2024

Commercial Property & Casualty **Market Outlook**

Forecast Insights From USI National Practice Leaders

USI®

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This report provides concise overviews of the current state of insurance lines and industries, underscoring noteworthy developments that are beginning to surface.

EXECUTIVE SUMMARY

Welcome to USI Insurance Services' 2024 Property & Casualty Market Outlook, which provides brief retrospectives of each insurance line and delves into trends to watch this year. In this comprehensive report, we examine all coverage lines and the challenges and opportunities facing them in 2024.

- **Property:** Natural catastrophe (CAT) losses continue to increase by 5% to 7% annually. However, we expect a return to minimal valuation increases in 2024. As technology advances, artificial intelligence (AI) increases the chance of insurers automatically declining risks with algorithms rather than manual intervention. Finally, lender requests are creating major coverage challenges.
- **General/products liability:** We project flat to 5% rate increases. However, many organizations continue to switch to loss-sensitive programs despite rate moderation to further reduce their cost of risk.
- **Auto:** Virtually all providers of auto liability insurance continue to push for rate increases. While new capacity continues to enter via telematics programs, traditional insurers have reduced capacity by exiting certain underperforming states.
- **Umbrella/excess:** We project that rate increases will be limited to 5% to 15%, and markets will offer increased limits of $15M to $25M.
- **Workers' compensation:** The rate and pricing environment in most states should continue to remain competitive in 2024 for both buyers of guaranteed cost and loss-sensitive programs, with rate reductions being more common than rate increases.
- **Cyber:** Ransomware and business email compromises (BEC) are becoming more interconnected as attackers can use compromised email accounts to initiate ransomware attacks, making the cyber threat landscape even more perilous. However, rates have been stable, with renewals flat to up 15%. We expect rates to remain the same in 2024.
- **Directors and officers (D&O):** We project that public company D&O rates will be flat to down 7.5% in the first half of 2024.

As we navigate our multifaceted insurance landscape, each segment brings its own set of challenges and opportunities, shaping the strategies and decisions of both insurers and insureds. Maximize your organization's potential by:

1. **Leveraging risk control strategies to present accounts favorably to insurance carriers**
2. **Utilizing every available tool to align asset values with industry standards**
3. **Seizing opportunities to positively influence insurance costs, coverage, and overall risk quality**

Explore the **"How USI Can Help"** sections in this report to position yourself advantageously for upcoming opportunities in the insurance market.

We wish you success and a prosperous new year!

MARKET UPDATE & RATE FORECAST

PRODUCT LINE	YEAR-END 2023 (YOY)	FORECAST 2024 (FIRST HALF)
PROPERTY		
Non-CAT Property w/ Minimal Loss History and Good Risk Quality	Up 5% to 15%	Up 5% to 15%
CAT Property w/ Minimal Loss History and Good Risk Quality	Up 25% to 150%	Up 15% to 30%+
CAT or Non-CAT Property w/ Poor Loss History or Poor Risk Quality	Up 25% to 150%	Up 15% to 30%+
CASUALTY		
Primary General/Product Liability	Up 10% to 15%	Up 5% to 10%
Primary Auto Liability w/ Fleet Less Than 200 & Good Loss History	Flat to up 5%*^	Flat to up 5%*^
Primary Auto Liability w/ Fleet Less Than 200 & Poor Loss History	Up 20% to 30% +^	Up 20% to 30% +^
Primary Auto Liability w/ Fleets in Excess of 200	Flat to up 5%*^	Flat to up 5%*^
Excess Auto Buffers	Up 40%+	Up 40%+
Workers' Compensation Guaranteed Cost	Down 10% to up 10%**	Down 10% to up 5%**
Workers' Compensation Loss Sensitive	Flat to up 5%**	Down 5% to flat**
Umbrella & Excess Liability (Middle Market)	Up 5% to 20%***	Flat to up 15%***
Umbrella & Excess Liability (Risk Management)	Up 10% to 25%+***	Up 5% to 20%+***
INTERNATIONAL		
International Liability	Up 10% to 20%	Up 0% to 5%
International Property, CAT Exposure	Up 20% to 30%	Up 20% to 30%
International Property, Non-CAT Exposure	Up to 20%	Up 2% to 5%

PRODUCT LINE	YEAR-END 2023 (YOY)	FORECAST 2024 (FIRST HALF)
ENVIRONMENTAL		
Environmental Combined General Liability/ Pollution	Up 5% to 15%	Down 5% to up 5%
Excess Combined General Liability/Pollution	Up 7.5% to 15%	Up 5% to 15%+****
Environmental Contractors' Pollution	10% reduction to inflationary increase	>10% reduction to flat
Environmental Pollution Legal Liability	Flat to 5% increase	>10% reduction to 5%
Aviation		
Aviation	Down 5% to up 10%***	Down 5% to up 15%***
EXECUTIVE & PROFESSIONAL RISK SOLUTIONS (EPS)		
Public Company Directors & Officers Liability — Overall	Flat to down 20%	Flat to down 10%
Private Company and Not-for-Profit (NFP) Directors & Officers Liability — Overall	Down 7.5% to up 5%	Down 5% to up 5%
Employment Practices Liability (EPL)	Down 5% to up 10%	Flat to up 10%
Fiduciary	Flat to up 25%	Flat to up 15%
Crime	Down 5% to up 5%	Down 5% to up 5%
Kidnap & Ransom	Down 5% to up 5%	Flat to up 15%
Professional Liability/Errors & Omissions (E&O)	Up 5% to up 25%	Up 5% to up 20%
Representations & Warranties	Down 10% to 20%	Down 5% to up 5%
Cyber (Network Security & Privacy)	Flat to up 15%	Flat to up 15%
Technology Errors & Omissions	Flat to up 20%	Flat to up 20%

^ Geographical radius of operations will impact pricing.
* Including need for primary limits up to $2M.
** Dependent on state and assuming impact of COVID-19 remains limited.
*** In some cases, depending on class of business, historical losses and limits purchased. Factors in contraction in limits.
**** If heavy truck exposure, increase can be higher than 15%, especially in certain geographies.

View our Historical Rate Index charts

PROPERTY

Developments Since Mid-Year 2023 Outlook

We close out a very challenging year for property renewals marked with steep rate increases, limited CAT capacity, continued valuation adjustments and increased retentions. In the second half of 2023, the property insurance market continued to face numerous headwinds.

While insurers cautiously deployed their capacity following their reinsurance treaty renewals, global CAT losses for the first half of 2023 were estimated near $54B, with nearly 70% of these losses attributed to 10 severe convective storm events in the U.S.[1] A record total of 25 billion-dollar weather and climate events occurred in the U.S. in 2023, surpassing 2022 and the previous five-year average (2018-2022) of 18 billion-dollar events.[2] The earthquake in Turkey and Syria is expected to be the costliest event, with insured losses estimated around $6B.[3]

Other notable events included Hurricane Otis, which is expected to contribute between $2.5B and $4.5B in insured losses [4], and the Maui wildfires, which are expected to eclipse $4.5B in insured losses.[5] Total insured CAT losses for 2023 are expected to exceed $100B for the third consecutive year, occurring during a year with minimal named storm losses.

2023 included widespread **rate increases, capacity reductions, increased deductibles** and **tightening of terms**.

While insurers adjusted to protect their balance sheets given the higher retentions present on their treaties, we witnessed widespread rate increases, capacity reductions, increased deductibles and tightening of terms across the broader market. Certain market segments were more impacted than others, with some of the most severe including:

- Wildfire-exposed accounts
- Coastal properties in Florida, Louisiana, Texas and the Carolinas
- Difficult risk profiles, such as food processing, frame habitational, foundry, recycling, loss-prone accounts, inadequately protected risks, and those with unresolved risk control recommendations

Many insureds increased risk retention due to the high cost of capacity, while others increased retention involuntarily as the limits sought were not available. The latter insureds often elected to purchase lower limits and seek higher deductibles to minimize premium increases.

Trends to Watch in 2024

CAT losses continue to increase by **5%** to **7%** annually

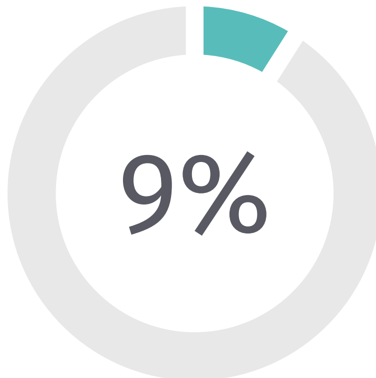
Despite insurers repositioning capacity and adhering to more restrictive underwriting guidelines in 2023, CAT losses continue to increase at 5% to 7% annually.[6] Some industry models forecast an annual average loss of $133B from CAT events, with $200B in losses being plausible.[7] There is minimal inflow of new meaningful capital into the reinsurance market, with CAT bonds being the primary driver of activity.

Concerns persist over inflationary pressures that create loss amplification, in which the rising costs of materials, labor, and services can lead to higher claims than expected. As a result, insurance companies may adjust loss reserves to reflect the increased cost of construction. Although these pressures proved to stress the market in 2023, there is some evidence suggesting less turbulent times may be on the distant horizon, with a potential market softening in 2025.

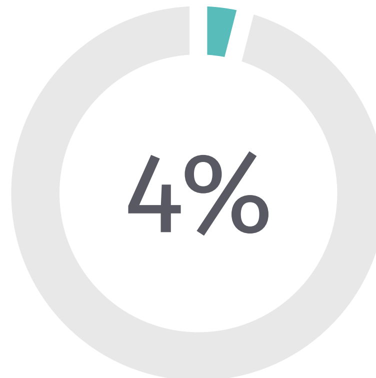
Reinsurance treaties (agreements between insurance companies and other insurers to share risk) are expected to have more moderate price increases as rate adequacy, rising reinvestment yields and demand for reinsurance will bolster earnings.[8] Inflationary pressure has decelerated from the peak of 2022, with some improvements in supply chains and decreases in raw material costs. Insurers have positioned themselves to minimize CAT losses through higher deductibles, smaller line sizes and adequate rates to absorb the losses within their treaty retentions. All these factors point to a property insurance market better poised to handle the projected loss forecasts, so long as underwriting discipline prevails in the long term.

Rates are expected to increase, but not at the same pace as seen in 2023. Our forecast calls for 5% to 15% rate increases for non-CAT property with minimal loss history and good risk quality; 15% to 30%+ for CAT-exposed property with minimal loss history and good risk quality; and 15% to 30%+ rate increases for those risks with poor loss history or poor risk quality. The higher end of the ranges above are reserved for risks with a large concentration in values in critical CAT zones, insureds facing non-renewals by incumbent insurers, insureds with unresolved risk quality issues or insureds with large, unsettled claims. We expect the majority of renewals to finish with less than a 20% rate increase, but insureds that fall into one of the categories above could experience a higher result as outlined.

Since inflation peaked in mid-2022 at 9.1%,[9] it has steadily declined as interest rates have increased and supply chain disruptions have improved. With inflation now below 4%,[10] replacement cost indices are also showing signs of slowing.



mid-2022



January 2024

As the property market continues to adjust to the new reality of increased CAT losses, shifting insurer appetites and a more selective deployment of capacity, some trends impacting the broader market are expected to materialize or gain momentum. **Below are the most notable shifts expected, reflecting the culmination of an entrenched, multiyear hard property market in an industry full of demand for technology and better data.**

Less Volatility in Replacement Cost Indices as Inflation Eases

To provide some context, record losses in 2017 resulted in costs to repair or replace buildings that were many times higher than the initially reported values. This is a common issue in construction and insurance when unforeseen factors lead to higher expenses. In response, insurers and reinsurers started to emphasize replacement cost valuations to stay in line with rebuilding costs and ensure premiums were commensurate with the exposures present. The COVID-19 pandemic in 2020 quickly accelerated this issue as supply chains were interrupted, labor was unavailable or in short supply, and the cost of materials skyrocketed. Inflationary pressures continued well into 2022, causing the replacement cost of buildings to increase significantly.

Since some of these indices lag behind several months, we can expect some further improvement unless there is a spike in inflation rates. Although a labor shortage still exists, and there are still areas experiencing supply chain issues, it appears the worst is behind us and a return to minimal valuation increases can be expected soon.

Growth of Surplus Lines Market

As markets reduced capacity or repositioned themselves on programs to minimize losses, insureds sought more capacity from the excess and surplus market than ever before. From 2021 to 2022, the premium volume in the excess and surplus market jumped 19.2% to $98.5B, compared to $78.6B in 2021,[11] with property being the driver of growth.

Programs historically written by a single insurer moved to shared and layered program structures, in which multiple participants provided capacity. London and Bermuda insurers took on larger positions in programs in which admitted markets vacated or reduced capacity, in some cases accounting for over 50% of the capacity programs. Difference-in-conditions (DIC) placements increased to fill voids left by admitted insurers for policy limitations or reduced CAT limits, nearly all sourced from the excess and surplus market. Insureds split large master insurance programs into multiple programs to limit the rate impact on the renewal, often requiring excess and surplus insurers to cover specific locations or groups of locations. Although the peak of the hard market is likely behind us, the excess and surplus lines market is expected to grow at a faster pace than the traditional property and casualty (P&C) market.

Increased Interest in Alternative Risk Transfer

While rates steadily increased in the hardening property market, so did the utilization of alternative risk transfer options. Single-parent captives, group captives, fronted reinsurance capacity and parametric products became more interesting to insureds, as they sought alternatives to traditional property coverage. Changes in insurer appetite, limited capacity, rising costs, increased retentions and excluded property or excluded causes of loss were the driving forces behind the increased interest.

Captive surplus has grown by more than $4B, or 17%, since 2018,[12] with over 117 new captive licenses being issued in 2022 alone.[13] Fronted reinsurance premiums grew by 43% YOY to $10.6B in 2022,[14] with the number of providers growing as well. The global parametric market was valued at $11.7B in 2021 and is expected to nearly triple to $29.3B by 2031.[15]

All these providers offered timely, impactful solutions for the potential gaps created by the disruptions in the firming property market with a high level of flexibility in their design and implementation. While some deployed under-utilized surplus in their single-parent captives to participate in their property programs, others chose to implement a parametric product to fill a protection gap, such as loss of crop yield due to drought or loss of income due to shipping delays caused by low water levels in navigable rivers. Given their customizable use and design characteristics, it is no surprise these vehicles are growing in interest and premium volume. As the market disruptions stretch into 2024, insureds will continue to seek out alternative risk transfer solutions to close the protection gap and minimize the volatility in any market cycle.

