



Property Insurance Market Update

April 17, 2024

Hilton Orlando Buena Vista Palace

Discussion Topics

- **2023 – A Look Back**
- **U.S. and Global Insured Catastrophe Losses**
- **The Impact of Inflation**
- **Hard Market to Soft Market Insurance Cycle**
- **The Florida Factor**
- **What's Next?**



2023 Property Market – A Look Back



- Record-level global catastrophe insured losses in 2022 (\$165B), including Hurricane Ian (\$53B) led to first true hard market since 2006 post- Hurricane Katrina
- Carriers cut back capacity 10% - 25% on average
- Cutbacks in capacity driven by reduced availability of reinsurance
- Wind deductibles as high as 15%
- Forced Wind sub-limits on many policies
- Significant rate increases, especially for coastal exposures
- Continued focus on appraisals to ensure property valuations are keeping up with hyper-inflation

2023 Property Market – A Look Back – cont.

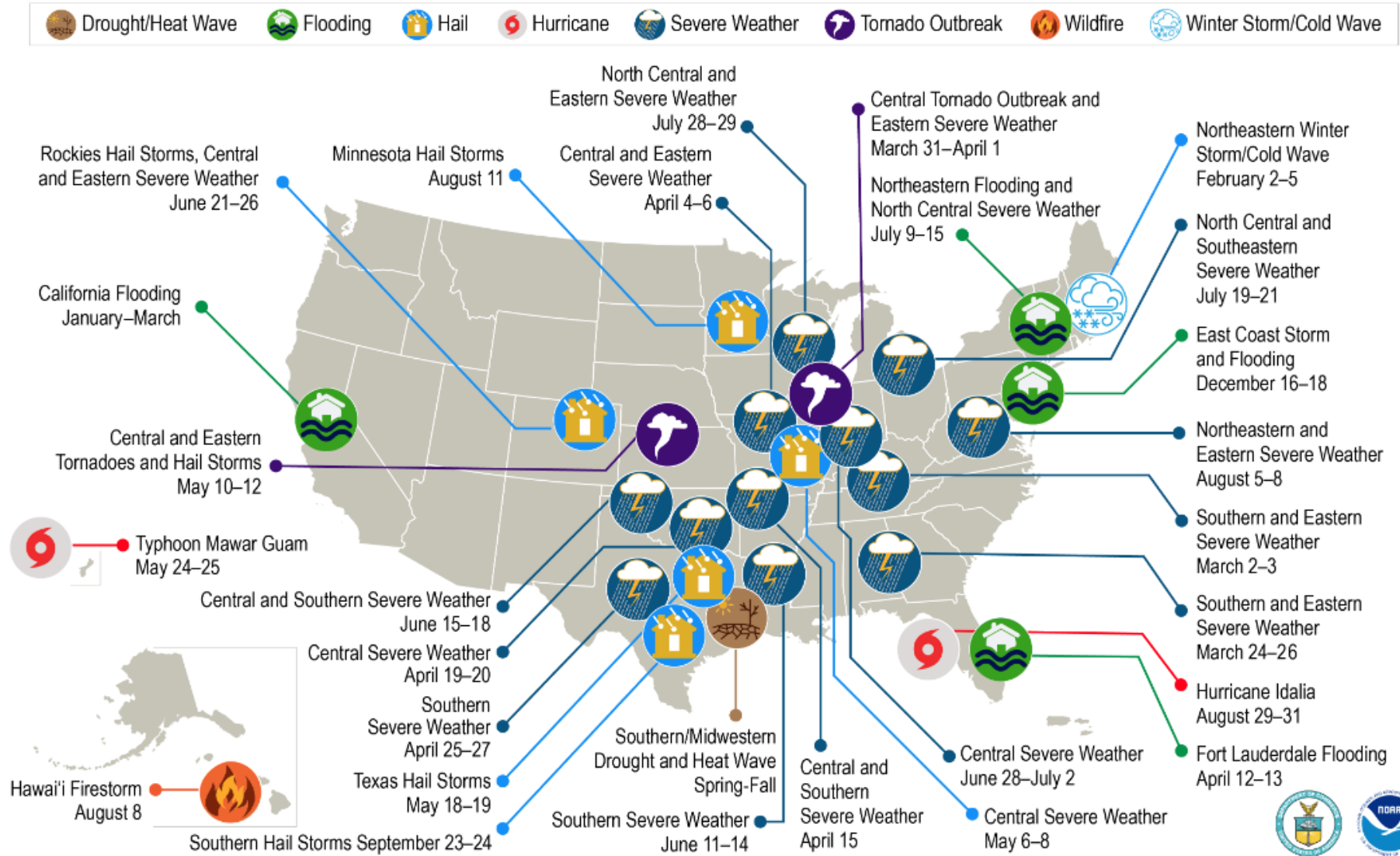


- Higher rates, tightening of terms and conditions, reduced limits, and higher deductibles
- Insurance market set up to better withstand catastrophe loss activity
- 2023 saw record number (28) of CAT events >\$1B
- Global insured CAT losses of \$133B (less than 2022's \$165B, however historically high)
- U.S. Property & Casualty (P&C) industry's net underwriting loss of \$38B, a 10 year high, per A.M. Best
 - Personal lines at 110% combined ratio
 - Commercial lines at 97.1% combined ratio
- P&C delivered operating profit due to boost in investment income

