18 resulted in fatalities.



Source: Reuters

U.S. conflict and violence rates have risen substantially, and there is continued unease associated with terrorism threats. In the polarized U.S. alone, Reuters reported last August that political violence is at its worst since the 1970s.

2024 will have the largest global election activity in history with nearly half of the world's population going to the polls to cast votes. The outcomes could lead to increased uncertainty in foreign policy, trade relations, and supply chains. Because these geopolitical tensions are likely to increase throughout 2024 and beyond, businesses need to be prepared to protect their employees and pursue a path of adaptability to guard their bottom lines. Our Business Insurance Trends report provides a deeper dive into how to mitigate these and other top business risks in this ongoing climate of uncertainty.

Note: Many of the rate trend graphics contained in this report are from Marsh McLennan and may not include small to middle market data. Because of this, some of the rate trends within the text may not always match up squarely with the visuals.

Special thanks to our business insurance market trends contributors:

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