Read more about this topic in our Executive Series article.

Increased Role of Technology and Artificial Intelligence in Underwriting Decisions

With the rapid expansion of available analysis tools and technology solutions in the insurance space, insurers and brokers alike have been adopting various platforms to create operating efficiency, make more informed underwriting decisions and streamline manual processes. Some of these tools involve scoring systems for exposures such as wildfire, crime, hail susceptibility and storm surge, allowing insurers to make quick decisions on risks if they fall outside of their desired underwriting guidelines. Others are utilizing machine learning to identify building details such as construction type, roof covering options, square footage, number of stories, roof condition, presence of roof-mounted solar panels, tree overhang and defensible space for wildfire exposure. These tools can process large swaths of data within a few seconds, which would have previously taken hours to review manually.

Underwriting AI increases the chance of insurers automatically declining coverage with algorithms rather than manual intervention.

While the technology can create efficiency for insurers, it can also present drawbacks for insurance buyers. As these systems become more embedded within insurer underwriting processes, the chance of auto-declinations will increase when a location falls outside of an insurer's risk appetite, causing buyers to find an alternative solution for that location.

For instance, in California, some insurers are using wildfire scoring as the first line of sight on whether a location is acceptable or not, declining any location with a score of 40 or higher on a scale of 1 to 100, or within half a mile of a potential burn area. Although in some cases it may be warranted, this will increase the number of displaced properties requiring alternative coverage. The same has been present with wind, hail and tornado exposures, where insurers are declining locations with high hail risk scores or by number of historical tornadoes within a specified mile radius of the property.

In hurricane-prone areas, roof condition scores are frequently used to decline properties with older roofs or those with evidence of ponding, vegetation growth or repairs. Since some of these systems take high-resolution images from satellites or fixed-wing aircraft, the position can be difficult to overturn — in some instances requiring a roof replacement before an insurer will consider quoting the location. This trend is expected to continue as the property market seeks better data to make informed decisions about risk selection and minimize losses on its portfolio.

When used by brokers, this data can also help ensure carriers are evaluating and underwriting risks appropriately. On-demand information on insured properties can enable more accurate underwriting decisions, as the technology can obtain up to 1,100 data points on a single location, including construction, exposure, prior and open permit information, and valuation determinations. As the technology platforms evolve, the insight into risk, exposures and assets on a location-level basis will be unprecedented, improving capabilities, data quality and transparency throughout the renewal process.

Updated CAT Models Expected to Impact Segments of the Market

CAT modeling is used by the property insurance industry to determine required surplus levels for insurers, estimate pricing by peril, estimate the probability of loss by certain perils, and to facilitate the purchase of reinsurance on a portfolio. There are several platforms in use today, with the bulk of the market using RMS, Verisk's AIR Touchstone, or a blended approach. Some insurance companies have even developed their own proprietary models to weigh against the industry standard models.

In June 2023, RMS released Version 23 to update its North Atlantic Hurricane model from lessons learned after Hurricane Ian in September 2022. The update is expected to capture some of the claim escalation that materialized following recent losses, such as those caused by water intrusion and increased construction costs. Estimates suggest an average 5% to 10% uplift to aggregate industry modeled losses, with some areas (Texas through the Carolinas) expected to see anywhere between a 20% to 30% uplift.[16] The ultimate objective is to make predictions more accurate by factoring in recent trends in claim increases.

Although the full impact remains to be seen in 2024 due to delayed implementation by insurers and reinsurers, the new version has the potential to drive up reinsurance demand at a time when capacity is already limited. For insurers with heavy hurricane-exposed portfolios in these regions, the capacity and pricing challenges could become worse, forcing them to reduce limits even further and increase rates to meet their return on capital targets. Knowing which insurers on your program use RMS exclusively versus AIR or other platforms could prove invaluable when discussing upcoming renewal placement strategies, especially for insureds with heavy concentrations in the hurricane-prone areas.

More Detailed Lender Requests, Especially on CAT-Exposed Property

While insureds continue to seek avenues to reduce premium spend, lenders and other third parties are becoming increasingly aware of the difficulties of meeting certain insurance requirements, whether they are policy limits, location limits, deductibles, or CAT limits. The hard market has presented situations not faced in years, where some policies could not meet the terms required by loan covenants, leases or contracts. This trend can create harsh consequences and challenges for insurance buyers, such as:

Seeking exceptions to the requirements

Purchasing coverage they cannot afford

Potentially facing default on contractual obligations related to insurance

Lender requests are creating more challenges on placements.

As the flurry of exception requests has poured into compliance departments and asset managers, so has the request for information to substantiate the coverage being purchased. Everything from recent appraisals, flood PML (probable maximum loss) studies and CAT modeling, including results with 90% confidence levels, to wildfire risk scores, roof condition reports, elevation certificates and risk engineering reports, were part of the myriad of data requests. Some lenders requested the import files used for various CAT modeling runs to validate the results before making decisions on limit exceptions. With the hard market still present in 2024, although decelerating, this trend will continue as the availability of specific limits or coverages will be tested.

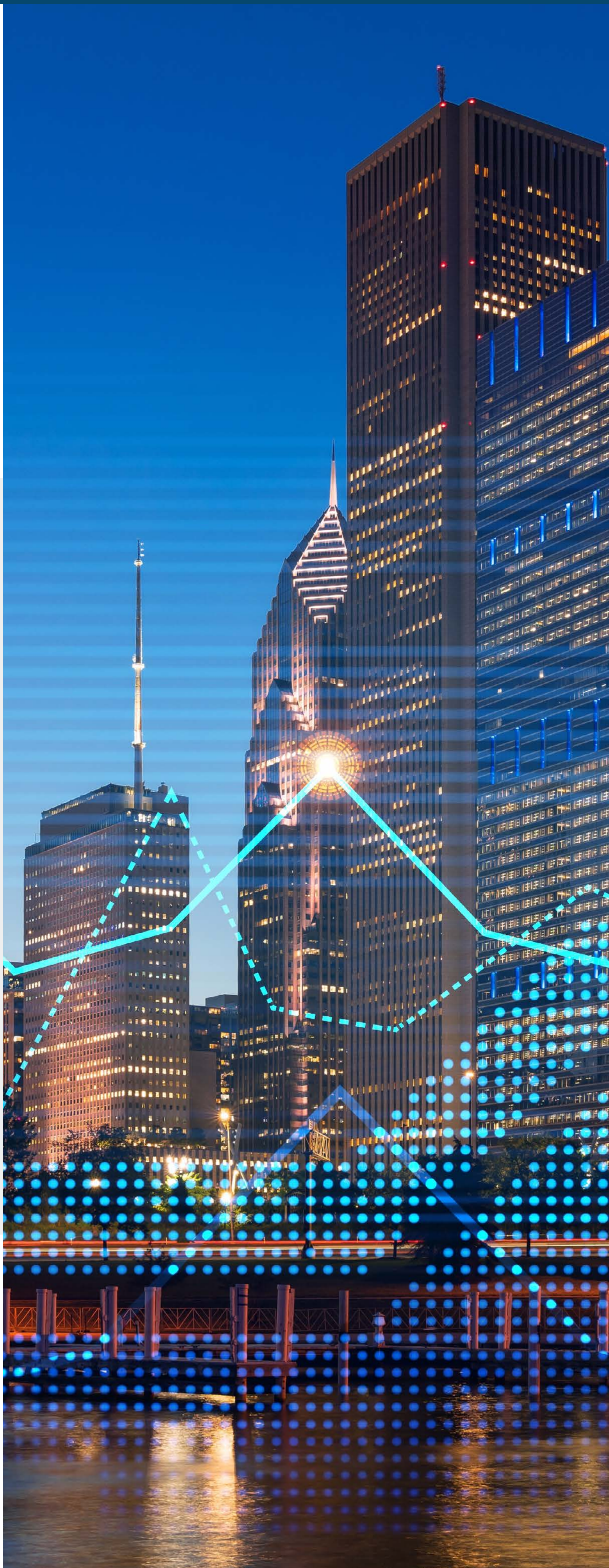
How USI Can Help

While insurers continue to shift their appetite and capacity offerings, expect the unexpected in today's market. It is critical to approach your renewal from a fresh perspective, equipped with robust data, extensive analytics, proven strategies, and risk differentiation. USI is continuously investing in tools, technology, and talent to provide unprecedented insight into your portfolio to help design, then deliver, a cost-efficient property insurance program.

With multiple tools to estimate building replacement cost valuations, the capability to run advanced catastrophe modeling scenarios, and software platforms that can pull over 1,100 underwriting data points on single buildings, USI is well-equipped to place you in the best position for your upcoming renewal. When combined with the deep local market knowledge of our property analytics and placement colleagues in offices across the country, clients can access the blueprint for success in a property market filled with disruption. As you move forward in 2024, we look forward to showing you how the USI ONE Advantage® can benefit you on your upcoming renewal.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Return to the insurance rate forecasts



[1] Swiss Re Group
[2] National Centers for Environmental Information
[3] CoreLogic
[4] Swiss Re Group
[5] Moody's RMS
[6] Swiss Re Group
[7] Verisk
[8] Fitch
[9] U.S. Bureau of Labor Statistics
[10] U.S. Bureau of Labor Statistics
[11] AM Best
[12] Captive.com
[13] Business Insurance
[14] Captive.com
[15] Allied Market Research
[16] Insurance Insider

Developments Since Mid-Year 2023 Outlook

Rate increases prevailed overall for most buyers of both general/products liability (GL/PL) and umbrella/excess liability placements. However, the rate environment in the second half of 2023 was less volatile than predicted for most insureds, and recent rates were even more stable than in prior years. This was especially true for middle-market to upper-middle-market buyers who had appeared to reach a rate inflection point in late 2022 or early 2023. This positive trend does not mean that rates are decreasing, but only that rate increases are slowing.

For GL/PL and umbrella/excess liability, we are not close to seeing aggressive competition between insurance carriers for new business or the wholesale rate reductions across the board that such an environment can create, but the magnitude of upward rate increase is steadily easing quarter over quarter. In other words, rates are still up on average but not nearly as high as they were in prior years. An increasing number of middle-market buyers are experiencing flat renewals where insurers have held premium levels at the expiring cost. However, for larger insureds — particularly those in industries deemed to be inherently hazardous, with large auto fleets or with recent poor loss experience — insurers maintain that rates continue to be inadequate. As a result, rate increases have forced these insureds to work proactively to ensure the best possible outcomes.

For auto liability insurance, virtually all providers have continued to push for rate increases. Workers' compensation rates have declined by 5% to 10% for guaranteed cost programs.

General/Products Liability

Average rate increases in the second half of 2023 tended to hover in the 5% to 10% range. However, an increasing number of insureds experienced flat renewals or less severe rate increases of between 3% to 5%. Outliers on the other end of the spectrum experienced rate increases between 10% to 15% — or higher for those with recent large losses. Many of these insureds had poor historical loss severity and/or were in industries considered to be more hazardous from a loss perspective, such as habitational real estate, chemical, pharma and hospitality.

Despite the recent rate moderation, we've seen a continuation of the loss-sensitive trend. A high percentage of our customer base has moved up the risk financing spectrum, away from their guaranteed cost program structures into loss-sensitive programs in which they assume a portion of the losses themselves to reduce their overall cost of risk. (Read our article on this strategy.)

We've also seen clients with loss-sensitive programs assume more risk by increasing their deductible levels. Some of these clients did so in reaction to pricing pressures on umbrella/excess liability, property and other lines of coverage. Assuming more risk themselves lowered fixed costs and freed up funds, which were required to pay higher premiums and maintain adequate limits for these other lines.

From a limits perspective, we are seeing a steady increase in the number of upper-middle-market to larger risk management clients moving to primary limits of 2/4/4 in lieu of 1/2/2. The higher limits are partially a result of umbrella markets requiring higher underlying attachment points and both social and fiscal inflation. Another contributing factor is pricing relief from primary markets for the additional primary limits, which can be more cost-effective than what the umbrella market would charge for attaching over lower limits. In some cases, we saw price differentials of 10% to 15% or more between umbrella and primary markets.

> Organizations have continued switching to loss-sensitive programs despite rate moderation to further reduce their cost of risk.

Umbrella/Excess Liability

While we're still seeing strict underwriting on umbrella/excess lines, especially with new business, the number of markets willing to negotiate on price, coverage, terms, and conditions is higher today than at any point since 2018. We expect this trend to continue well into 2024. Although rates increased for most insureds, they were less severe and began to exhibit more consistency as 2023 rolled on.

Numerous years of rate gains and a moderate-but-steady increase in the number of markets competing for new business have contributed to a more stable rate environment. This is particularly the case with middle-market buyers who purchase $50M or less in limits. With a few exceptions noted below, current rate increases averaged 5% or less for many of these buyers across a broad range of industries. Some even received flat renewals as the rate environment was deemed to be sufficient to offset anticipated loss costs for these buyers.

By contrast, most larger insureds that purchased $50M or more in limits — notably those that purchased $100M or more — were still experiencing rate increases, but they were less severe than in prior years. We saw average increases in the 5% to 15% range, while in prior years they averaged 10% to 25%. Nevertheless, rising loss costs (discussed later in this report) pose a challenge for many large insurance buyers.

From a limits of liability perspective, lead umbrella capacity per market held steady at $10M to $15M per individual insured. In many cases, we saw markets expand limits offered and deploy up to $20M to $25M in lead umbrella capacity for select individual middle-market and upper-middle-market accounts. The additional consolidated capacity was often provided at a discounted cost relative to the previous capacity, which essentially resulted in a rate reduction. For larger accounts, we have been far more successful in filling out towers with required capacity at reasonable pricing than in prior years. Pricing in the upper layers of a tower was more competitive than it had been in prior years, with more markets collectively agreeing to quota share.

One of the more positive developments in 2023 was how quickly and efficiently insurance carriers packaged the lead umbrella with primary casualty lines. These markets were often able to discount the umbrella portion by supplementing it with the premium volume of the primary program. In some cases, this bundled approach has resulted in umbrella premiums which are 25% to 35% lower compared to a stand-alone monoline umbrella insurer that is unaffiliated with the primary market.

A bundled approach has lowered some umbrella premiums by **25%** to **35%**.