U.S. Billion-Dollar Weather and Climate Events, 2023

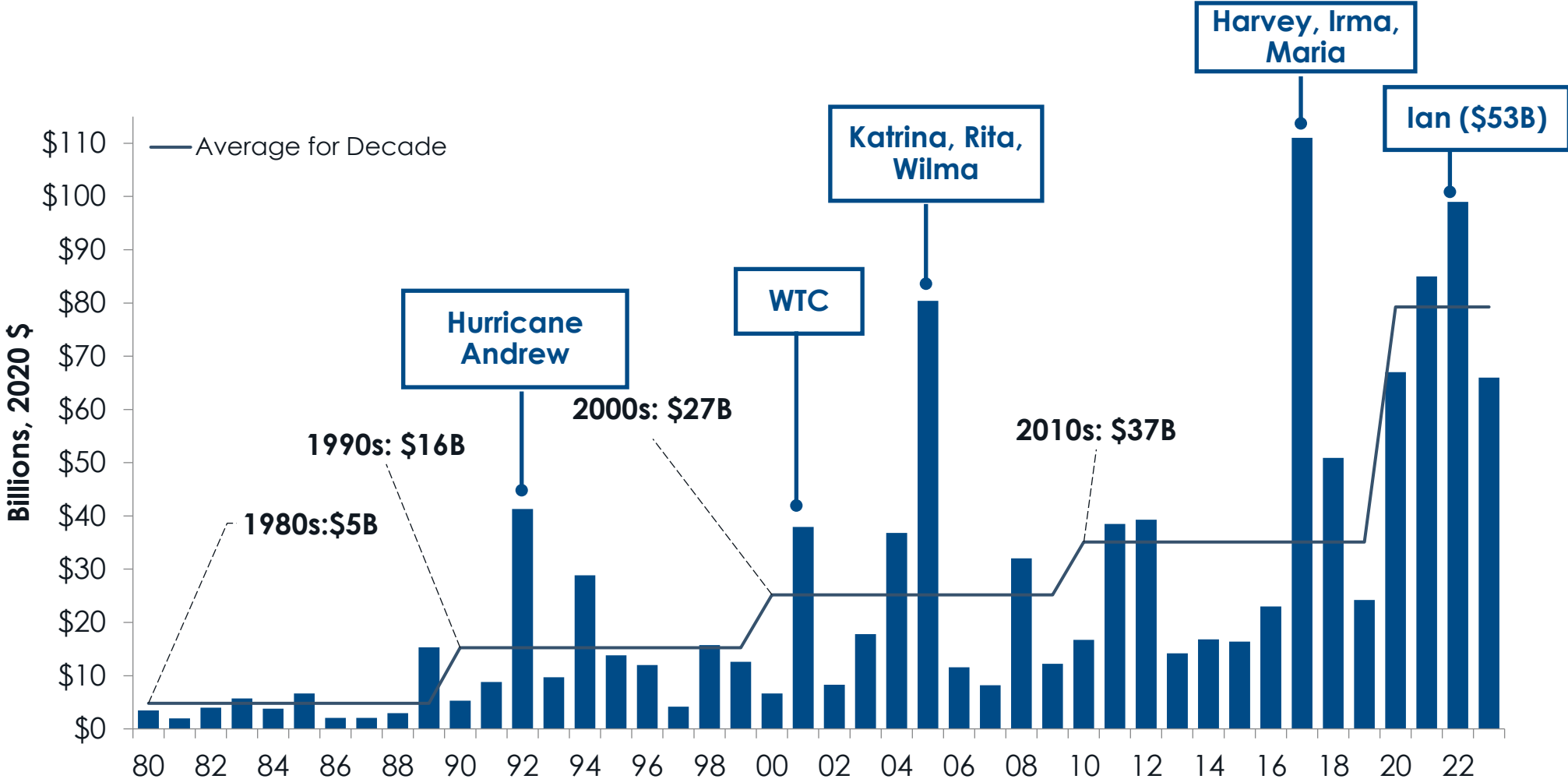
28

separate billion dollar weather and climate disasters impacted the U.S. in 2023
an all-time record



This map denotes the approximate location for each of the 28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.

U.S. Inflation-Adjusted Catastrophe Losses

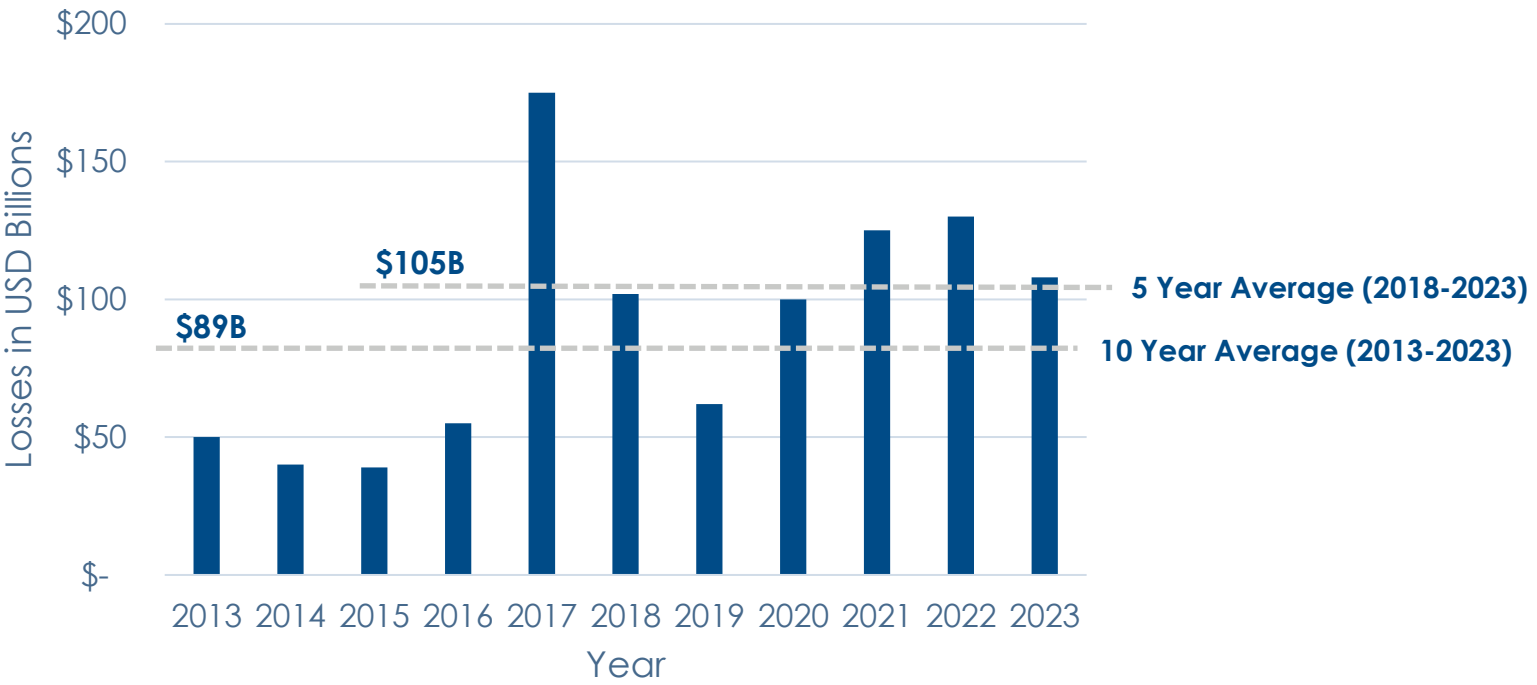
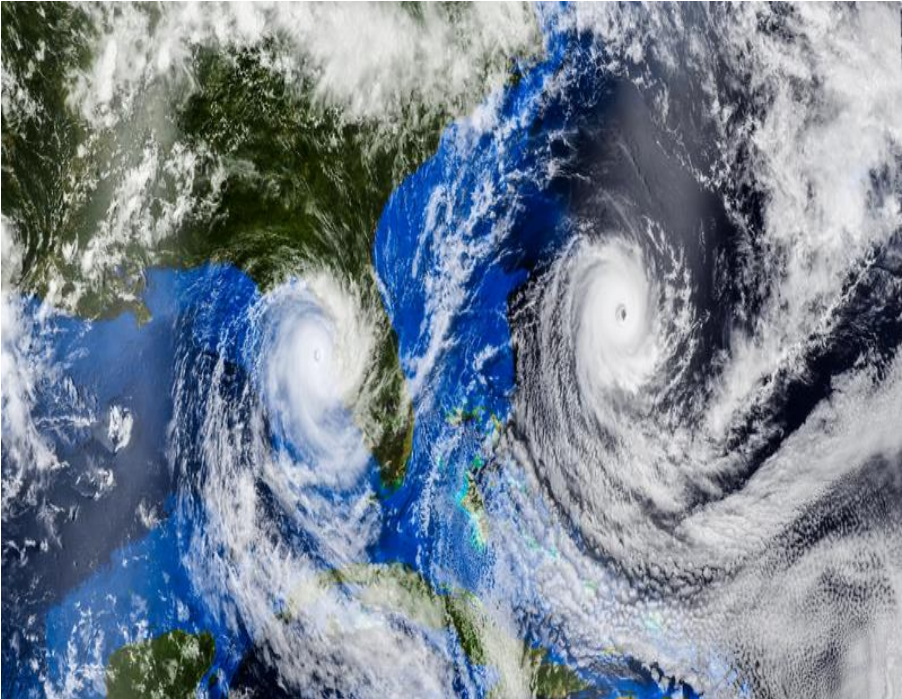


Notes: 2023 total is estimated figure through Q3.
 Source: Insurance Information Institute.

