NOVATAE RISK GROUP

WHOLESALE INSURANCE \ REIMAGINED

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Insurance Market Report

General market trends in the P&C insurance sector.

Novatae is a modern wholesale insurance distributor offering innovative solutions from responsive brokers, underwriters, and program managers who are passionate about helping you and your clients.

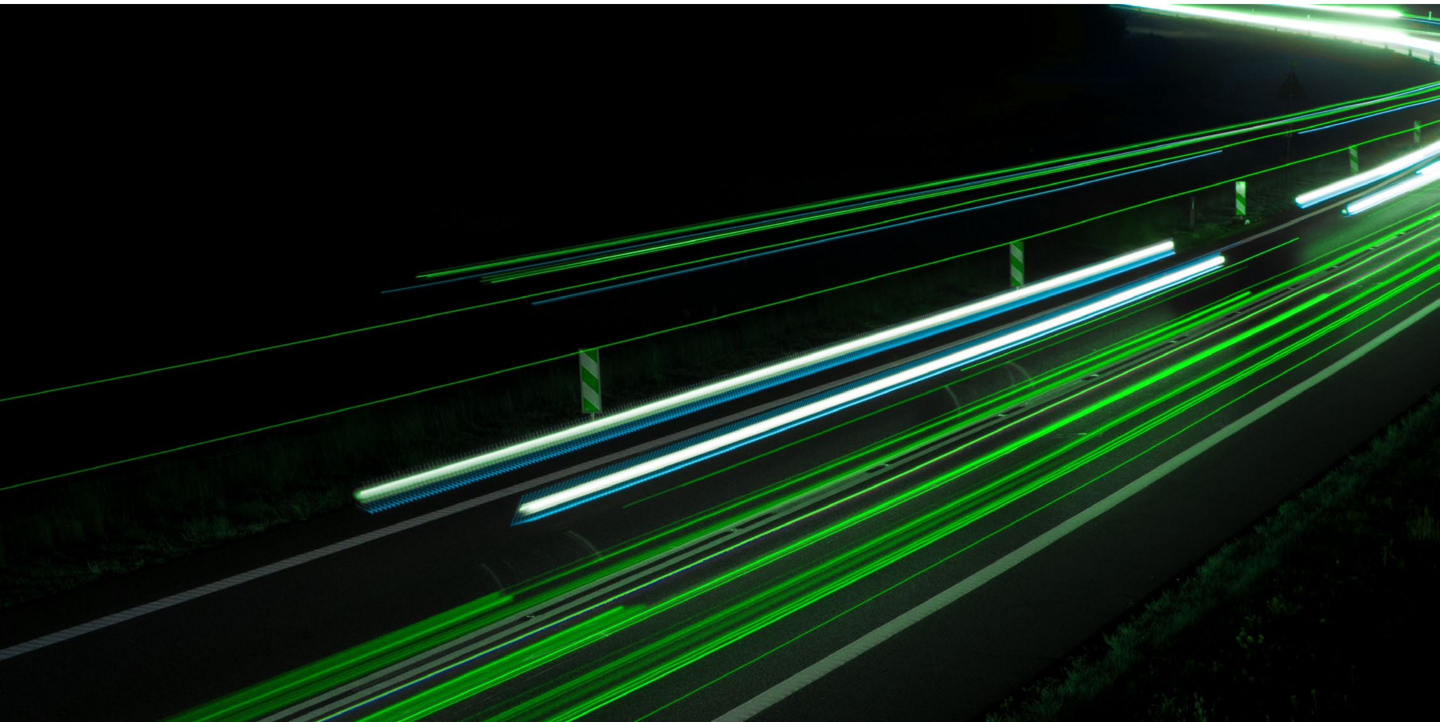
Introduction

In the property and casualty wholesale insurance market we are seeing everything from rate and capacity stabilization to above-average rates with lower capacity. Claims continue to trend upwards largely in part due to social inflation.

There are several factors currently affecting underwriting and pricing across many product lines, the reinsurance market, and the excess and surplus markets, including tightening in the standard market, significant loss trends, increasing supply chain costs, and competitive markets.

Conversely, cyber liability and workers' compensation have evolved in a positive light and are expected to continue to do well. The cyber market in general continues to advance as demand increases exponentially. And workers' compensation is being leveraged as a door opener for securing other coverages.

In this edition of the Insurance Market Report, our experts will discuss these critical trends we are seeing across the wholesale insurance space and provide some insights into how to secure the best terms despite this challenging market.



Content

Property

Commercial property rates in the first quarter of the year are experiencing a steady, moderate rate increase that is expected to continue until the end of the year. In many areas of the country, particularly those exposed to CAT perils, we are seeing above-average property rates, lower capacity, and higher deductibles.

Rising labor and material costs have substantially increased replacement cost values. This has required major adjustments to be made to property valuations that, over the past few years, have been largely ignored. Today, updating property insurance valuations is especially vital in areas of the country that are experiencing a sharp increase in weather-related losses.

“Correctly valuing insurable property is one of the most critical tools the industry has for managing property risks,” said Josh Taylor, managing director at Novatae. “Which is why brokers need to have candid conversations with their insureds regarding how the current costs of raw materials and labor, as well as supply chain challenges, are impacting premiums, especially for businesses in the construction industry.”

E&S Market

The standard market also continues to experience higher than average insurance premiums. As a result of increasingly tighter underwriting guidelines and rising rates in the standard market, more standard accounts are moving into the less restrictive Excess & Surplus market since it provides brokers with greater flexibility to pivot and secure coverage for harder to place risks

Reinsurance

Reinsurance rates are up and in turn, are increasing costs for consumers across the nation. It is expected that the depletion of property catastrophe reinsurance capacity will continue to drive up reinsurance rates through 2023, with many reinsurers either reducing capacity or exiting the property catastrophe market altogether to reduce their exposure.