As noted in the GL/products section, a trend that continued throughout the second half of 2023 was lead umbrella coverage attaching over higher primary underlying limits, which means that the coverage kicked in when the limits of the primary insurance were exhausted. This was especially true for commercial automobile liability. For a growing number of insureds with fleet sizes of 200 or higher, a $2M primary automobile attachment point became the norm (compared to $1M). Many primary markets have built these higher limits into their rating models without the need for buffer markets.

While the moderation in price increases is a welcome relief for many buyers of insurance, the market still has some negative realities to deal with, mainly in the form of loss severity. Last year, losses increased in severity, and the occurrence of severe losses became more frequent. While we have discussed the negative impact of social inflation on losses for many years, recent statistics show that greater plaintiff attorney involvement and litigation financing has become even more pronounced. Large liability awards have surged in a growing number of jurisdictions, and this trend shows no signs of abating. Investment in litigation financing is a multibillion-dollar industry today, and this is expected to double in the next three years. This is occurring for insureds across a broad array of industries, but it's a particular concern for insureds with large auto fleets as well as those in the hospitality, manufacturing, chemical, pharmaceutical, and real estate industries.

Umbrella/excess claims have longer tails than many other lines of business. Losses from years ago may now be litigated or settled at amounts higher than ever before. Consequently, insurance markets that have a large book of business in these industries maintain that existing and prior years' loss reserves are inadequate, the current rate environment is still not sufficient to combat this trend, and they will be pressing for annual rate increases of 15% or greater. This includes insureds that have experienced large losses over the past three to five years, which have penetrated the umbrella/excess layers.

Workers' Compensation

Workers' compensation continued to perform well for most insureds in all but a handful of states for the second half of 2023 and is one of the few commercial insurance lines to experience multiple years of rate reductions. Rates for guaranteed cost buyers in most class codes have declined by an average of 5% to 10%. Workers' compensation rates for insureds on loss-sensitive programs were primarily flat to down 5% as well.

Rates have declined by **5%** to **10%** for guaranteed cost programs.

There are many reasons why this is occurring, including investments in loss control and safety that were made over the past few years and are now paying off, resulting in fewer workplace injuries compared to past years. Additionally, there has been a steady decline in the number of fraudulent workers' compensation claims over the past five years because of better monitoring of job sites and coordination of claims handling.

At this time last year, we expected to see upward rate pressure materializing in some states because of medical inflation, the transition away from remote work environments, a shortage of skilled workers and the impact of presumptive liability for COVID-19 claims. However, these concerns have not had a material impact on losses. Neither have cost increases for medical and indemnity losses or rising premiums because of higher payroll and wages. Furthermore, claim reserve redundancies have been released by many insurers. Collectively, all these positive trends outweighed the negative factors, and this should result in a combined ratio for workers' compensation at or slightly below 90% for calendar year 2023, further setting the stage for another few years of a competitive workers' compensation market.

Automobile Liability

The projections published in our 2023 Mid-Year Market Outlook remained on track for the second half of 2023 for auto lines of insurance. The only unexpected trend was the withdrawal of several insurers from the auto liability space, both in the heavy vehicle and business auto sectors.

Trends to Watch in 2024

Entering 2024, the market is now in its sixth year of rising rates for GL/products and umbrella/excess. Although rate adequacy is slowly being achieved for a growing number of insureds and the pace of rate increases is moderating, we are still not close to entering into a softening market characterized by flat or reduced rates for most insureds. Social inflationary pressures and rising claims inflation will still negatively impact a subset of insureds with high historical loss severity and frequency as well as those in industries perceived to be inherently hazardous.

Underwriters are aware of the rate fatigue created by these multiple years of increases and the mounting frustrations of insurance buyers across multiple coverage lines, including GL/PL and umbrella/excess. Insurance companies will introduce selective competition, which means they will be willing to cover only certain risks, market segments, geographic regions, customer demographics and other factors. They will introduce and package multiple lines together, allowing insureds and their brokers to better make their case for flat renewals and even minor rate reductions, especially those with attractive loss profiles with clean loss histories.

General and Products Liability

Rate increases for most industries will continue to moderate and stabilize. Much of this stability is due to rate adequacy being achieved and an increasing number of insureds who have decided to assume more risk themselves through higher deductibles or self-insured retentions. Except for industries considered hazardous from a loss perspective, we anticipate a slightly more competitive rate environment in 2024 with an expanding number of insureds experiencing **flat rates to 5% increases as the year progresses.**

Placements into the excess and surplus (E&S) non-admitted market will continue to grow faster for insureds with more prominent exposures for products and completed operations (liability for injuries or damage that may occur after a project or service has been completed) than it will for insureds with premises exposures. Admitted markets are pricing themselves out of or shedding these more difficult risks. We expect rates in the E&S market to increase by 5% to 15%.

Umbrella/Excess Liability

Umbrella/excess liability lines offer sufficient market capacity for both middle-market and large companies. We should continue to see more markets increase their limits offered to $15M per individual account. Throughout the year, we expect more markets to provide upward of $20M to $25M in single blocks of capacity for select insureds, without the need to bifurcate or ventilate their limits into separate layers of capacity, which has been common over the past five years. This strategy helps manage risks and financial exposure effectively, ensuring that coverage is available for losses that exceed the primary policy's limits. For insureds who purchase $100M or higher in limits, obtaining sufficient stand-alone or quota-share limits will be less challenging than in prior years as greater market cooperation on pricing will facilitate insureds filling out their excess liability towers at reasonable rates.

Projection: Markets will offer increased limits of **$15M** to **$25M**.

From a rate perspective, markets will be more willing to negotiate on price in lieu of walking away from an account. This trend will further foster rate stabilization for both middle-market and larger accounts, and for those with robust risk management and safety programs. For middle-market insureds who purchase $50M or less, we expect flat rates to 5% increases for a greater number of insureds, especially those who bundle the umbrella with the primary lines. Select insureds may also experience rate decreases. Larger insureds will continue to experience more rate volatility, but years of rising rates and moderate competition for insureds who can demonstrate their commitment to risk management will have a positive effect on rates. Robust safety programs and good loss histories will also have a positive impact. While we still expect an environment of rate increases, they should be contained in the 5% to 15% range for most insureds.

With the growing trend of rate stabilization, we may see insureds who had cut back on limits of liability begin to purchase higher limits.

Workers' Compensation

The rate and pricing environment for workers' compensation in most states should continue to remain competitive in 2024 for both buyers of guaranteed cost and loss-sensitive programs, with rate reductions being more common than rate increases. Markets are keenly aware of numerous years of rate increases and may look to be as competitive as possible to offset the cost increases in other liability lines.

One change that may have greater implications on guaranteed cost pricing is the decision by the National Council on Compensation Insurance (NCCI) to change its methodology for calculating experience modification (e-mod) factors, which are a key component for guaranteed cost rating. (Read our article on the topic.)

The NCCI is now adopting state-specific split points as well as a revised methodology for state accident limitations in the 36 states where the NCCI governs the workers' compensation system. NCCI estimates that over 80% of all risks will experience a shift of five points or fewer in either direction, but it will be more extreme for some companies, resulting in a higher modification factor. Instead of simply raising premiums, insurance companies may adjust their insurance schedules or policies to offset the increased risk or cost associated with policyholders who have higher experience modifications. These schedule changes could include adjustments to the policy terms, coverage options, deductibles, or other aspects of the insurance policy. The goal is to maintain a balanced risk pool and ensure that the increased costs associated with some policyholders are adequately managed without unfairly burdening them with significantly higher premiums. However, besides the pricing impact, higher experience modifications can also negatively impact the bidding process for insureds in the construction and oil/gas industries.

We still anticipate a competitive rate environment for both buyers of guaranteed cost and loss-sensitive programs, with a few exceptions. For guaranteed cost, we estimate that rates will range between -10% and +5% in most states. However, with the NCCI's e-mod changes, it's always a good idea to perform a cost-benefit analysis of moving to a loss-sensitive program structure in which the insured assumes a portion of the risk themselves and can pivot quickly if required. Moving to a loss-sensitive program eliminates the impact of experience modifications on most of the program costs. Read our article for details on this strategy.

For clients already in loss-sensitive programs, we expect rates to fluctuate between -5% and +5% for most insureds at the proper deductible level and with good loss history. For insureds who have experienced greater loss severity historically, flat rates to 5% increases can be expected, but we will see many of these insureds moving to higher deductible/retention levels to offset rate increases.

Continuing the trend established two years ago, an increasing number of markets are looking to package workers' compensation with liability lines. We expect many to refuse to write liability exclusively, without workers' compensation, or vice versa.

Automobile Liability

As a result of adverse loss ratios, virtually all providers of auto liability insurance will continue to push for rate increases in 2024. While new capacity continues to enter via telematics programs, traditional insurers have reduced capacity by exiting in certain under-performing states, or have pulled out of the commercial auto space entirely. Whether you are utilizing large trucks or private passenger vehicles, claim outcomes continue to be negatively impacted by inflation, nuclear verdicts and settlements, environmental, social and governance (ESG) issues, litigation financing and continued supply chain disruption. Increased settlement values in the trucking sector are now spreading to all industries in which vehicles are being utilized for business operations. Negligent hiring and entrustment as a basis for large lawsuits has moved from a fad to a more permanent trend.

Projection: Rates **down 5%** to **up 5%** for loss-sensitive programs.

How USI Can Help

General/Products and Umbrella Liability

Organizations and their brokers must remain vigilant and take proactive steps to secure the most favorable outcomes while identifying solutions related to market dynamics and program structures. These solutions can help mitigate or offset challenges like rate increases, reduced capacity, and more restrictive coverage terms and conditions. In the present market environment, USI advises the following:

1. **Ensure that policy limits, terms and conditions are sufficient**, especially in the face of adverse loss trends by engaging with USI to perform a benchmarking analysis, review coverage, and analyze litigation trends in the insured's industry.

2. **Begin early preparations for policy renewals,** formulate a comprehensive plan of action, and engage in discussions with both existing and potential markets at least 150 days prior to renewal. These discussions should encompass considerations like capacity reductions, pricing on a per-million basis, and the inclusion of additional exclusionary clauses, such as those pertaining to infectious diseases.

3. **Create a high-quality underwriting submission** by focusing on the specific risks that underwriters find most concerning. Highlight the qualities of your risk profile, emphasizing aspects like investments in loss control and safety, contractual risk management, risk mitigation efforts, capital expenditures, and the willingness to engage in risk control and overall risk management philosophy.

4. **Initiate early dialogues with existing and potential markets** to build strong relationships. Determine the minimum underlying limits that umbrella markets are willing to attach over as early as possible. Consider the possibility of self-insuring above contractually required limits. Benchmark the overall umbrella/excess limits purchased against peer groups to validate the total limits acquired.

5. **Leverage data analytics** to evaluate risk financing alternatives.

6. **Analyze the cost benefit of structural changes** within insurance programs, such as assuming higher retention levels for purchasers of guaranteed cost or low-deductible insurance programs; exploring the insured's involvement their captive in a quota-share participation of the umbrella/excess program tower; examining structured approaches, such as swing plans in which the ultimate cost is dependent upon losses; and analyzing multiyear, single-limit policies.

Workers’ Compensation

Insureds and their brokers should take a proactive approach in identifying distinguishing factors to secure the most advantageous renewal terms including program structure, pricing, and coverage. Here are key strategies to achieve this:

1. Verify that **payroll information is correctly categorized** by classification codes to avoid errors in premium calculations.
2. **Ensure experience modification factors are accurately calculated** to reflect the insured’s loss history accurately.
3. Proactively **manage claims** to control premium costs and foster continuous improvement in safety and loss prevention.
4. **Inform underwriters** about any changes related to wellness promotion and measures taken to protect workers from occupational injuries. Additionally, communicate changes in claims handling initiatives that can reduce claim duration.
5. Be prepared to **selectively market** the account, tailoring the submission to highlight strengths and risk management efforts.
6. Have a comprehensive understanding of the **advantages and disadvantages of loss-sensitive deductible program** structures.
7. By presenting objective evidence and dedicating more time and effort to **educate the insurance markets**, clients can often minimize rate increases and secure more favorable renewal terms.
8. Re-evaluate the **effectiveness of pre-loss safety measures and post-loss claims handling** mitigation efforts. Engage in dialogue with brokers and insurers to optimize results from these initiatives.
9. Collaborate with your broker to **harness proper loss and financial analytics** to determine capacity to assume risk at various retention levels.
10. **Reassess applicable collateral alternatives**, premium levels at various retentions, and loss allocation methodologies to optimize cost-effective risk management.
11. Evaluate the current and future utilization of **independent contractors** and assess their impact on workers’ compensation costs and losses. Make informed decisions regarding their engagement.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Return to the insurance rate forecasts

INTERNATIONAL

Developments Since Mid-Year 2023 Outlook

The projections published in our 2023 Mid-Year Market Outlook remained on track for the second half of 2023 for all international lines of insurance, with no significant industry/market changes.

Trends to Watch in 2024

Primary Foreign Property and Casualty

With the continued conflicts overseas, insureds face expanding restrictions of coverage for countries and regions involved in hostile actions or war. It's important for insureds to work closely with their brokers and underwriters to understand how the conflicts affect their insurance coverage and explore options to mitigate potential risks. USI will continue to monitor the evolving geopolitical situations and their impacts on insurance regulations and coverage to assist clients in making informed decisions regarding property and casualty insurance for international operations.

Restriction of coverage: 2024 will mostly continue to see disruptions on a global basis due to continued economic pressures, revisions and disruptions in supply chains and rising geopolitical tensions in certain regions. The market will continue to impose coverage restrictions on all lines of business with the focus on foreign voluntary workers' compensation, property, and cargo for countries and regions involved in hostile actions or war.

Examples of coverage restrictions include the declining of new risks in Democratic Republic of the Congo, Israel, Russia, Ukraine, Belarus and Venezuela (including cargo exposure to and from these areas), as well as non-renewing of smaller accounts with exposure in Israel. Medium to large accounts in Israel are being reviewed on a case-by-case basis with requests for additional submission data and adjustments in coverage offerings (such as higher premiums or deductibles). In addition, war coverage is being excluded on all renewals going forward.

In terms of primary foreign property, the market is not accepting new risks in countries and regions involved in hostile actions or war, even if war and terrorism are excluded from the coverage.