Average Insured Loss per Year
 1980-2021: \$23.8 Billion
 2012-2021: \$44.1 Billion

The 2020s are off to an ominous start with \$80B in average annual insured losses

Global Natural Catastrophe Insured Losses



- Natural disasters resulted in global insured losses of \$108B in 2023
- Well above 10 year average of \$89B
- Fourth consecutive year with \$100B+ losses
- Swiss Re forecasting 5% - 7% growth in losses, driven by exposure growth, especially in areas of higher catastrophe risk (e.g., flood plains and coastlines)

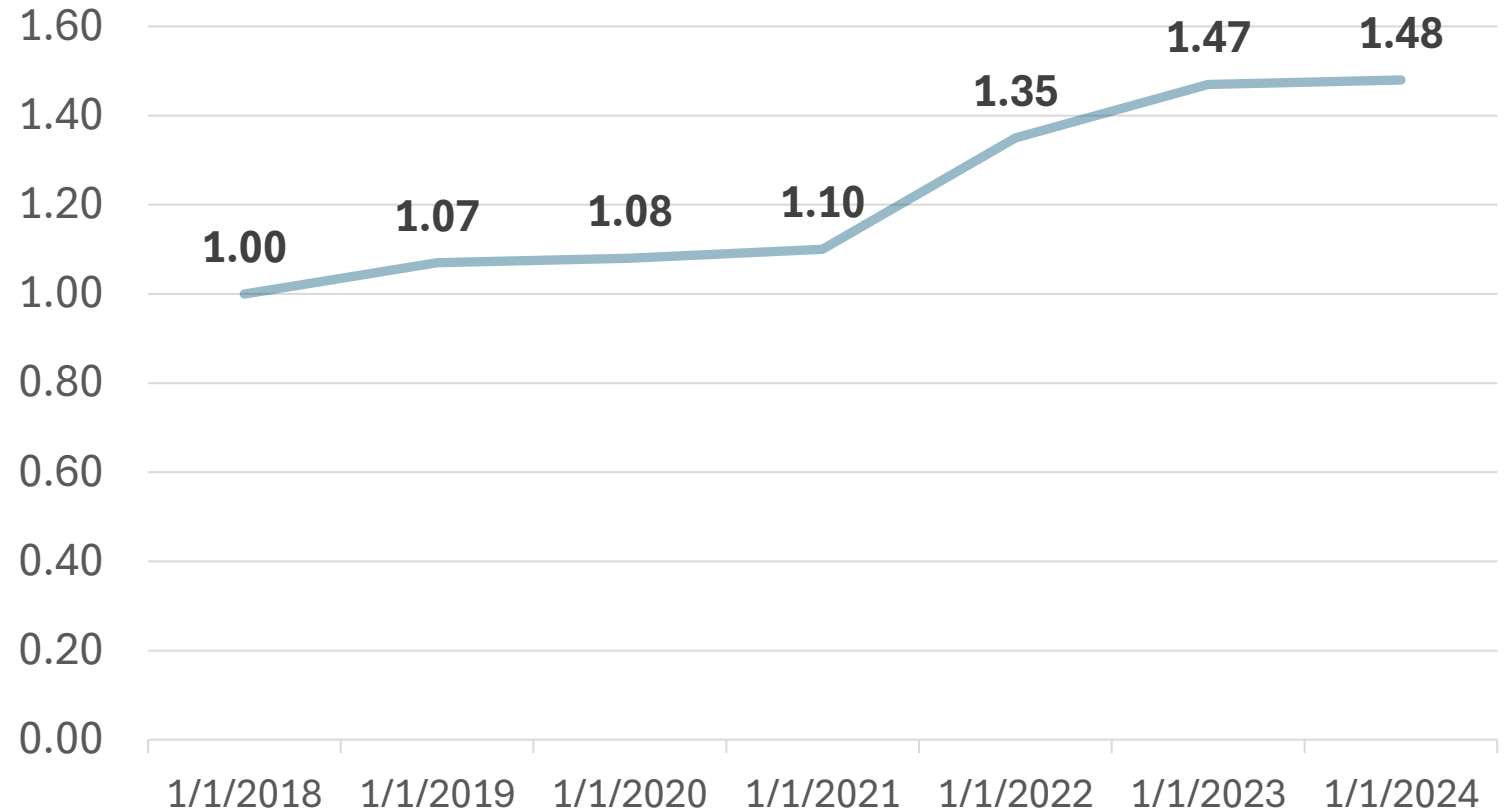
2024 Property Insurance Market Overview

- Property catastrophe treaty reinsurance pricing stabilized at January 1, 2024
- No further reductions in capacity are anticipated
- Stable rate environment thus far in 2024
- Market operating in more calm, orderly, and rational manner
- Less scrutiny of terms and conditions, with most policies renewing with no change in limits, deductibles, sub-limits, etc.
- Model-driven, analytics-based industry continues to push importance of accurate replacement cost valuations
- While a far more stable marketplace and outlook, property market remains somewhat fragile



The Impact of Inflation

- While the rate of inflation has moderated, building costs remain at a multi-decades high, with continuance of elevated labor, construction materials, and transportation costs
- Insurers remain hyper-focused on accurate replacement cost valuations
- Carriers utilizing AI to validate values adequacy
- A building constructed for \$1M six years ago would cost roughly \$1.48M to build today



Source: FM Global

Hard Market to Soft Market Insurance Cycle

Insurance is Cyclical

Cycles usually span a number of years.

We are currently in what is known as a **'Hard Market'**

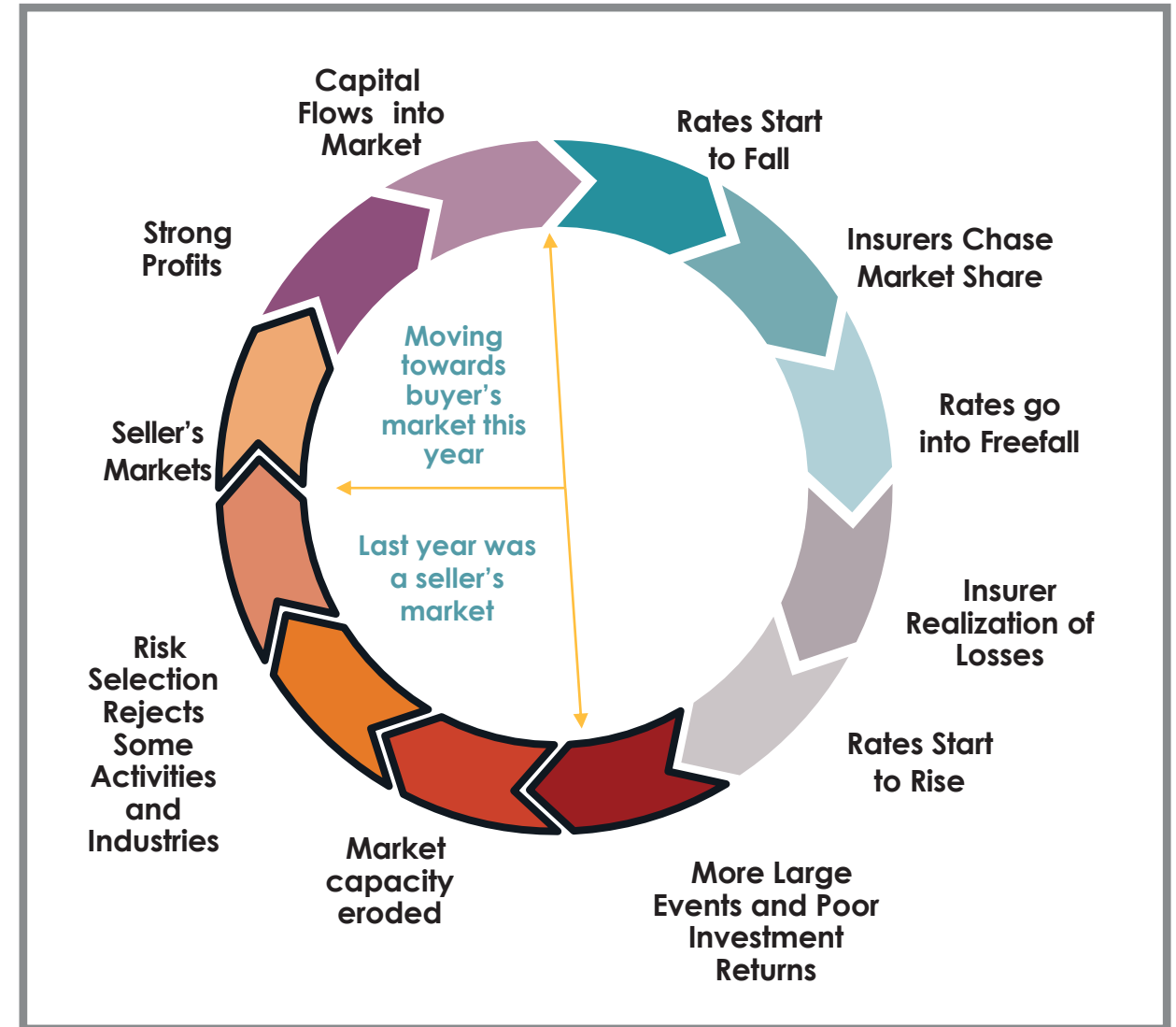
A Hard Market is when there's high demand for insurance coverage and a low appetite to insure.