Claims Trends

In 2012, the average cost of a fatality-related insurance claim was $2 million. In 2019, that figure skyrocketed to $9 million, largely due to social inflation driven by for-profit litigation funders, higher jury awards, generous workers' compensation claims, legislated compensation increases, and new tort and negligence concepts.

Today, social inflation continues to increase, driven by a multitude of factors such as changes in societal attitudes towards big business and corporations, as well as an increase in litigation funding and social media influences.

Social inflation is primarily impacting casualty lines with bodily injury and property damage liability claims on the rise and impacting the construction and transportation industries the hardest.

Liquor liability claims in the habitational and hospitality industries are also increasing, with many carriers having to adjust or fully exit the market due to loss ratios.

Underwriting, Pricing & Market Capacity

UNDERWRITING & PRICING

In the first quarter of 2023, the composite rate for commercial property and casualty insurance was up 5.1 percent compared to the same period in 2022, per MarketScout's commercial lines insurance barometer. A growing trend across the board is the layering of excess liability and property as an alternative means for helping agents secure the capacity they need. This is especially true in high CAT areas.

On the casualty side, limits of liability that are more than 10 million will typically be layered. It is expected that insureds who carry large umbrella policies—such as truckers, contractors, and healthcare-type risks—will be prime industries where we will see more of this type of layering.

"Few carriers are willing to put up that ten million primary excess layer, especially when it comes to contractor risks and construction defect states," said Taylor. "Today, many insurers are capping limits at five million or even two million."

MARKET CAPACITY

As for capacity, many carriers have been hit hard by losses over the past several years and, as a result, have pulled out of the market.

"While there is certainly capacity in today's insurance market, brokers need to understand that carriers are now taking a more thoughtful approach and being more strategic in their offerings," said Dan Ginden, managing director at Novatae. "Over the next several months, we anticipate more carriers to further examine their ability to increase capacity, along with an increased focus on risk inspection and audit results to better manage their books."

Cyber Liability

Cyber insurance continues to grow at a rapid pace. For example, the cyber insurance market in 2020 was valued at approximately $5.5 billion. In 2022, this valuation skyrocketed to $13.33 billion as more businesses recognized the critical importance of protecting themselves against cyber risks. However, the cyber insurance market is still evolving, and insurers are figuring out how to best assess risks and accurately price policies.

“When it comes to lines of coverage, the cyber insurance market remains hard, primarily due to the ever-expanding number of unknown threats that simply cannot be covered under every cyber policy,” said Chris Kerr, managing director at Novatae. “Cybercrimes are growing in complexity, size, and form, making it difficult for carriers to underwrite because cyber is such a fluid exposure.”

The cyber insurance market is expected to become increasingly competitive, with many newcomers competing for market share over the coming months. As a result, there will likely be an increase in different policies with varying levels of coverage, creating challenges for businesses in selecting the right coverage for their specific needs.

Despite capacity and pricing challenges, the cyber insurance market is showing signs of stabilization, with prices in most industries beginning to regulate and only small increases being taken on renewals – a trend that is expected to continue until the end of 2023.

Workers' Compensation

Workers' compensation insurance is still one of the few lines that has remained consistently flat or soft on rates. With a combined ratio under 90, more carriers are targeting workers' compensation insurance, now in its tenth consecutive year of being profitable.

According to the National Council on Compensation Insurance, the frequency of workers' compensation claims is down, and the combined ratio is good, due in part to effective risk management initiatives such as return-to-work programs.

Despite rising medical expenses, year-over-year claim costs for workers' compensation carriers are holding strong. As a result, we are seeing more package carriers leverage workers' compensation insurance to secure insureds' other lines of coverage.

"When considering a partner for a workers' comp client, be sure to look for an A-rated carrier with robust loss control departments who can help with return-to-work programs, safety training, and other risk management initiatives," said Kerr. "Good pricing is simply not enough, it's important to have great service when it comes to programs such as risk mitigation, loss control, and claims handling."

Securing the Best Terms

Ensure a quality submission that is complete.

In this hard insurance market, brokers need to go the extra mile to ensure that a submission accurately describes the risk. Be sure to include all required supplemental forms, loss runs, and other necessary documents with the submission.

For renewals, include current revenue and payroll valuations. In general, be as proactive as possible on the front end to present a quality submission.

Update property valuations on all renewals.

Gone are the days of submitting property renewal applications at the last minute and asking underwriters to quote as per expiration. Brokers need to run an updated property insurance-to-value calculation and submit applications well ahead of the renewal date.

Pre-qualify risks prior to sending submissions.

Proper due diligence includes ensuring that a risk is submitted to the most appropriate market. Brokers need to do their homework before sending out submissions.

Have frequent conversations with your insureds.

Retail agents need to have ongoing conversations with their insureds about managing expectations in today's insurance market. By keeping the lines of communication open, clients will not be blindsided at renewal time. Be sure to discuss current trends in the industry and key risk management issues. Talk about what can be done to help offset premium increases and eliminate certain risk exposures.

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ABOUT NOVATAE

Novatae Risk Group (Novatae) is a full-service wholesale insurance brokerage, managing general agency, and program manager providing brokers and their clients with specialty insurance products and services for complex and hard-to-place risks across property, casualty, workers' compensation, cyber, professional, management, construction, environmental, garage, inland marine/ocean marine and more.

Serving more than 6,000 clients from 27 offices across the United States, Novatae is a modern wholesale insurance distributor offering innovative solutions from responsive brokers, underwriters, and program managers who are passionate about helping you and your clients. For more information, please visit www.novatae.com.

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