Rate moderation: Markets remain willing to maintain rates on accounts with good loss histories.

How USI Can Help

Our global risk assessment provides our multinational clients with a comprehensive analysis of their international exposures and ideal program structure. USI has found that by moving to a centralized program, clients can achieve overall premium savings, maintain concurrency and consistency of coverage, and eliminate both coverage redundancies and potential gaps. We do this by:

- Preparing early for renewal, developing a plan of action, and dialoguing with both incumbent and new markets at least 150 days in advance.
- Reviewing alternative program structures to ensure optimal limits, cash flow, retention level, cost, and collateral perspectives.
- Reviewing and confirming that all necessary admitted (local) insurance is purchased in alignment with local regulations, while also partnering with umbrella coverages to eliminate duplication of coverage.
- Continually engaging with our network of international broker partners to understand changes in local coverages, requirements and laws related to insurance that could impact ongoing operations. In addition, we suggest quarterly check-ins to get ahead of any new expansions into a new country/risk.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Return to the insurance rate forecasts

Developments Since Mid-Year 2023 Outlook

The year-end projections published in our Mid-Year Market Outlook were on track for the second half of 2023 for all environmental lines of insurance, with no significant industry/market changes.

Trends to Watch in 2024

The environmental insurance industry is still relatively young compared to the P&C industry. In its short history of 30+ years, the environmental industry has adapted to new environmental risk issues, an ever-changing regulatory climate and the demand by policyholders to develop environmental insurance policies to cover these risks. The industry has performed well in its response to policyholder demands, developing and customizing the policies as the risks have grown and changed. In doing so, the industry continues to grow its premium by double digits YOY.

In 2024, we predict that environmental claims, volume and severity will continue to rise. Additionally, we see the continuing trend of new and unique types of environmental claims, such as emerging claims from per- and polyfluoroalkyl substances (PFAS) and product pollution claims. Standard claims — such as mold/legionella, leaking storage tanks, dry cleaning solvents and brownfield properties — will continue to increase in both volume and severity, challenging the sector.

Increasing Regulatory Scrutiny

With growing concerns about the impact of climate change, regulatory bodies are intensifying focus on environmental risks. This includes stricter regulations on emissions, waste management and pollution control. As a result, corporations may face increased compliance requirements.

Shifting Public Perception and ESG Accountability

The public's awareness and concern for environmental issues are rising, leading to increased expectations for corporations to demonstrate responsible environmental practice. Insurers may start to adapt their policies to align with evolving environmental, social and governance (ESG) standards. However, in the near term, we don't anticipate environmental insurers to develop new policies/coverages geared toward environmental risks until they have more certainty and predictability of the ESG risks.

Emerging Risks and Uncertainties

The environmental insurance industry must stay agile to address emerging risks effectively. For example, the emergence of PFAS as a concern poses challenges due to regulatory uncertainty and the lack of proven remediation technologies. Insurers are carefully assessing these risks and potentially will limit or exclude PFAS-related risks until more clarity and solutions are available.

Water Scarcity and Droughts

Driven by climate change, the potential contamination of drinking water sources is a growing concern, such as microplastics found in various environmental compartments, including water sources. Microplastics are tiny particles of plastic that have been detected in oceans, rivers and even the air we breathe. The California State Water Resources Control Board became the first regulatory body to define microplastics in drinking water in 2020, with ongoing studies. Litigation is also on the rise with the largest users of plastics. We recommend corporations get ahead of the microplastic liability trend by evaluating their risks to plastics and how their casualty and environmental policies would respond to any litigation in this area.

Our view is that the environmental insurance industry is well positioned to tackle the increased claims and complexities in this evolving environmental risk arena.

Overall Marketplace Trends

- **New entrants and stability.** With some insurers exiting the market or combining over the past five years, there are new entrants adding to capacity in all areas from site policies to construction professional to combined GL/pollution.
- **Transactional risks.** Ten-year terms are still available in the marketplace for historical coverage.
- **Brownfields and the cost cap product.** A "cost cap" refers to a type of policy or provision that limits the financial exposure of the insured for certain costs related to environmental remediation or cleanup. A few insurers are still evaluating the cost cap product with a few deals completed. Perhaps there will be a market in the future with the shift to renewable energy and the need to redeploy legacy industrial properties for sustainable use.

- **Emerging contaminants and litigation.** These may include PFAS, benzene, Roundup, 1-4 dioxane and ethylene oxide. Also be on the lookout for how microplastics litigation develops.
- **Fossil fuels and mining risks.** These are tough placements, and in certain cases coverage may be available only for sudden and accidental (S&A) liability if not well quantified.
- **Growth of the combined general liability and pollution marketplace.** This combined marketplace is now available for a broader range of industries or construction risks. These products can be useful with increasing product pollution risks for manufacturers and distributors.

How USI Can Help

USI assists its environmental clients by:

- Creating an environmental profile to identify exposures associated with operations, helping to quantify and qualify the impact on the organization to determine appropriate risk management and insurance solutions.
- Delivering formal and customized risk maps to identify the frequency and severity of fines and penalties for noncompliance, spill events, known and unknown remediation, and toxic tort liability.
- Creating sophisticated risk model platforms for significant liabilities, using Monte Carlo analytics to look at a range of probabilities and forecast potential liabilities over an extended period.
- Developing effective environmental risk insurance strategies for acquisitions or divestitures of businesses and/or real estate to facilitate transactions and protect corporate assets.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Return to the insurance rate forecasts

Developments Since Mid-Year 2023 Outlook

The U.S. domestic aviation insurance market started 2023 in an increasing rate environment with underwriters continuing to push for rate increases across all classes of business. The average rate increase in Q1 of 2023 was 15% to 25%. Carriers were warning of shrinking capacity due to difficult reinsurance renewals that were expected. The conditions started to change in Q3 as new capacity entered the U.S. market. In 2023, three new aviation carriers entered the marketplace and multiple existing carriers received new limit capacity. This resulted in 2023 ending with average rates trending from -5% to +15%, depending on the subclass of business, loss history and limits carried.

The fractured rate environment has provided much-needed rate relief for certain segments of the aviation industry, while other subclasses continue to face rate increases and high levels of underwriting scrutiny. For a small class of the aviation industry, renewals are coming in with minor premium decreases or near flat renewals. Along with the new capacity that has entered the marketplace, underwriters are looking at top-line growth and are eager to compete on new and renewal business on the favored subclasses and categories of aviation.

The subclasses of business that are finding rate relief are flight operations with clean loss records, non-critical component manufactures and some segments of small commercial business. The subclasses that continue to face an increasing rate environment are purchasers of aviation war coverage; rotor-wing operators; maintenance, repair and overhaul (MRO) providers; ground handlers; and operators that have poor loss history. Due to ongoing conflicts in the Middle East and Ukraine, we expect purchasers of war coverage to continue facing rate increases of 15% to 30%, with the most severe price increases coming in on high liability limits above $50M. War coverage is critical to aviation operations as it covers not only malicious mischief (vandalism), but also civil unrest, sabotage, confiscation, strikes, riots and hijacking.

Trends to Watch in 2024

Tn the first half of 2024, the competitive environment for certain subclasses should continue with new capacity vying to acquire market share and existing underwriters competing to maintain their renewals while also growing their top-line results. This competitive environment is expected to yield welcome results for some aviation insurance operations. Operations that can demonstrate favorable underwriting factors and a history of clean losses should have the opportunity to renew with better results than in the previous years. Operations that are in challenging subclasses or carry high limits for war hull and liability will continue to see rate increases as the cost of war coverage around the globe continues to increase.

While there are pockets of the domestic U.S. aviation insurance market that are expected to be more competitive in 2024, there remains significant long-term pressure that may negatively impact global aviation insurance and reinsurance market. The broader market challenges are driven by a combination of factors:

- **Russian confiscation of airliners.** This confiscation of more than 500 foreign-owned and leased airliners has led to billions of dollars of claims being submitted from aircraft leasing companies to aviation insurers. The potential claims exposure is estimated to be in the range of $9B to $15B. It is unclear at this stage whether aviation insurers will have to pay all these claims or how long it may take for some to be paid. If these claims are ultimately paid by the aviation insurance industry, it would be the highest loss event in the history of aviation insurance, eclipsing the losses paid following the 9/11 tragedy. Potentially, these claims could have a staggering impact on the aviation insurance and reinsurance market around the world. U.S. aviation insurance buyers should be aware of the negative impact these claims may bring during 2024.
- **Inflation and increasing costs.** Aviation claims for physical damage (hulls) costs are soaring due to inflation, lack of spare parts availability, labor shortages and significantly increased repair times. The costs and time needed to repair even minor attritional physical damage claims have increased dramatically since 2020. These increased costs will ultimately impact insurers' bottom-line results and necessitate rate adjustments to keep pace with the current cost of repairs.
- **War and instability.** The wars in Ukraine and Israel are creating significant instability in war facilities and war coverage providers. USI sees this category of aviation insurance as the most likely to experience significant rate increases and challenges in 2024. Excess war coverage that is purchased by airports and international aircraft operators are under the most pressure and will likely see this part of their programs increase by 25% or more.
- **Social inflation and increasing jury awards and settlements.** In recent years, aviation liability claims costs have continued to soar as plaintiffs seek policy limit settlements and juries award outrageously high judgements to parties who have been injured in

aviation accidents. This was evidenced by a 2022 jury award of $352M for an aviation ground handler who was injured while marshaling a United Airlines aircraft in Texas.

General Aviation

- The pilot shortage continues to be a significant challenge for most general aviation operators. With the airlines scrambling to hire hundreds of pilots, almost every general aviation category is being impacted. Operators will continue to struggle with pilot hiring and retention. Underwriters are continuing to push for high standards for new and transition pilots.
- Pilot age is being closely scrutinized, and older pilots may have trouble finding coverage. Additional strategy is needed for pilots over 65 years old on many general aviation placements.
- Average renewal premiums are expected to be flat to down 5% for many loss-free aviation accounts.
- Most U.S. carriers have adopted a "quota share" approach to fleet operators and large commercial accounts. We expect to see carriers compete for larger line sizes in 2024 and may see some carriers withdraw from this strategy.
- Aircraft operators who operate internationally should expect additional scrutiny on the countries in which they are operating.
- Aircraft operators who purchase higher war limits will see significant rate increases of 25%+.

Manufacturers' Product Liability

- There is abundant capacity for non-critical aviation products liability manufacturers.
- Manufacturers with higher criticality products or who have poor loss history will continue to be under pressure to find competitive pricing and adequate capacity.
- Average renewal premiums are expected to be -5% or flat.

Airport and Municipality Coverage

- Airports that carry high limits of war liability should expect to see an increase of 25%+ for the war lines.
- Capacity and appetite for U.S. airports remains high with abundant competition for this class of business.

How USI Can Help

USI works closely with our aviation clients to develop a comprehensive risk management strategy tailored to their unique exposures and focused on mitigating their cost of risk.

Our approach is especially valuable when purchasing or renewing coverage during challenging times like these, when companies may be pressured to accept the pricing, terms and conditions imposed on them by restrictive carriers.

To achieve a favorable coverage outcome, USI suggests:

- Starting the renewal process as early as possible to allow time for renewals to be fully marketed and to schedule virtual meetings with underwriters.
- Consulting with USI's national aviation team to help guide the process. The team suggests ways to improve submission integrity and timelines, and advocates on the client's behalf.
- Providing detailed information that allows us to better understand your company's risk management situation and needs.
- Completing applications and questionnaires completely.
- Highlighting your company's focus on safety and pilot training protocols, especially training that goes above and beyond Federal Aviation Administration (FAA) requirements.
- Being open to underwriter and loss control visits.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Return to the insurance rate forecasts

Developments Since Mid-Year 2023 Outlook

Management & Professional Liability

Overall, stability and competition are positively affecting buyers' premiums. Industry-specific trends are influencing premium pricing in different insurance categories, while legal and regulatory factors are influencing underwriting questions and practices. Emerging risks are motivating insureds to emphasize risk mitigation and control protocols, especially with respect to cyber, crime, and employment practices liability. Finally, geopolitical events are impacting underwriting decisions.

Public Company Directors & Officers (D&O)

Competition continued to drive the softening (reduction) of premiums even more than expected, despite a) the number of federal securities class actions (SCAs) outpacing the previous two years by approximately 15%, according to Cornerstone Research/Stanford University Law School; and b) a trend toward larger derivative claim settlements. Derivative claims are brought by shareholders on behalf of a corporation, typically in cases where the corporation has suffered harm due to alleged wrongdoing or mismanagement by its officers, directors, or other insiders. Finally, the limited number of initial public offerings (IPOs) has pushed insurers to deploy their capital (limits) on existing public companies.

Public company D&O rates were flat to down **20%** despite increasing securities class actions.

Private Company/Not-for-Profit (NFP) Directors & Officers (D&O)

The marketplace remained stable as more insurers focused on writing private and not-for-profit D&O business as public company premiums dropped.

Employment Practices Liability (EPL)

The marketplace proved to be stable, but underwriters began to ask more questions on certain areas of risk, like biometric data collection.

Fiduciary Liability

The marketplace became less volatile as the year progressed. Insureds that opted for higher self-insured retentions (SIRs), particularly for excessive fees and/or class-action claims, were more likely to secure flat pricing terms (the same or similar to what they paid at the policy's expiration).

Crime

While the marketplace was stable for crime coverage, we saw a record year for business email compromise (BEC) losses, also known as social engineering (the fraudulent inducement of employees to wire money or securities by impersonating "trusted persons"). This has led to an increased focus on internal protocols and controls for better risk mitigation.

Professional Liability

Defense costs inflation and social inflation (the propensity of juries to look to punish companies for wrongdoing through punitively high verdicts) continued, putting upward pressure on premiums. Newer market entrants and some established insurers began to widen their appetite for professional liability risks, allowing competition to help keep premiums down.

Kidnap and Ransom (K&R)

The market has been stable for K&R coverage for many years, but a rapid escalation in global conflicts in the latter part of 2023 has led to greater underwriting scrutiny. Middle East and Eastern European exposure are red flags for underwriting. Coverage for cyber-related ransomware events is generally no longer available within K&R policies.

Cyber: Network Security and Privacy

Underwriting practices have shifted toward an industry-specific focus, particularly concerning privacy and information security controls. Legacy insurers are now providing more substantial coverage and increased capacity, and new insurers have continued to enter the market.