During a hard market, rates are high and coverage is difficult to find.

A Soft Market is when insurance is readily available.

Rates are stable or falling because of healthy competition in the market.

Direction of market cycle can change following a high-loss year.



The Florida Factor



Florida continues to be the most challenging catastrophe risk zone in the world



Hurricane Idalia only landfalling hurricane in Florida in 2023 storm season



Treaty reinsurance pricing has flattened out



Insurers being selective in providing their limited Florida wind capacity



Despite legislative reforms to Florida insurance laws, insurers remain concerned about potential claim inflation, public adjuster activity, and legal climate within the state



While Florida should see a more stable market this year, the 2024 hurricane season will drive future market trends

What's Next?



With quiet hurricane season, and no other major catastrophe losses, quick transition into soft market environment is possible, however...

- El Niño conditions of 2023 quickly dissipating
- National Oceanic Atmospheric Administration's (NOAA) Climate Prediction Center indicating:
 - 83% chance of shifting from El Niño to neutral by April-June
 - 62% chance of La Niña conditions by June-August
- 2024 hurricane season
 - AccuWeather forecast of "potentially explosive" season
 - 20 - 24 named storms, including 8 - 12 hurricanes, and 4 – 7 reaching Category 3 strength or higher
 - Cited abnormally warm sea surface temperatures and La Niña conditions



Casualty Insurance Market Update

April 17, 2024

Hilton Orlando Lake Buena Vista

State of the Liability Market

Impact of Inflation

- Rising claim & operating costs before considering the impact of “Social inflation”
- Pressure on insurers reserve & rate adequacy

Social Inflation and Litigation Funding

- High, “catastrophic like” jury *and* judge verdicts regardless of merit or facts of the case
- Unrelated 3rd parties seek out and fund the litigation in return for a portion of the lawsuit recovery
 - Since 2016 there have been over \$30 billion in claims driven through litigation funding
 - An additional \$2.7 billion of investment in the litigation finance industry was committed in FY23

Law Enforcement Liability (LEL)

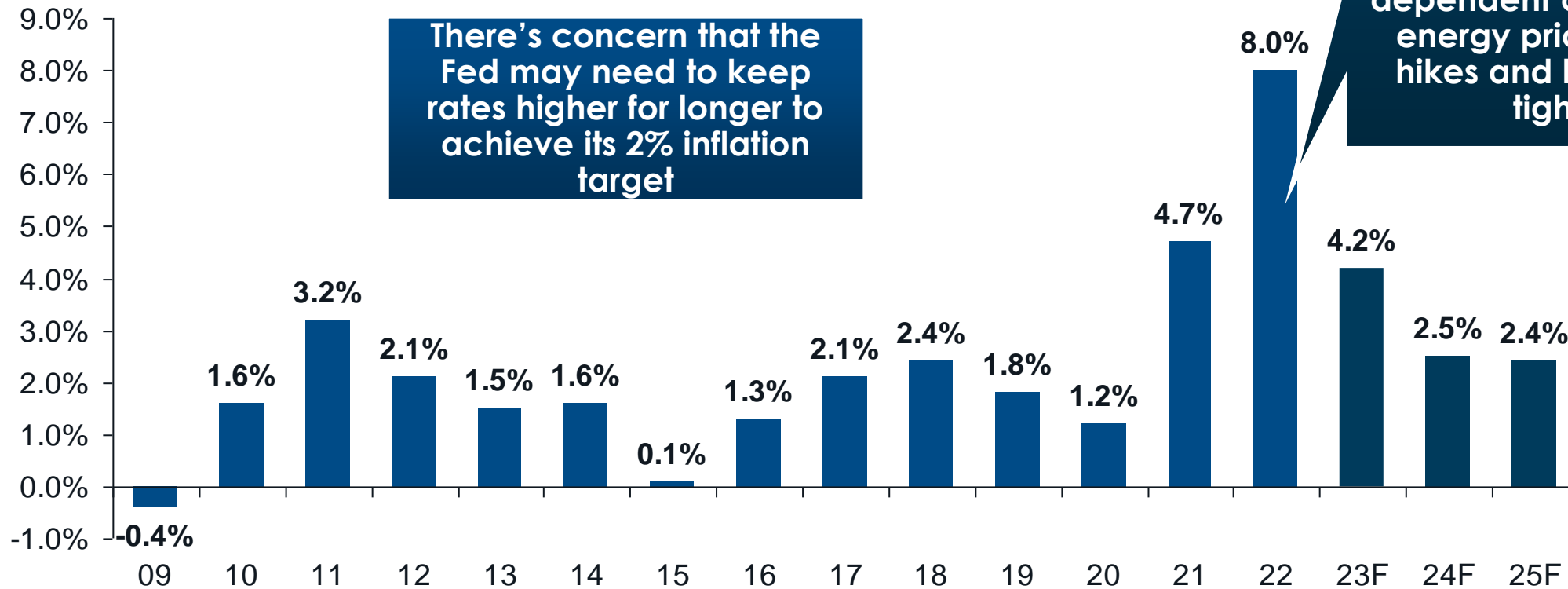
- Increased frequency and severity of litigation
- Civil lawsuits as redress (versus criminal) resulting in large settlements
- Reduction in availability of coverage at substantially higher costs/attachment points

Automobile Liability Trends

- Auto rates have increased for 22 consecutive quarters and still appear to be inadequate

U.S. Inflation Rate: 2009-2025F*

Percentage Change (%)



There's concern that the Fed may need to keep rates higher for longer to achieve its 2% inflation target

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation should moderate through 2023/24; Forecast is highly dependent of trajectory of energy prices, Fed rate hikes and labor market tightness

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (10/23); USC Center for Risk and Uncertainty Management.

Social Inflation: Many Interrelated Causes, Difficult to Manage

INSURANCE CLAIM COSTS

Increasing
Propensity
to Sue

Size of Jury
Awards

Courts/
Juries
Favoring
Plaintiffs

Growing
Distrust of
Large
Orgs.