Premiums Continued to Stabilize

Greater clarity on the scope and questions required to assess risks deemed mission critical has allowed buyers to showcase their cyber controls, and seemingly helped in stabilizing premiums. We continued to see a pivot to more industry-focused underwriting, requiring information on both privacy and information security controls. Further, we saw more capacity ($10M instead of $5M) deployed by insurers on placements and, in some cases, new capacity outlets (insurers) looking to write business.

Insurers Reevaluating Contract Language

Insurers evaluated the repercussions of widespread cyberattacks and inconsistent identification and mitigation of common vulnerabilities and exposures (CVE), privacy regulation and associated litigation. They also renewed their focus on war and terrorism exclusionary language, given the outbreak of war and increased global tensions, as well as modern war tactics. Lloyds of London led the effort to standardize the scope and intent of these exclusions, and more U.S. insurers are evaluating their respective stances.

Critical Information Security Controls

Before considering an insured an “optimal risk,” insurers continued to require full implementation of security controls and practices. These include, but are not limited to:

- Multifactor authentication (MFA) for remote access, privileged accounts, and email accounts
- Controls on service accounts — a special type of non-human privileged account used to execute applications and run automated services, virtual machine instances, and other processes that may be privileged, local, or in a domain — and methods to deprivilege them
- Third-party risk management controls (TPRM) that identify critical vendors, continuously monitor vendor security postures, and remediate security risks
- Understanding the number of personally identifiable records, including biometric records, and the privacy controls protecting them
- Combating increased phishing campaigns
- Common vulnerabilities and exposures (CVE) threat hunting that investigates specific events and alarms

Technology Errors & Omissions (E&O)

The technology E&O market is clearly linked to the cyber market discussed above and has seen similar premium declines continue into year-end 2023. That said, there are some cyber insurers that do not include technology E&O coverage with cyber coverage, which can make placements more complicated.

Transaction Liability

Elevated interest rates and geopolitical instability negatively impacted mergers and acquisitions (M&A) activity, leading to record-low premiums and SIRs, while tax liability insurance saw a growing demand for coverage.

Representations & Warranties Insurance

The number of overall transactions remained healthy, but the enterprise value of the transactions became markedly lower (down 40% or more) due to strained access to capital and continued higher interest rates.

Tax Liability Insurance

Demand for coverage for investment tax credits (ITCs) is increasing as more green energy projects begin construction and come online.

Cyber (Network Security & Privacy): Rates were stable with renewals flat to up **15%**

Technology Errors & Omissions: Rates were flat to up **20%**

Representations & Warranties Insurance: Rates were down **10% to 20%**

Trends to Watch in 2024

Management & Professional Liability

In the realm of management and professional liability insurance, the prospective landscape varies for different types of coverage.

Public Company D&O

Insurers will likely push for premium stabilization and look to minimize or eliminate decreases, feeling that premium and rate inadequacies will hurt profitability. Rising federal securities class actions, inflation and the unsteady economy may support insurers positions, but the oversupply of capacity may keep D&O premiums down.

Projection: Public company D&O rates will be flat to down **10%**.

Private Company/Not-for-Profit (NFP) Directors & Officers (D&O)

The marketplace should remain stable and competitive, but more D&O claims activity may arise and lead to a slightly firming market if merger and acquisition activity increases, global conflicts disrupt supply chains, inflation does not subside, and distressed financial positions mount.

Employment Practices Liability (EPL)

The marketplace should remain stable and competitive. However, macroeconomic conditions could deteriorate and lead to layoffs, leading to claims for wrongful termination, discrimination and/or retaliation. This could place upward pressure on premiums and retentions. To the extent that employers utilize AI in the hiring and resume-screening process, any adverse impact on protected classes (i.e., race or gender) could lead to allegations of implicit bias and discrimination. The Equal Employment Opportunity Commission (EEOC) has already issued guidance that using algorithms in the hiring process could result in claims. Also, the EEOC has recently noted that the construction industry (among two to three others) was a "target industry" for the regulator, meaning that the likelihood of EEOC charges is higher. Further, global conflicts, protests and political fractiousness could lead to discrimination or retaliation claims. The issue of biometric data collection and privacy for employees could draw additional EPL underwriting scrutiny.

Fiduciary Liability

The plaintiffs' bar will likely continue to look for opportunities to bring excessive fee litigation but may also focus on health and benefit plans as opposed to defined contribution (401(k)) plans. Fiduciary claims defense expenses should remain high in 2024 due to the cost of specialized counsel and the forensic exams needed.

Crime

Acceleration in the evolution of AI and continued business email compromise (BEC) losses are anticipated. Therefore, continuous risk management around BEC threats will be critical for successful renewals, meaning renewals that have limited changes to premium or deductibles.

Kidnap and Ransom (K&R)

If the global conflicts continue or spread, there could be a hardening (premium and retention increases plus limitations of coverage terms) of the K&R market. Much will depend on the insured's specific geographic and travel risks. Coverage for cyber-related ransomware events will generally not be available in the K&R market.

Cyber: Network Security and Privacy

We expect cyberattacks to continue their upward trajectory, particularly those involving ransomware and BEC. These two cyber threats are becoming more interconnected as attackers can use compromised email accounts to initiate ransomware attacks, making the cyber threat landscape even more perilous.

Increasing regulation on the wrongful collection of data is also probable. Governments and regulatory bodies are enacting stricter measures to curb unauthorized data harvesting and misuse, driven by concerns over data breaches, identity theft, and the erosion of personal privacy. These regulations aim to hold organizations accountable for the proper handling of personal information by imposing fines and penalties for violations.

Cyber Risk Management Protocols

All organizations will continue to be held to a standard of developing a holistic view of cyber risk management while consistently improving their cyber hygiene and cyber security stack (which is an inventory and a roadmap of cybersecurity tools). Recent underwriter focus suggests the following areas may be linked to the increased likelihood of ransomware incidents or susceptibility to cyberattacks:

- MFA
- Privileged access management (PAM) solutions
- Endpoint detection and response (EDR), managed detection and response (MDR) and/or extended detection and response (XDR)
- 24/7 network monitoring and security operations center (SOC)
- Air gapped, encrypted, and secure network backups
- Network segmentation, particularly for end-of-life (EOL) systems, and cadence for pathing vulnerabilities
- Incident response plans
- TPRM controls that identify critical vendors, continuously monitor vendor security postures, and remediate security risks

Cyber Risk and War Coverage

The continued threat of Russian-backed or -supported cyberattacks and counterattacks (intended to disrupt supply chains, IT suppliers, governmental agencies, financial services organizations, critical healthcare/transportation/energy infrastructure, and other critical national institutions) will continue to weigh on insurers, as will potential cyber-related terrorism connected to the conflict in the Middle East. Policy language determines how claims are covered, so careful analysis of cyber war definitions and exclusions is critical, including:

- Causation wording for war exclusions
- Cyber terrorism extensions or exclusions.
- Cyber terrorism carve-backs to exclusions (typically limited to cyberattacks conducted by individuals or groups with ideological goals, not conducted on behalf of a nation state)
- The scope of sanctions and Office of Foreign Assets Control (OFAC) exclusions
- The scope of computer network/operations covered

The Cyber Insurance Application

Facing an uptick in events, whether ransomware or other threats, insurers may look harder at the most recent (and past) cyber insurance application to review an insured's answers about risk controls. If any wrong answers are identified post-event/breach, insurers may look to rescind or deny coverage.

Technology Errors & Omissions (E&O)

Even as claims remain elevated, the technology E&O liability market is likely to remain competitive, but may flatten out as the year progresses. Areas of heightened risk, like regulatory risks for IT companies (specifically software as a service (SaaS) providers), supply chain liabilities and/or systemic cyber events, could quickly firm the marketplace by negatively impacting carriers' willingness to write technology E&O coverage. Insurers will continue to ask about risk management tools and claims and loss experiences. Coverage terms will still need to be customized to an insured's industry and evolving operations.

We expect rates to remain flat to up **15%**.

Transaction Liability

If merger and acquisition (M&A) activity remains dampened, this market will continue to see modest premium decreases. A recovery in M&A deals, with many more companies now seeking protection against unforeseen risks and contingent liabilities that stem from transactions, could firm the marketplace.

Representations & Warranties Insurance (RWI)

- **Premium.** Modest premium decreases should remain until M&A activity and demand picks up. M&A activity and larger transactions are expected to increase once there is more certainty around interest rates, which appears more likely now than it did in 2023.
- **RWI for small transactions.** We expect that small transactions will continue to secure RWI insurance for the foreseeable future and virtually all transaction liability insurers have dedicated resources to this niche.
- **Mega-claim.** There is a $700M to $1B claim (likely the largest RWI claim in the history of the coverage) in the pipeline that could affect many insurers in the RWI space. If the claim proves to be as significant as the headlines estimate, it will likely spur a firming of rates. USI will keep clients updated on this issue as it develops.

Tax Liability Insurance

We are expecting to see a continued increase in tax liability policy activity with a noted concentration in investment tax credit (ITC) insurance for projects qualifying under the Inflation Reduction Act.

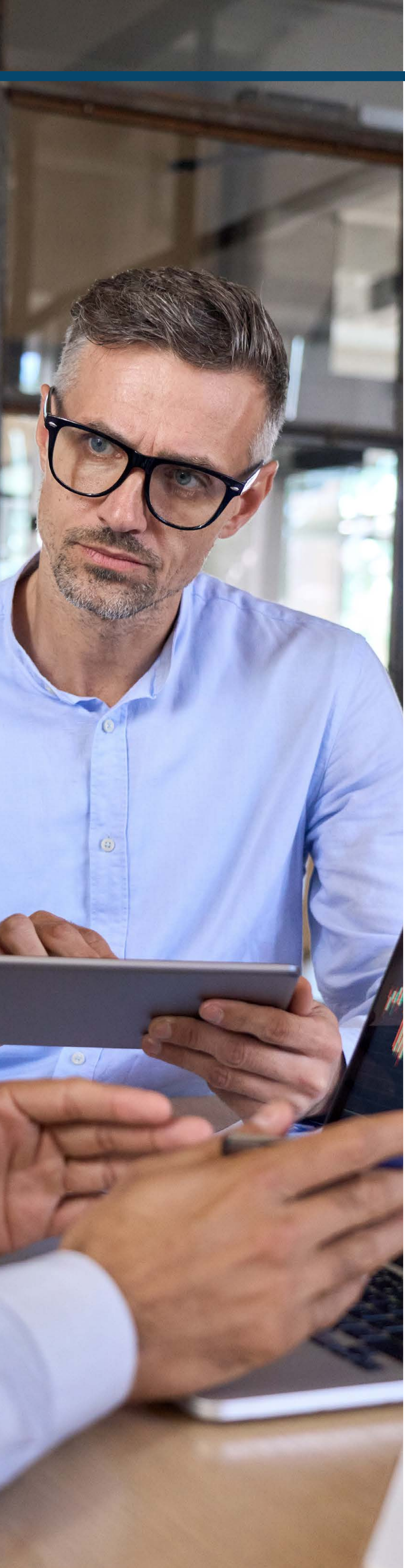
How USI Can Help

For all lines:

- Start the renewal process early (at least 120 days prior to expiration)
- Prepare a risk profile analysis and review it with buyers to determine perceived (by underwriters) strengths and weaknesses
- Set appropriate and realistic expectations based on individual company risk profiles
- Use analytical tools, including benchmarking, to determine an optimal program structure (limits, retention, amount of dedicated Side A coverage)
- Evaluate captive solutions, where appropriate
- Market all layers and access multiple insurer channels and marketplaces (geographies)
- Negotiate coverage grants and navigate coverage restrictions via USI's proprietary solutions
- Ask primary insurers for options, including multiple retention options
- Opine on the historic claims-paying performance of current and prospective insurers
- Make a clear recommendation

Directors & Officers (D&O) Liability

- Encourage reducing governance risk by:
  - Establishing and maintaining sound board and committee reporting protocols
  - Making sure that boards closely monitor mission-critical operations and risks, particularly cyber-related risks
  - Instituting tests to see how effective a board's oversight governance is performing
  - Support and encourage the addition of federal forum selection clauses to organizing documents, specifying that the federal court is the exclusive jurisdiction for litigation brought under applicable securities laws



Employment Practices Liability (EPL)

Insureds and their brokers should take a proactive approach in identifying distinguishing factors to secure the most advantageous renewal terms in terms of program structure, pricing and coverage. Here are key strategies to achieve this:

- Alert clients to evolving EEOC priorities, federal legislation, notable changes in state-focused enforcement strictures and emergent claims activity.
- Help familiarize organizations with EEOC guidance regarding industry focus areas and the use of algorithms and AI in the hiring process.
- Prepare clients to respond to underwriting questions about regular human resources and workplace training, biometric information collection practices, and any year-over-year changes to employee handbooks or HR manuals.
- Host and navigate successful underwriting calls with EPL underwriters and clients' human resources, risk management and legal departments.
- Approach the broader marketplace (U.S., Bermuda, other) for additional and emergent EPL considerations including punitive damages wraps and wage & hour coverage.

Fiduciary Liability

- Prepare clients for underwriting questions about plan service provider selection and comparison processes.
- Assist in the establishment of prudent processes for fiduciary decisions, documentation of the processes, and compliance with Employee Retirement Income Security (ERISA), the Department of Labor (DOL) and the Internal Revenue Service (IRS) regulations regarding participant disclosures and government reports.
- Discuss emergent items, like the addition of a forum selection clause to plan documents and impact of M&A on plans and sponsors.
- Share risk management support made available by fiduciary liability insurers and USI resources.

Crime/Fidelity Bonds

- Assist insureds regarding transaction verification processes and procedures to thwart BEC risks. Clients with advanced and thoughtful risk practices will be highlighted by USI to differentiate their risk profile and secure more favorable terms.
- Address potential coverage crossover with cyber insurance, helping clients understand differences, and managing coverage applicability across different policies.

Professional Liability/Errors & Omissions (E&O)

- Discuss any minimum limit requirements by insureds' clients in managed service agreements and contracts.
- Provide clients with curated, advanced underwriting questions, and help craft appropriate responses specific to operations.
- Track the most competitive insurers in the E&O space to understand their underwriting appetites and willingness to address risks creatively.
- Identify and highlight risk control and management differentiators across the insured's operations (including third-party (vendor) risk management)
- Examine the scope of professional services, as many firms have modified and diversified their offerings. Amend coverage terms as needed.

Cyber: Network Security and Privacy

- As the conflict in Ukraine continues to evolve and sanctions potentially elevate, experts expect to see global cyberattacks and counterattacks, as well as significant and likely sudden disruptions to the global supply chain. We continue to closely monitor this situation and advise clients. We also continue to monitor other major developments, like cryptocurrency hacks, that impact the cyber risk environment.
- USI's comprehensive cyber risk control continuum includes services and solutions designed to assess a company's cyber hygiene/security stack and cyber risk exposures and connect them with curated third-party providers that specialize in emergent cyber risks. Our Answerlytics™ and customized eRiskHub solutions can help clients improve their cybersecurity and insurance marketability, pricing, and terms.
- USI's Answerlytics Curated Providers (ACPs) know that the cyber threat landscape is increasing, and threat actors have pivoted and grown stronger. Attackers continue to diversify their attacks, including:
  - Attack surface expansion — Employers continue to rely heavily on cloud-based technology to allow for the greater utilization of remote environments. Cloud accounts can expose organizations to attacks when they are misconfigured or if vulnerabilities are allowed to persist.
  - Identity system defense — The cybersecurity firm CrowdStrike Overwatch indicates that 80% of breaches are identity-driven. These attacks often directly leverage compromised credentials to launch larger, more catastrophic attacks.
  - Supply chain concerns — Bad actors have continued to bombard organizations that rely on a software supply chain and vulnerabilities caused by a) third-party software products that require privileged access; and b) third-party software products' requirement of frequent communication between a vendor's network and the vendor's software product located on customer networks.
  - Diversified attacks — Cyber criminals will utilize multiple attack surfaces including smishing, phishing and vishing to trick people. These bad actors will target disgruntled employees and offer them nominal amounts for access to their credentials.

USI can connect clients with the appropriate Answerlytics Curated Provider (ACP) that specializes in addressing identified cyber risk(s).

Technology Errors & Omissions (E&O)

- Evaluate an insured's full scope of operations, seeking to secure broad coverage with limited gaps.
- Act as nexus for an insured's finance, IT and legal/compliance group to address technology E&O risks.
- As a company's emergent technologies are widely adopted, review the need for additional limits of liability.
- Align the coverage in your insurance program between technology E&O liability and products liability/bodily injury/property damage to achieve maximum recovery of a loss.

Transaction Liability: Representations & Warranties Insurance

- Engage early in the M&A process to help identify the risk profile for the contemplated transaction.
- Review current market conditions and expected areas of coverage insurers are likely to raise for planned M&A transactions.
- Provide clarity and set expectations for the procurement process and timeline (the process is unlike most other insurance coverages).
- Provide a dedicated team of transaction liability specialists with 24/7 service availability.

Return to the insurance rate forecasts

INDUSTRY UPDATES

Developments Since Mid-Year 2023 Outlook

In the second half of 2023, manufacturers continued to moderate both in output and revenue growth compared to prior periods. While still reporting growth, manufacturing and the wholesale distribution business continued to face challenges. Issues of inflation — including material costs, labor costs and shortage — as well as cyber concerns resulting from new automation and economic uncertainty have significantly added to margin suppression. Sentiment remains optimistic but that is slowly declining to some degree. Underwriting scrutiny remains strong, rewarding companies with successful loss-control programs.

Trends to Watch in 2024

Manufacturing and distribution renewals are expected to remain in line with the projections noted in this report for each line of coverage, with the following additions:

Cargo/Stock Throughput (STP)

Considering the stressed market conditions surrounding property insurance and the stabilization of the STP market, cargo/STP insurance remains a powerful tool in alleviating stress on total insured value (TIV) and, in turn, property premiums. It can also offer improved rates, deductibles, and terms and conditions.

Although freight rates have moderated since our last report, shippers' average operational costs now exceed $2.00 per mile, according to the American Transportation Research Institute (ATRI). Utilization of STP can save dollars by forgoing shippers' insurance.

Certain classes of business remain challenging, including food and agriculture companies that are subject to spoilage and contamination risks. Underwriter scrutiny remains very high and controls around spoilage and contamination must be well documented to obtain favorable results.

Automobile

Rates for manufacturers ond distributors that maintain fleets continue to increase regardless of losses, partly due to inflationary pressures as the costs of vehicle repair and replacement continue to rise. To help prevent losses, AI-powered dash cams can promote safe driving by monitoring drivers and the road ahead, as well as providing in-cab, real-time visual and audio alerts.

Cyber

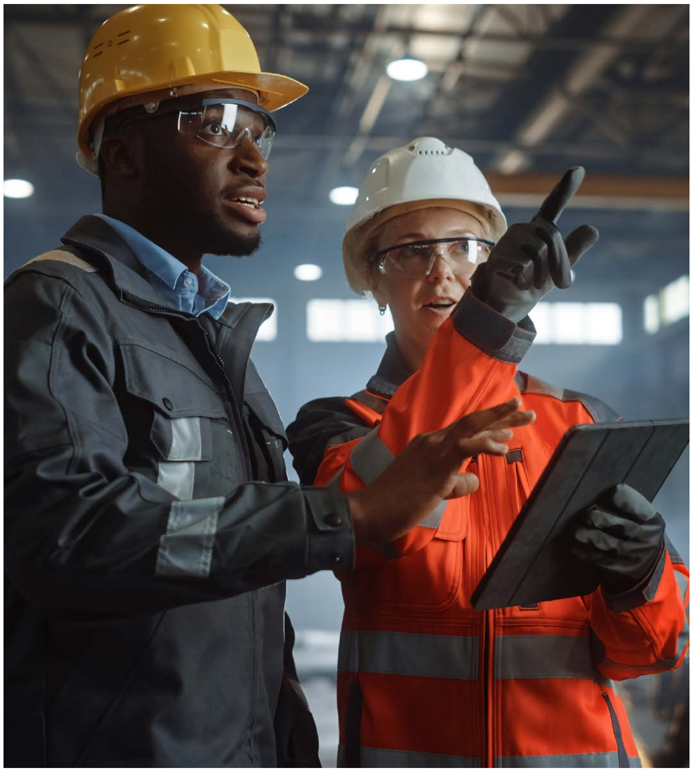
Manufacturers remain an attractive target for ransomware, social engineering and other cyber threats. While high-efficiency trends like Industry 4.0 can maintain supply chain visibility and improve productivity and operational efficiency, they can also introduce cyber risks. Cyber insurers heavily scrutinize manufacturers and, as a result, cyber hygiene is critically important to securing preferred terms and pricing.

Trade Credit Risk

In prior reports, we have signaled that credit risk losses were lower than anticipated during the pandemic and post-pandemic recovery. As expected, losses have increased in frequency since then, and we expect this trend to continue as we navigate today's economic uncertainty. While rates are moderate for now, increased losses could result in market challenges in terms of pricing and insurability of receivables.

Product Recall

Product recall remains a high growth area for many insurers. Both rates and terms and conditions have remained more moderate than expected due to lower-than-expected losses for most businesses. With FDA recalls up significantly, businesses involving food can expect underwriting scrutiny to remain high.



How USI Can Help

To achieve favorable coverage outcomes, USI recommends that clients take the following steps:

- Complete a loss analysis early to assess the impact of program structure, retention, and risk mitigation efforts. This establishes the "ask" of the market, allowing for early indications from incumbents and understanding of their options around limits, retentions, coverage, and price.
- Work with USI to evaluate all:
  - COPE (construction, occupancy, protection, exposure) data to mitigate property insurance market headwinds.
  - Property, business interruption, equipment, stock, and inventory values.
  - Contracts with customers and vendors/suppliers to ensure contract compliance, aggregate insurance limit, and seek maximum potential contractual risk management remedies from downstream suppliers and vendors.
  - Market and program design options to identify opportunities for cost savings and exposure reduction.
- Review and consider retention strategies for premium impact.
- Identify and differentiate each risk, reinforcing risk quality and mitigation efforts. This step is imperative and includes evaluating domestic and international supply chain exposures as well as any continuity/contingent plans.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Developments Since Mid-Year 2023 Outlook

Lender and Loan Compliance

Lenders have become more sophisticated and very specific in their coverage requests. However, they do not recognize the market realities. Lenders often require full limits and low deductibles for catastrophic risks. This must be balanced with an understanding of capacity, cost and probable loss, which drives responsible decision making. Larger commercial lenders may provide a waiver if presented with the analysis and extensive information. However, local lenders and regulatory agencies have been less flexible.

Insurance Cost Trends

Insurance costs have been a growing issue in the due diligence process. A blended rate for the overall insurance package has become less common during real estate acquisitions. At times, insurers are refusing to accept acquisitions into a portfolio program and forcing operators to buy standalone coverage. This trend is significantly driving up costs and must be factored into bids.

Trends to Watch in 2024

Property

See the Property section of this report for a comprehensive discussion of market trends. For real estate companies, property insurance continues to be a critical issue.

Habitational accounts remain difficult. The spread of risk for each account is unique, leading to customizable solutions. Regional insurers are becoming more selective but will continue to provide solutions for smaller risks or portions of portfolios. Shared and layered programs will continue to be the most effective on a large portfolio basis. Often, combinations of approaches will make sense, especially when there is a diverse geographic mix in the portfolio. On the other end of the spectrum, highly protected commercial risks, such as Class A office buildings, will continue to find capacity in a competitive insurance market.

Wildfire scores have become a primary underwriting criterion in western states. Insurers are excluding coverage or declining accounts based on these scores. In some cases, larger habitational operators are opting not to purchase insurance coverage based on the distribution of risks across their real estate portfolio, and smaller operators are sometimes forced to do so based on cost.

General Liability (GL)

Social inflation has a large impact on real estate because of the perception of deep pockets. Underwriting is responding with a focus on jurisdictions and crime scores. Underwriters are identifying higher crime scores as a significant risk for insuring properties in certain urban areas due to political and ideological events. This can affect pricing as well as program structure.

Safeguarding against human trafficking is a growing issue for hotel operators of all sizes. The conversation has expanded around the responsibility of operators to manage the exposure. Although handled inconsistently by insurers, some are beginning to underwrite the exposure and add exclusions to GL policies. From a risk control and training perspective, more resources are emerging to help operators identify and mitigate the exposure.

Cyber

The increased use of technology in real estate commerce, particularly in the habitational space, has led to an increase in claims. Real estate operators have begun to recognize the risk and understand claim potential, which has led to increased levels of purchasing of cyber insurance. Capacity is available and carriers welcome the risk, provided controls are in place.

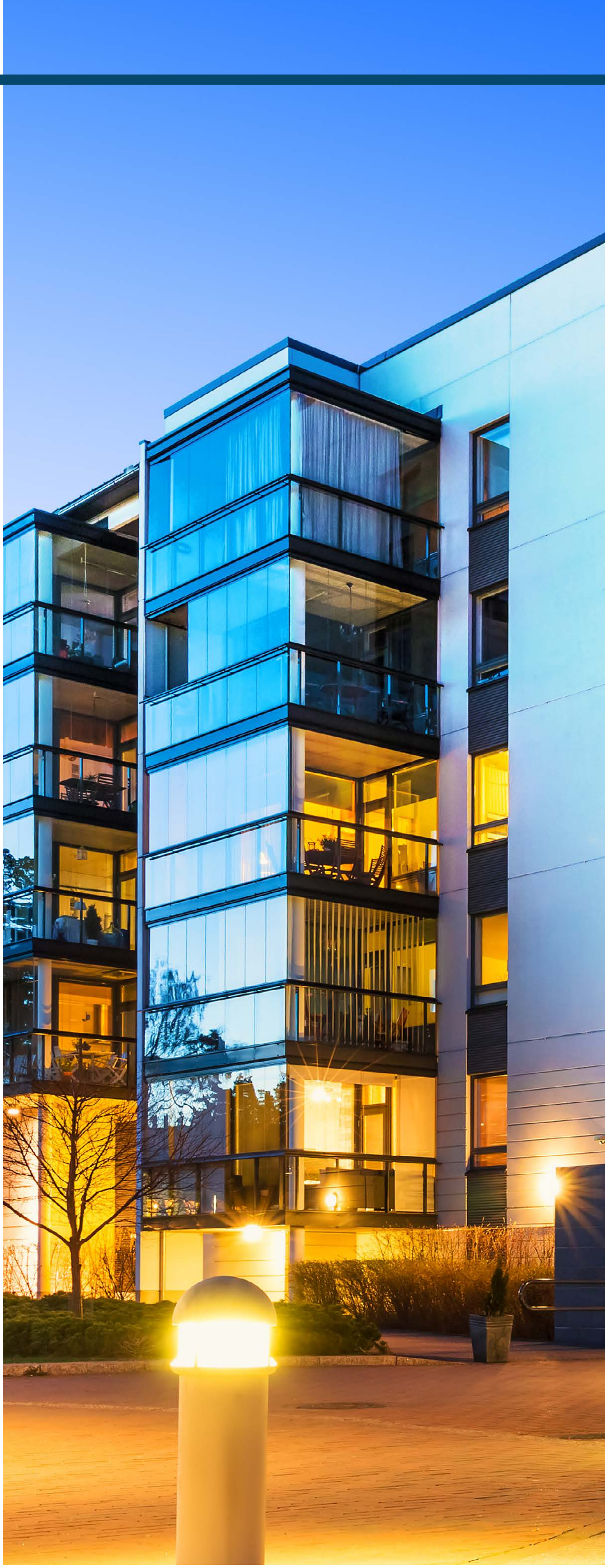
Deferred Maintenance

The high cost of construction materials and lack of labor availability has led to an increase in deferred maintenance. However, underwriters often take a negative view of this practice because it can lead to a decline in the overall condition of the property and result in more extensive and costly repairs in the future. As a result, underwriters are becoming more critical of maintenance plans and procedures, underscoring the importance of timely maintenance schedules. Investments and improvements not only add value, but also improve the risk, impacting deductibles, limits and available markets.