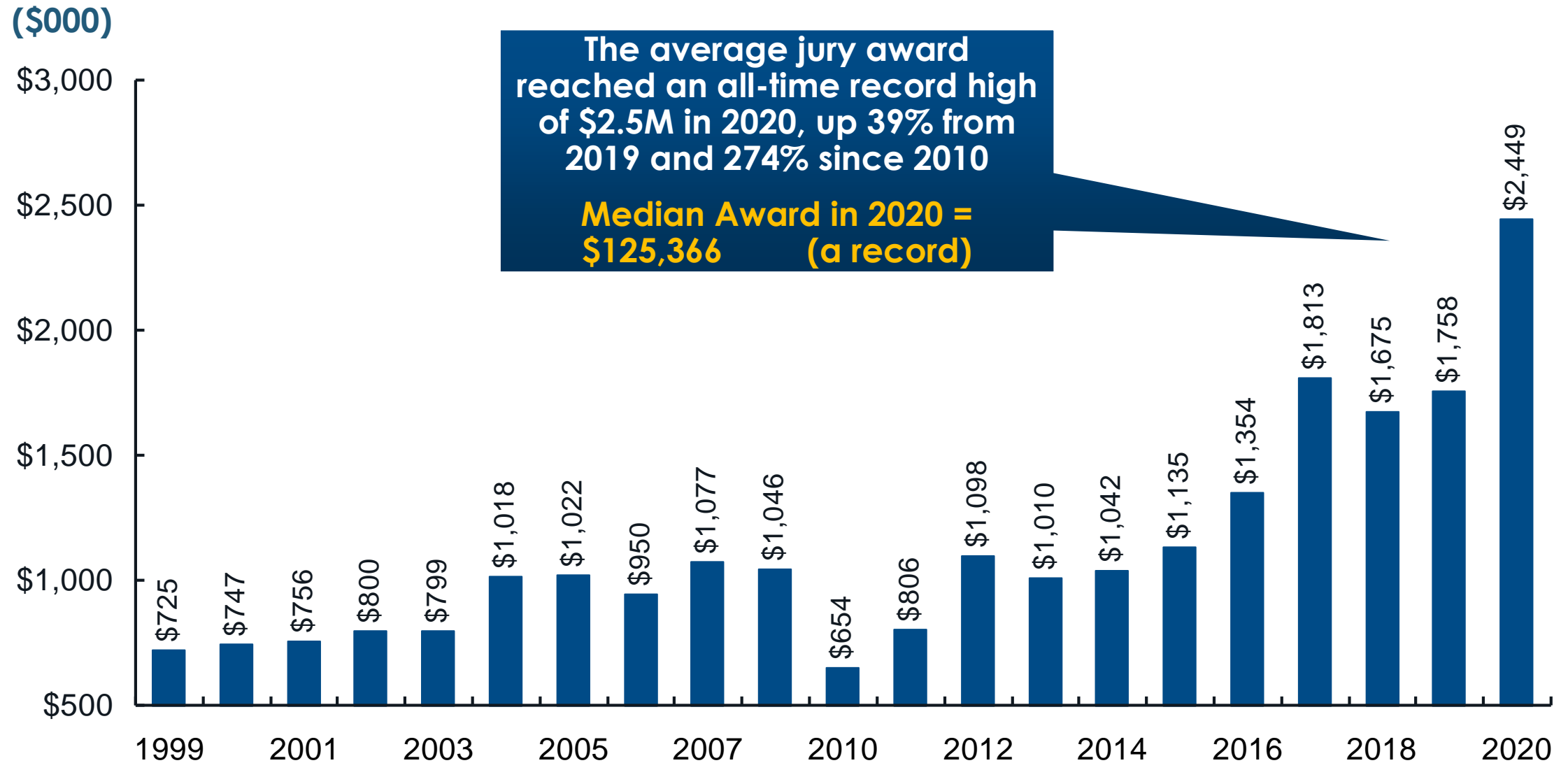
Litigation
Financing

Aggressive
Plaintiff Bar
Ads

Changes in
Regulatory and
Legal Environment
Bar Ads

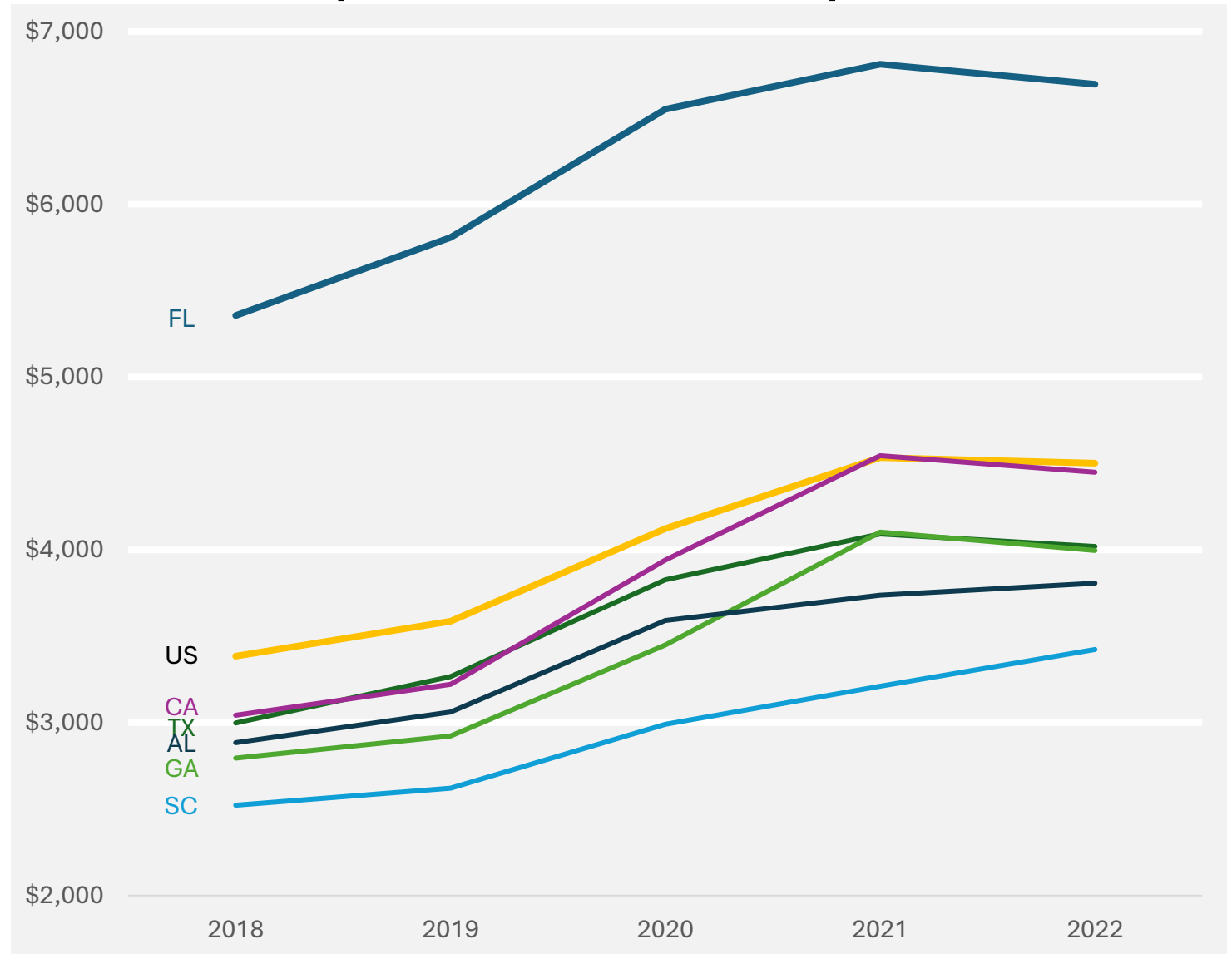
Applied to a seemingly limitless number of issues, these drivers are pushing tort costs (and therefore claim costs upward)

Average Jury Awards, 1999 – 2020 (latest available)



General Liability – Direct Premiums per \$1M of GDP per State

- FL General Liability Direct Premium rate per \$1M of FL Gross Domestic Product are notably higher compared to the U.S. average, AL, CA, GA, SC & TX
- FL GL Rates peak in 2021
- It will be interesting to see the impact of FL 2023 tort reforms