How USI Can Help

- Effectively communicate capital expenditure as it relates to risk mitigation and the potential positive impact to future loss events.
- Engage USI's cyber experts to navigate the exposures, needed controls, and placement strategies to achieve the best outcome for your cyber risk.
- Evaluate your risk of natural catastrophe events. USI's property resource team utilizes multiple tools to analyze your hurricane, earthquake, severe thunderstorm, flood and wildfire exposures, allowing for risk-based insurance purchasing decisions.
- Assess environmental, social and governance (ESG) risks. USI's Executive & Professional Risk Solutions (EPS) team is evaluating the impact of ESG on real estate companies and the potential insurance solutions related to ESG strategies. The EPS team can conduct a detailed review of your risk profile and corresponding exposures.
- Communicate effective maintenance strategies and how, ultimately, better loss results can have a positive financial impact. USI can help real estate clients employ effective risk control strategies related to maintenance that can create competitive advantages over their peers.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.



Developments Since Mid-Year 2023 Outlook

The second half of 2023 looked remarkably like the second half of 2022 for the construction industry, with a sustained inflationary and interest rate environment coupled with a persistent and prolonged skilled labor shortage. Labor and material cost volatility created a challenging environment for contractors as they priced out work.

On private projects, financing has become more expensive and lender requirements have become more stringent, causing project delays and cancellations. According to the Associated Builders and Contractors, the Construction Backlog Index (CBI) for October 2023 fell to 8.4 months, its lowest level since Q1 2022 (the CBI quantifies the previous month's work under contract based on the latest financials available). The hardest-hit segment was contractors with revenues less than $30M, illustrated by a CBI of 7.2 months, which tracked with economists' views of a potential slowdown in construction activities moving into 2024.

Even with these downward forces, ABC's Construction Confidence Index (which measures contractors' outlook for the next six months) also fell but remains above 50, indicating an optimistic view of growth. According to the U.S. Census Bureau, construction spending increased by 10% YOY with public construction outpacing private construction due to the efforts of recent legislation like the Infrastructure Investment and Jobs Act (IIJA), the Inflation Reduction Act (IRA), and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act. An uptick in M&A activity occurred in 2023 by both strategic and financial buyers to either create larger geographic footprints and vertically integrate to better control cost and/or schedules or add another revenue stream to their portfolio.

Trends to Watch in 2024

Looking ahead to 2024, construction projects in the manufacturing, infrastructure and green/clean energy sectors are anticipated to drive continued growth in construction. As noted in Deloitte's engineering and construction industry outlook, high interest and mortgage rates are negatively impacting affordability and causing reduced demand in the residential sector, tempering any expectation for the growth that was prevalent the last several years. There is no perceived end in sight for filling the skilled labor requirements, and with every year we have more employees retiring from the industry. Continued and intentional efforts by contractors to create pathways and opportunities to find, hire, train and retain employees remains a top operational business strategy.

As it relates to environmental, social and governance (ESG), 2024 will bring greater scrutiny and importance for construction companies. In the past, ESG in construction remained in an ideation phase. Now, more companies (both public and private) are requiring contractors to demonstrate their ESG initiatives to meet growing demands for sustainability, resiliency, and social justice. Mass/cross-laminated timber (CLT), modular construction and 3D printed construction are all excellent examples of the evolution of the construction industry to meet and achieve these goals.

Construction and insurance technologies continue to evolve and advance, creating opportunities and challenges for contractors of all sectors and sizes. These macroeconomic forces, coupled with more complex contracts and client demands, will challenge contractors to be vigilant in reviewing contract clauses, onboarding employees and creating a strong operational growth strategy rooted in data and risk management.

Updates in Coverage Lines

General Liability

Rates for general liability remain stable going into 2024 in most geographies outside the five boroughs of New York City. Underwriters are increasingly looking at operational processes beyond exposure data in submissions for rate stability. Quality assurance and control focusing on both construction processes and subcontractor risk management (if applicable) is no longer solely a residential construction underwriting requirement. New carriers are entering the primary general liability space, bringing ample capacity to the marketplace.

Workers' Compensation

As mentioned above, the skilled labor shortage is seeing no relief in the near term and could potentially worsen as workers retire in the next five to 10 years. While this line of insurance is one of the more stable markets, injuries to workers who are within their first years on the job — along with continued rising medical costs due to inflation — are starting to drive downward results for carriers. A rigorous training and education system that includes the use of technologies like wearables to demonstrate a commitment to safety will be critical for both premium and experience modification outcomes.

Auto Liability

Commercial auto liability is now a dominant stress point for contractors and underwriters alike. Nuclear verdicts and large settlements are more common today than ever before, especially for contractors with larger fleets of vehicles or those which are considered "heavy." An emphasis on fleet safety programs, including telematics, is now a best practice for controlling claims as well as associated premium dollars. Negligent entrustment claims are on the rise, requiring a formal strategy regarding driver assessment, hiring, and training.

Professional Liability (Architects & Engineers and Owners/Contractors Professional Indemnity)

More complex contracts are allocating more risk to contractors, including aspects related to design. This creates the need for some level of professional liability insurance for all types of contractors. Overall market capacity is robust, and new entrants continue to come into the marketplace, creating a competitive environment. Project-specific offerings and market options remain challenged and favor a structure of Owner's or Contractor's Protective (OCP) liability insurance to facilitate additional coverage over the design team's coverage. Key areas of focus for underwriters are prequalification of the design team and effective contract risk management. There remains a limited appetite for frame projects.

Owner Controlled/Contractor Controlled Insurance Programs (OCIP/CCIP)

OCIPs and CCIPs remain preferred methods of protecting large-scale projects because of their ability to support better workforce management, uniformity of coverage and coordinated risk engineering and claims advocacy. However, as interest rates increase along with material cost volatility, project costs also increase, correlating to increased premiums. Residential or high CAT-exposed projects have a decreasing market appetite, so highlighting risk mitigation techniques along with experience and loss performance on prior projects will be critical for underwriting support and capacity. With the increase in large losses, a critical view on benchmarking limit adequacy should be performed.

Builder's Risk

Continued claims activity driven by fire (urban or wildfire caused), water damage, convective storms and winter storms are driving increases in premiums for builder's risk projects regardless of construction type. Capacity for frame projects is slowly increasing as measures around site security and fire mitigation — along with adoption of newer materials like mass timber/cross laminate timber — increase in adoption and execution. Challenges persist with project delays and extensions for projects that relied heavily on reinsurance capacity.

Surety

Underwriters continue to monitor financial stress of contractors and subcontractors and their ability to manage their projects and manpower. An uptick in claims is beginning to occur, especially in trades that fall toward the end of projects that may be squeezed financially from the challenges outlined above. An emphasis on core project and financial controls is critical in demonstrating ability and capabilities to a surety.

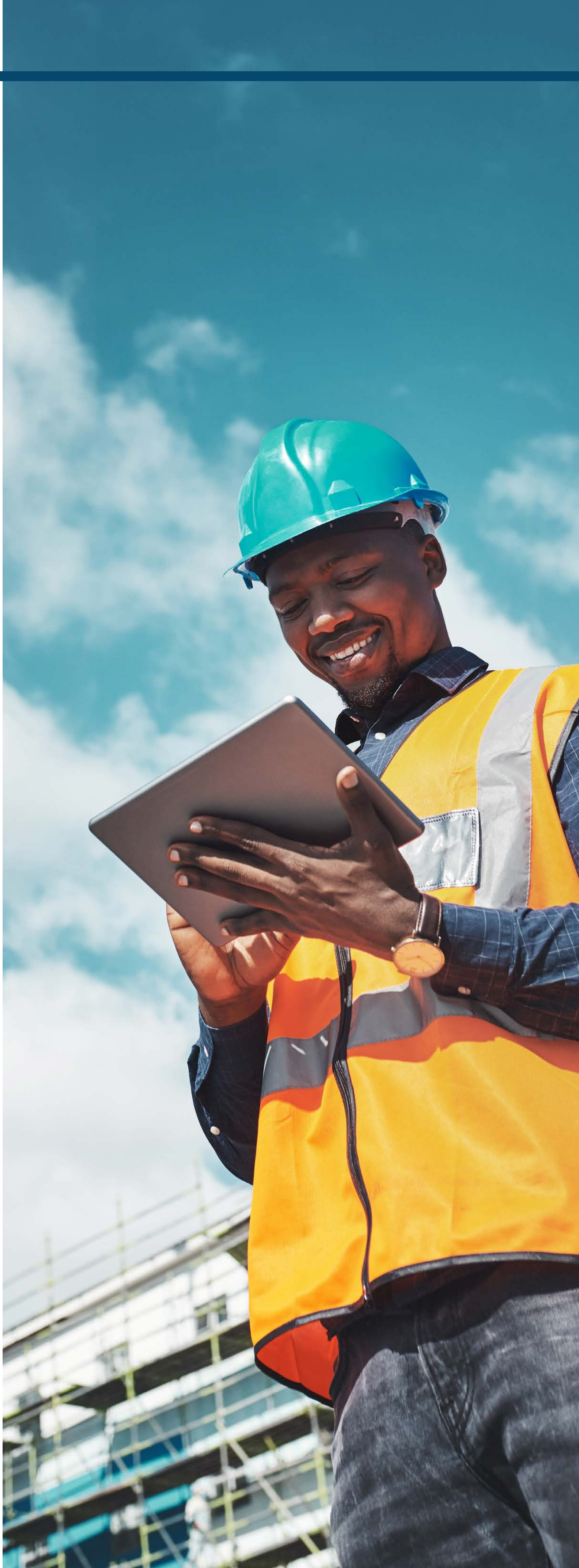
Looking ahead to 2024, construction projects in the manufacturing, infrastructure and green/clean energy sectors are anticipated to drive continued growth in construction.

How USI Can Help

When considering placements in 2024, whether project specific or renewal, construction companies can follow these suggestions from USI's construction team:

- Start negotiations earlier than you think!
- Regularly communicate throughout the year with your USI team, including insurance and surety business advisors. Outline financial and operational status and goals to drive the best outcomes for structure, pricing, and coverage. Renewal discussions should be on a 365-day calendar cycle.
- Anticipate questions and requests beyond historical exposure data to demonstrate financial strength, operational controls and effective contractual risk management. Have data to demonstrate the execution in each of these areas.
- Embrace technology for operational efficiencies and better risk management outcomes with project and workforce management. Use the data from these offerings to make data-driven decisions on changes that could be made to current systems to reduce claims and promote a stronger safety culture.
- Apply a disciplined approach regarding claims and risk management. Insurance program costs are only one component of the overall cost of risk for a construction company. Eliminating or reducing claim costs will increase profit margins and reduce future premium spending.
- Be ready to outline lessons learned and continuous improvements in processes (even if your overall loss picture is favorable) demonstrating to carriers your commitment to safety and risk mitigation.
- Seek alternative structures or strategies for risk financing that matches appetite and risk tolerance.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.



Developments Since Mid-Year 2023 Outlook

Inflation, high interest rates and labor shortages have continued to disproportionately impact the public entity and education sectors. There is less flexibility to raise capital, increase wages and provide alternative strategies to retain and attract talent versus the private sector. As baby boomers retire, it has become a challenge to replace and grow workforces, particularly with police, teachers, bus drivers, and technology workers.

- **Increased claims costs:** Social inflation, third-party-funded litigation, nuclear verdicts and inflation have driven claims costs higher. This has resulted in a more limited marketplace, reduced capacity, increased retentions and increased premiums.
- **Budget management:** Rapidly increasing costs have led to increasing budget deficits. Generally, the tax base has not kept pace, and public entities and schools have not recovered from the increased costs and reduced income throughout the COVID-19 pandemic. This has led insureds to look for better cost predictability and increased use of retentions.
- **Capacity:** While not yet improving, the public entity marketplace has begun to stabilize. The traditional market cycle of restricted capacity and elevated rate typically leads to a slow stream of market entrants, and that has begun to materialize in the public entity space in the form of domestic insurers, managing general agent (MGAs) and international capacity. However, the new capacity is very selective in terms of the lines of business and types of risk they will consider.

Trends to Watch in 2024

In the current insurance landscape, there are several notable trends and challenges in various sectors, including:

- **Law enforcement liability (LEL):** The market remains difficult with added focus on jail compliance standards. Social inflation continues to produce nuclear verdicts. Social media increases this trend, allowing anyone with a cell phone to post incidents, which can go viral instantly. This promotes negative perceptions of law enforcement, which affects the views of juries and judges. Settlements are trending upward and law enforcement officer immunity is being challenged across the country. Several lawsuits against individual officers have resulted in guilty verdicts with substantial awards.
  The market is reacting by demanding well-managed and documented training and has been helpful in sourcing resources to assist. From a program structure standpoint, premiums continue to increase so that law enforcement organizations feel more and more pressure to retain risks. Reinsurers are also driving higher premiums, lower limits and higher retentions. This results in more shared and layered programs that can help achieve higher limits but may also introduce additional frictional costs.
- **Education:** Rates have moderated some, but capacity remains limited for educators' legal liability and excess policies. The most challenging coverage areas remain sexual abuse and molestation, Title IX and traumatic brain injury (TBI). For Division 1 sports schools, there are potential issues with NIL (name, image and likeness). Active assailant preparedness is a concern.
- **Sex abuse and molestation (SAM):** Several states have passed reviver statutes and others are considering them. These statutes allow adult survivors of childhood sexual abuse to bring claims for negligence, assault and battery after the statute of limitations has passed. This has created additional exposure, which underwriters are finding difficult to quantify. This has further limited the marketplace and increased the cost for available coverage.
- **Traumatic brain injury (TBI):** Higher education is exposed to TBI claims resulting from athletic programs. There have been several significant class-action claims related to TBI, and legal costs can be significant. Insurance markets that have a higher education specialty may specifically include TBI coverage. Other insurers may be silent or exclude coverage. The availability and terms of coverage can vary significantly, so it's crucial to select insurance that aligns with your specific needs and risks.
- **Risk pools:** These are a unique and localized solution that evolved beginning in the 1980s from a lack of availability in the market. Public entities and education associations began to form pools to achieve some market independence. They will continue to be an important consideration for public entities and schools. However, all risk pools are experiencing similar challenges for each type of insurance. They may even be more impacted by the limited capacity offered and aggregate issues in property than standalone risks. Since pools heavily depend on reinsurance, their options become more limited. Capacity and underwriting restrictions are causing the more complex risks to be reintroduced into the standard marketplace.

- **Workers' Compensation:** We see much higher retentions in the public entity space versus the private sector. This is especially true with police and fire departments where carriers continue to push retentions up in reaction to catastrophic claims, including single incidents with multiple claimants.