Sources:
 GDP: USAfact.org
 Premium Costs: S&P Capital IQ from NAIC Filings

5 Forces Driving Commercial Auto Insurance Costs

1. Bodily Injury Loss Costs

- Severity of loss is up 40% between 2018-2022 due to:
 - Increase in deadly accidents
 - Rising verdicts
 - Increases in Medical Cost Inflation: +5.5% in 2022, +6% in 2023, +7% forecast in 2024

2. Attorney Involvement

- Increased legal representation
- Higher expenditures for medical procedures and treatment

3. Distractions and Impairment

- Vehicle infotainment systems and mobile devices
- 30% of companies surveyed reported employee crashes due to distraction
- Deaths due to preventable crashes up 15% versus pre-pandemic levels

4. Vehicle Repair and Replacement Costs

- Autos have become 24% more expensive to repair since 2019 – technology, labor, advanced materials
- Used car prices were up almost 50% in 2023 when compared to the average between 2015-2019
- Increase in auto thefts

5. Inexperienced Drivers

- Resignations and retirements leading to a shortage of commercial drivers

Sources

¹ *LexisNexis Risk Solutions Auto Insurance Trends Report*

² *Health Research Institute*

³ *Attorney Involvement Keeps Claims Soaring (June 2023, The Institutes)*

⁴ *Travelers 2023 Risk Index – Distracted Driving*

⁵ *Auto Insurance: The Uncertain Road Ahead (2023, APCA)*

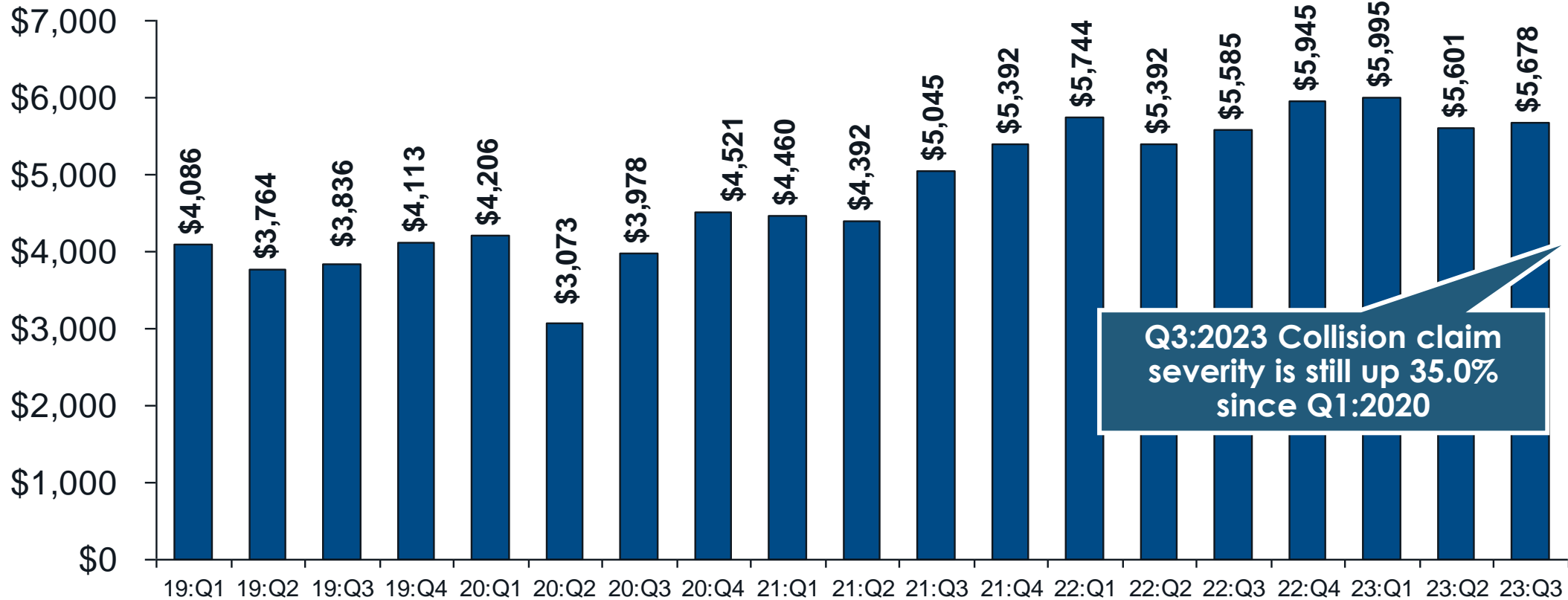
⁶ *Edmunds Used Vehicle Report (Q3 2023)*

Travelers – 5 Forces Driving Commercial Auto

Collision Claim Severity: Rising to New Record Highs

Average Loss, 2018:Q1 through 2023:Q3

Collision claim severity reached a record high in 2023:Q1, up 42.6% from 2020:Q1



Q3:2023 Collision claim severity is still up 35.0% since Q1:2020

Severities Are Up Sharply—Inflation Is a Major Factor

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

State of the Workers' Compensation Market

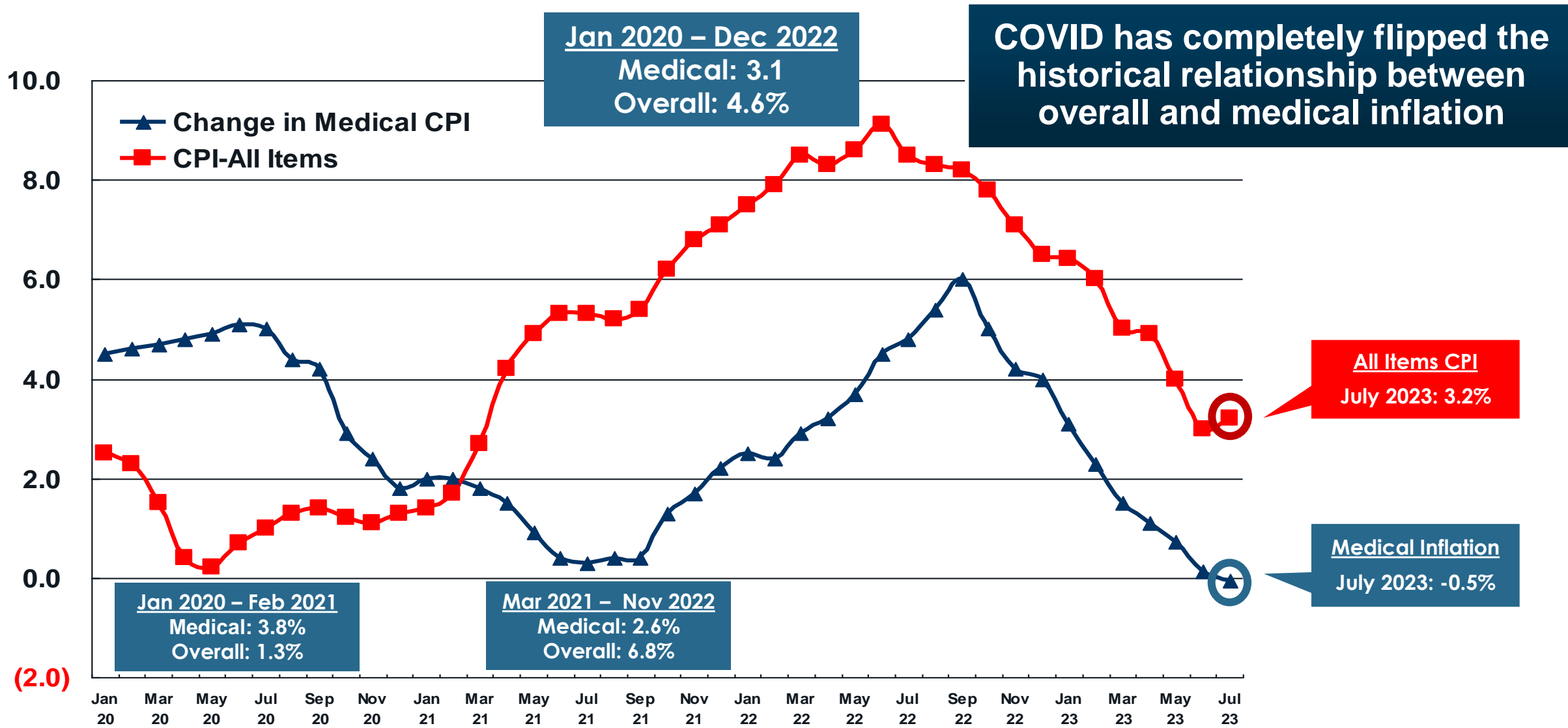
The most stable line of coverage in the Casualty marketplace. However, it has been impacted by:

- Medical Cost Inflation
- Wage Inflation
- Decreasing frequency; Increasing Severity
 - Survival/Life Expectancy – due to medical advancements, survival rates and life expectancy have increased
 - Fee Schedule Costs – ICU, durable medical equipment and new state-of-the-art attendant care is not covered by the fee schedules
 - Comorbidity – disease coupled with injuries escalates claim costs

The Public Entity risk profile for Workers' Compensation has become more volatile

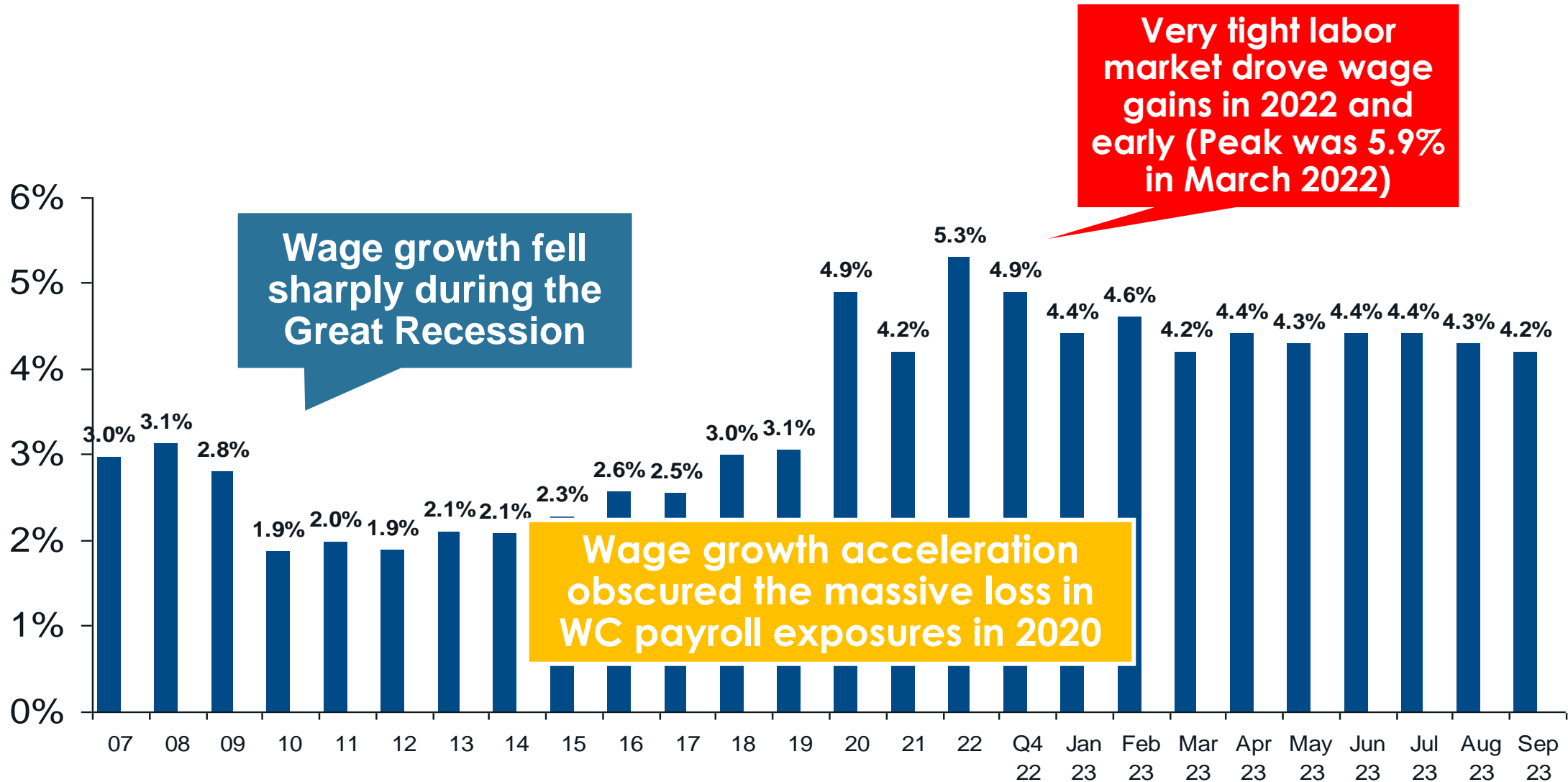
- First responders
- Pandemic impact on Public Entities Workers' Compensation
- Legislation - Presumption

Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – July 2023 *(Percent Change from prior year)*



Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

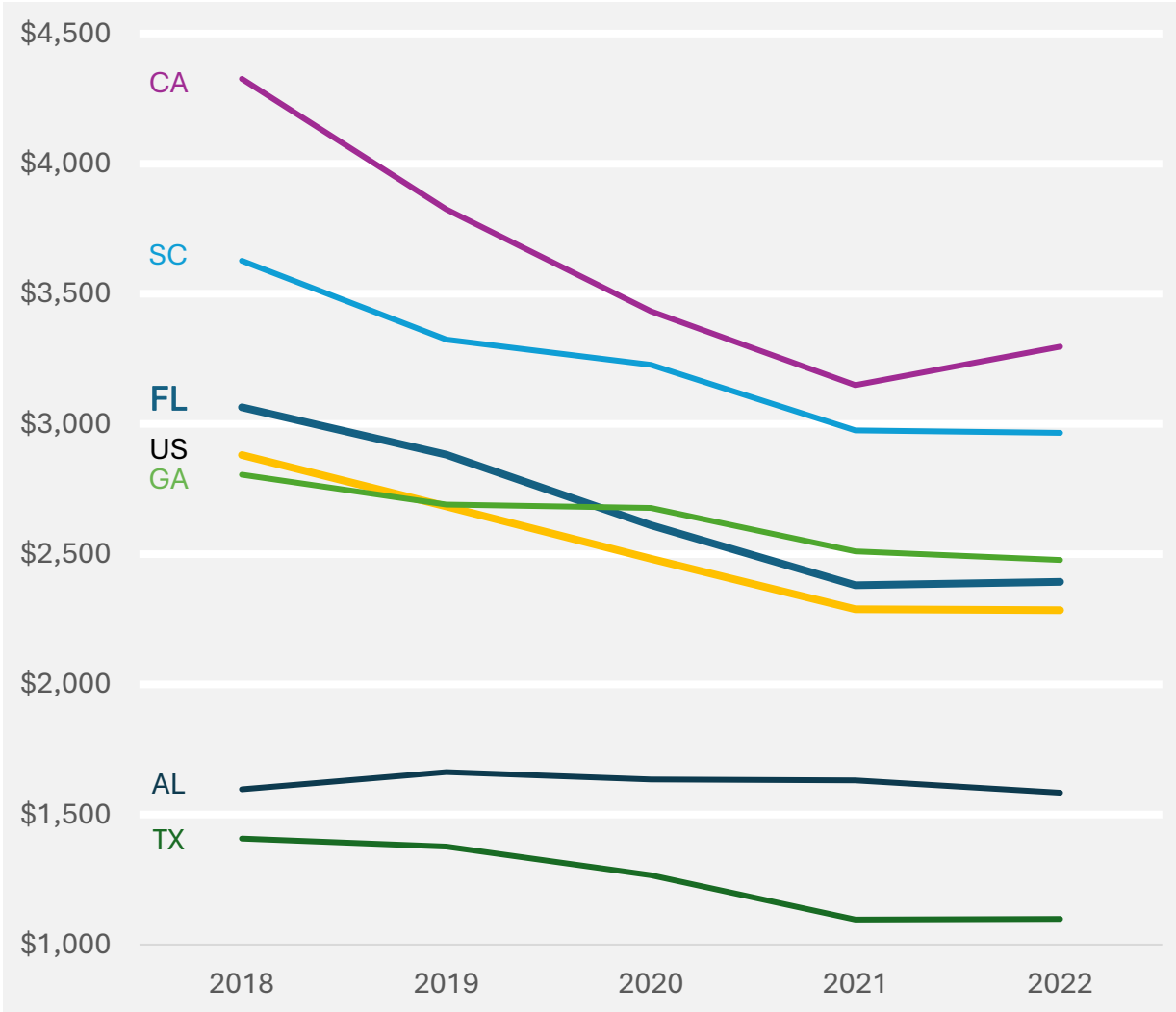
Annual Change in Average Hourly Wage, 2007– Sept. 2023



Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, Univ. of South Carolina.

Workers' Compensation

Direct Premiums per \$1M of GDP per State



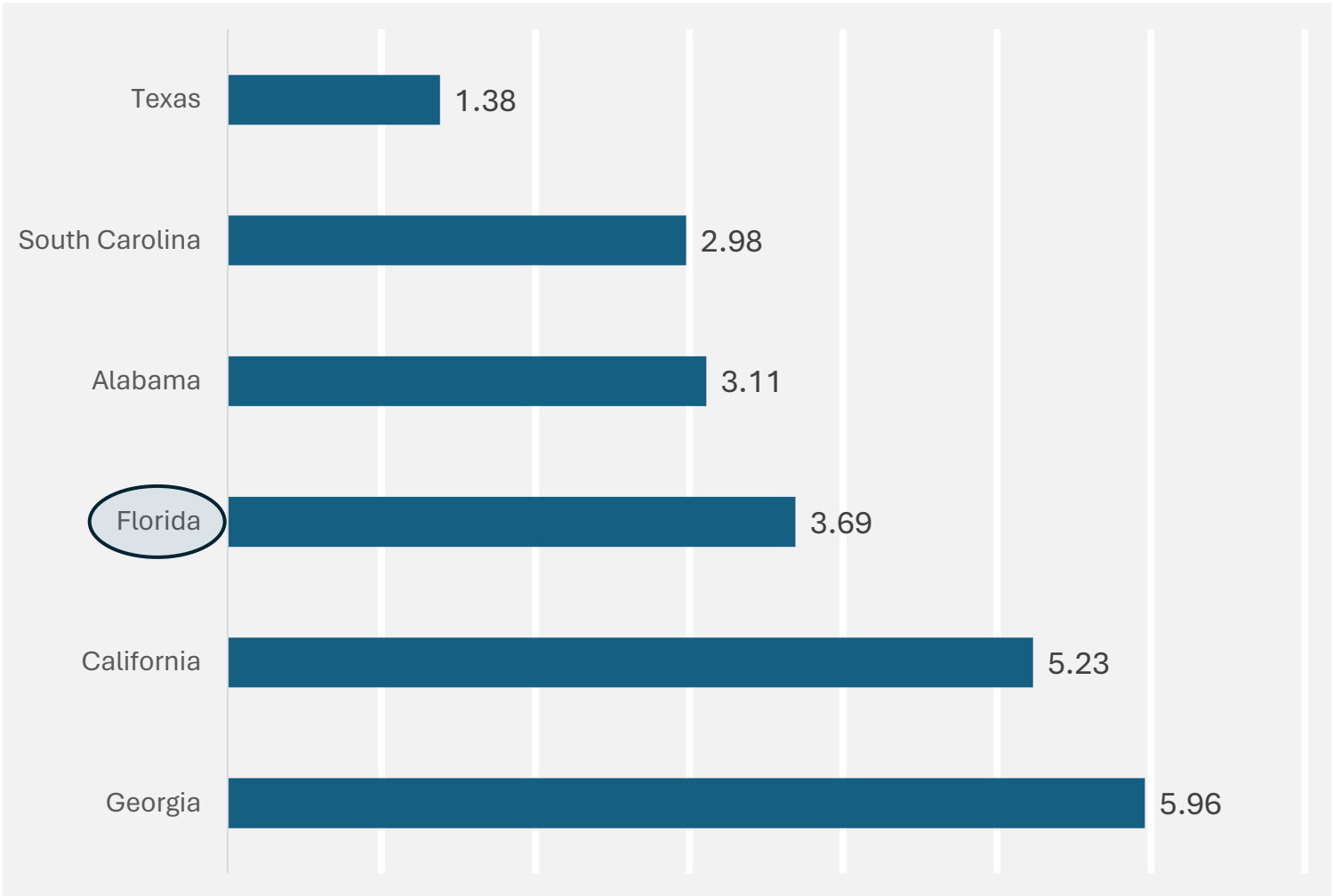
- Florida has historically had higher workers' compensation rates than the national average
- Florida's rates have reduced to be closer in line with the United States average

Sources:
GDP: USAfact.org
Premium Costs: S&P Capital IQ from NAIC Filings

Loss Cost

Per \$100 of payroll

Workers Compensation



We aggregated the loss costs of public service jobs like firefighters, police officers, and sanitation workers. Florida’s public service jobs have the third highest loss costs among the states analyzed.

Job Codes

| Job Type | GA | FL | TX | AL | SC | CA |
|-----------------------|------|------|--------------|--------------|--------------|--------------|
| Fire Department | 7704 | 7704 | 7710 7711 | 7710 7711 | 7710 7711 | 7710 7711 |
| Police Department | 7720 | 7720 | 7720 | 7720 | 7720 | 7720 |
| Sanitation Department | 9403 | 9403 | 9403 | 9403 | 9403 | 9403 |

Source: NCCI, State specific Department of Insurance

Florida Legislative Updates

SB 362 – Medical Treatment Under the Workers' Compensation Law (effective 1/1/25)

Increases max reimbursement rates for all industries:

- Certain physicians from 110% to 175% of the Medicare rate
- Certain surgical procedures from 140% to 210% of the Medicare rate
- NCCI has estimated +7% impact on WC costs in Florida due to this change

SB 808 – (Heart & Lung Presumption) Treatment by a Medical Specialist (effective 10/1/24)

Expand physician access to allow the use of their physician of choice

- Limited to firefighters, law enforcement, and correctional officers
- Some physicians may charge up to 200% of the Medicare reimbursement rate

Other Presumptions:

Firefighter cancer presumption – 2019

- An alternative to the firefighter pursuing benefits through workers' compensation

First Responder Post-Traumatic Stress Syndrome (PTSD) Presumption – 2019

- Bill was amended to include notice limitations (52 weeks after the qualifying event)
- The cost of PTSD presumption is hard to quantify due to the large number of municipalities that are self-insured



THANK YOU

Questions?