- **Fleet:** In the education space, the cost to insure bus fleets (along with the fleet management) is prohibitive, and talent retention is growing more challenging. So, we have seen more school districts outsource busing to private vendors.

- **Cyber:** Higher education is investing comparatively more in mitigation strategies for cyber risks as technology and data play a vital role in their operations. These strategies aim to protect sensitive information, research data, and the overall integrity of their systems. Public entities are a growing target for bad actors due to their valuable data, limited resources, high profiles, and outdated systems.

How USI Can Help

USI helps its public entity and higher education clients win in a challenging market by:

- Preparing a comprehensive market submission that highlights a strong or improving safety culture and risk management approach.

- Developing analytics around risk financing opportunities that improve decision making and outcomes.

- Using catastrophic property modeling to identify the appropriate amount of wind, flood, and earthquake coverage, and ensuring that construction, occupancy, protection, and exposure (COPE) data is detailed and accurate.

- Evaluating all U.S. and London market options, focusing on risk appetite and industry.

- Performing a cyber policy review to ensure an organization's program includes current coverage updates, and using USI's eRiskHub and other risk management tools to help navigate cyber exposures and claims.

- Offering our proprietary programs to address specific needs. For example, USI's suite of threat/terror solutions offers a broad coverage option for strikes, riots, and civil commotion.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

AGRICULTURE

Developments Since Mid-Year 2023 Outlook

Changing weather patterns continue to impact agricultural accounts and loss expectancies for the entire insurance market. The agricultural insurance marketplace became even more limited in 2023 as another significant carrier decided to exit. That makes three significant agricultural carriers that have left the marketplace within the last five years, with no new carriers entering over that same period. This trend has given way to limited capacity, increased premiums and stringent underwriting requirements.

General Liability

An increase in the size of liability claims was the dominant issue for agriculture companies. As with property insurance, this resulted in higher premiums, strict underwriting, and reduced coverage and capacity. In 2023, general liability rate increases averaged just under 10%.

Trends to Watch in 2024

Property

Property insurance has been and will continue to be the most challenging line of coverage in 2024. The average rate increase on property was just under 25% last year, and we anticipate a similar average rate increase in 2024. Here are additional trends to watch in the property marketplace:

- **Older properties and wood-frame constructions.** These exposures will be extremely difficult to place in the standard insurance market, so most of them will need to be placed with surplus lines markets, which are more cost-prohibitive than the standard market.
- **Insistence on data and communication.** Insurance companies will require accurate statements of value, business income worksheets and responses to risk improvement recommendations.
- **Timely and complete submissions.** Underwriters will continue to have more submissions than they can work on, so it is vital that submissions are completed and submitted 100 days or more prior to renewal to have any chance of getting a quote from a carrier.
- **Value of a strong risk profile.** There will be multiple carrier options for accounts that have a good loss history, strong balance sheets, and good management and loss control strategies in place.

General Liability

Social inflation, increasing medical costs and litigation funding have driven up general liability claims over recent years, and we expect that trend to continue in 2024. As a result of increasing claim costs, carriers are raising rates. We anticipate 5% to 10% rate increase in 2024.

Product Liability and Product Recall

Unlike the property lines, the product liability and recall marketplace has added capacity. The addition of new carriers and program administrators in the market has spurred competition, which should lead to better pricing and coverage options in 2024. We anticipate a flat rate increase for policyholders or potentially slight decreases.

Umbrella/Excess Liability

Because umbrella goes hand in hand with general liability, we expect social inflation to drive up claims costs for this line as well. Accounts with large fleets, ingredient suppliers and accounts delivering chemicals will see higher rate increases and shrinking capacity. The pricing for the higher layers appears to be improving more quickly than the first layer, making additional or enhanced insurance options more attractive or affordable compared to basic insurance. The average rate increase for umbrella/excess coverage in 2024 is projected at 5% to 10%.

Workers' Compensation

The workers' compensation market is in very good shape. This line of insurance was one of the most difficult to place for agricultural businesses five years ago, and now it's one of the easiest. Multiple carriers are competing to offer workers' compensation coverage. Because of the inflation of medical costs, we are still seeing increases, but they are minimal. In 2023, we saw an average rate increase of about 3%, and we anticipate a 0% to 5% increase in 2024.

Auto Liability

Like the general liability and umbrella lines, social inflation has impacted the auto lines significantly. Rates in 2023 were up about 15% for agriculture accounts. We expect social inflation to continue and anticipate another significant rate increase on auto in 2024 of 10% to 25%.

Projection: Property will be the most challenging coverage in **2024**, with a rate increase around **25%**. Increased competition between carriers should improve pricing and coverage for product liability and recall.

How USI Can Help

It's never been more important for agricultural businesses to partner with a broker that will assist them and incorporate robust risk management and maintenance programs into business practices. USI recommends to:

- Have an overall risk management plan for everyone to follow and update.
- Formalize a building maintenance program to ensure essential work is carried out and future work is budgeted for.
- Complete property valuation to ensure that building sums insured remain accurate following rapid recent inflation in materials and labor.
- Train your employees about risks they are exposed to.
- Review your claims history and identify avoidable recurring losses.
- Consider different risk financing alternatives for insurance purchase.

With uncertain weather, supply chains depleted by labor shortages, and cybercrime on the rise, organizations must focus on mitigating risk. Consult with your broker to prepare for 2024.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Developments Since Mid-Year 2023 Outlook

With the exception of the following updates, the mid-year projections published in our 2023 Mid-Year Market Outlook remained on track for the second half the year. Recent developments include:

- **Rate trends** — Rates were lower for life sciences products and errors and omissions (E&O) liability policies than our 2023 mid-year projection of +5% to +10%.
- **Credit risk** — Companies in the life sciences sector are increasingly susceptible to financial challenges when their customers either delay payments for the products or services they have received or become insolvent. For young or newly established companies, this can complicate the existing challenge of securing funds for advancing their proprietary technologies and meeting financial obligations. Credit insurance can be an essential part of the solution to this challenge. With an eye on volatile worldwide economic conditions, more life sciences companies are considering credit insurance to protect themselves from insolvent or slow-paying customers.
- **Clinical trials** — To ease relations between sponsors, investigators, and providers, we work with clinical trials insurers to provide an increased medical expense sublimit. This provides funds for no-fault coverage of study participant medical expenses, which is a longstanding strategy for avoiding litigation. This is especially helpful in the life sciences sector to prevent contentious and complex products and medical professional liability claims.
- **Supply chains** — Global political risk and war have major implications on life science companies' complex supply chain structures. Stock throughput arrangements that include life-science-industry-specific underwriting and coverage wordings are invaluable in addressing this rapidly evolving risk landscape.

Trends to Watch in 2024

- **Products and professional liability policies** — Look out for insurers introducing new exclusions, including acetaminophen due to recent class-action litigation in New York Federal Court related to allegations of causal relationship with autism and ADHD.
- **Retentions and limit capacity** — They remain plentiful with new markets entering the life science marketplace.

How USI Can Help

USI suggests life science companies take the following steps to encourage a favorable coverage outcome:

- Evaluate all market options with their brokers, focusing on risk appetite and product mix.
- Assess U.S. and London markets, and be open to having multiple insurers on the program as opposed to one insurer that offers all coverages in a "package" format.
- Clearly identify and differentiate each risk to the marketplace, reinforcing risk quality and mitigation efforts — this is imperative. When marketing, it is critical to have data on facility characteristics, safety programs, and global supply chain exposures.
- Delineate the product and professional liability risk profile (high, medium, low) to help underwriters understand therapeutic class, specific product risk factors, and scope of services.
- Review contracts carefully with a specific focus on language related to risk transfer and assumption, as it has an impact on the calculation of the revenue exposure base used in determining the premium for product liability coverage.
- Assess all clinical trial activity to determine which studies have been impacted either in a delayed start, longer duration, or reduced patient population. Disclose countries where future studies are planned to address coverage requirements early.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Developments Since Mid-Year 2023 Outlook

Property Market

Refer to the Property section of this report for details.

Professional and Excess Liability

Carriers that provide medical malpractice coverage have continued to offer competitive premium rates for what they consider "attractive risks." Organizations with incurred losses exceeding projected losses will face rate increases. Professional and excess liability carriers that target the senior care industry have returned to the market and, in many cases, have offered competitive premium rates.

Pricing Dynamics

Pricing has generally increased for the human and social services industry. This is especially the case for organizations that are experiencing higher losses than projected, provide foster care services, or have any exposure for allegations of abusive conduct.

Trends to Watch in 2024

Impact of Risk Profile

For organizations that are considered attractive risks by the underwriting community, rates should improve as increased competition returns to these market segments: primary professional liability, excess professional liability, workers' compensation, and primary automobile liability.

Capacity Challenges

Excess automobile liability and management liability should face continued challenges with available capacity.

Cyber Event Coverage

This market will be less challenging provided insureds can meet the underwriting requirements for data protection and risk mitigation. For organizations that store or have access to patient, resident, or program-participant medical information, the proper management of pixel tracking is a primary underwriting concern.

How USI Can Help

USI supports clients through the renewal processes by taking these and other important steps:

- Advocating on behalf of the client when infectious disease exposure has, or is presumed to have, taken place within the scope of employment, so that workers' compensation coverage will apply.
- Working with the client to ensure all workers' compensation claims are reported as soon as possible, and that nurse case management is utilized as quickly as possible to reduce indemnity and medical expense.
- Ensuring that the employer's liability limit is adequate for the exposure, and that any claims are assigned to an adjuster with employer's liability experience.

USI also supports clients in the renewal process with:

- USI's Answerlytics solution for comprehensive cyber risk control. For more information about Answerlytics, see the Cyber section of this report.
- Risk identification and mitigation techniques for the following liabilities: professional, automobile, D&O, EPL, and property.

For additional information, contact your USI representative or email us at pcinquiries@usi.com.

Case Study

Physician group faces skyrocketing insurance costs

Claims review reveals favorable loss ratio and cost-saving opportunities

$1M premium savings in Year 1 and improved cash flow

Developments Since Mid-Year 2023 Outlook

2023 presented many challenges for motor carriers. Marginal costs to operate a trucking company increased by 21.3% YOY, according to the American Transportation Research Institute. While diesel costs were the largest driver of this increase, other expenses also rose by double digits. Freight rates have been on a downward trend since late 2022, while expenses have not declined at the same pace, putting many motor carriers in a financially distressed position. As these factors interfered with business operations, including compliance, the Federal Motor Carrier Safety Administration issued 55,514 net revocations of operating authority through July. While most economists predict there is light at the end of the tunnel, trucking appears to be stuck in neutral at the bottom of a very steep mountain.

As we enter 2024, it is imperative that motor carriers are critically evaluating their operations to ensure they are focused on their most profitable revenue sources, expense management, and are adapting their operations to accommodate the economic challenges that are expected to continue through most of the year.

Trends to Watch in 2024

Auto Liability/Excess Liability

Despite significant losses, auto liability insurers are receiving pressure to deliver single-digit renewal terms to their policy holders or even flat renewals. Insureds with excellent risk profiles are achieving flat renewals or rate decreases in some circumstances. In most cases, the introduction of competition among carriers helps achieve these favorable rates.

While capacity continues to become available through new and existing telematics programs, many motor carriers are still hesitant to give their insurance carriers a peek behind the curtain at the data related to vehicle usage and performance. In addition, new insurers, focused exclusively on distressed operations, continue to enter the marketplace. However, their pricing is often unaffordable, forcing many motor carriers to close their doors or significantly reduce their fleet size.

Motor carriers with situationally average risks also seem to be struggling to find affordable insurance due to the disparity in underwriting appetite throughout the marketplace. In other words, some insurers are willing to provide terms to companies with sound safety programs and good loss histories, even though they have experienced a bad year and/or large claim in recent history — while other insurers are not interested in this business. Therefore, insurance buyers must be resourceful and thorough when searching for the right coverage.

Physical Damage

As the marketplace adjusted to the dramatic surge in equipment prices, it dropped equipment values down to pre-pandemic levels. These drastic swings in values will eventually result in insurance pricing increases. Ample insurance carrier capacity has created a stable market, at least for now. The reduction in equipment values, coupled with economic challenges, will likely result in a worsening loss ratio for physical damage. Insurance companies could start to shift this segment into a hard market toward the middle-end of 2024.

Motor Truck Cargo

Driven by inflation increases and a weak economy, theft of cargo has increased more than 55% YOY with approximately $45M of stolen goods in Q2 2023, according to a report from freight security network CargoNet. Food and other essential items that are difficult to trace are the primary target for thieves. Criminals have also become savvier and bolder in their methods by purchasing motor carrier personal identification numbers. Post purchase, they change the contact information on record, which provides the shipper a perception of legitimacy. This allows these bad actors the ability to book loads directly with brokers and shippers, only to never deliver the freight.

The increased losses being driven by the doubling of theft claims is expected to result in a hardening of the cargo market in 2024, especially with insurers that have lacked underwriting discipline. We also expect a reiteration of limitations of coverage or outright exclusions for losses related to theft.

Cyber

Historically, we have seen transportation firms display resistance in purchasing relevant insurance and adopting enhanced IT management protocols instead. Despite a significant rise in transportation-related events over the last three years, we are still seeing skepticism around the coverage.

Transportation firms make ideal targets — they are often relatively under-secured but are well-connected to large supply chains. Many motor carriers and logistics providers have a small list of direct clients, and a system lockout could jeopardize key customer relationships and contracts.

The transportation industry faces threats not only from direct cyber incidents, but also indirectly from attacks further up the supply chain. The recent Estes cyberattack is a staunch reminder of how vital technology is to the success of transportation operations.

We expect to see a continued increase in cyber insurance claims and costs as the role of technology continues to grow within the industry.

Employment Practices Liability (EPL)

EPL claims are not inherently common within the transportation sector. However, we have seen an uptick in discrimination, wrongful termination, and harassment claims over the last twelve months. We expect this upward trend to continue given an ever-changing social climate as well as a hardening and uncertain economic landscape.

How USI Can Help

When considering renewals for 2024, consider these suggestions from USI's transportation team:

- Work with USI to evaluate all market and program design options to identify opportunities for cost savings, cash flow improvements, and exposure reductions.
- Begin the renewal process at least 150 days prior to expiration. Underwriters are being inundated with submissions and are quick to decline applications that do not provide enough time to properly underwrite, perform safety inspections, and negotiate terms. This approach should be taken with both incumbent and any new markets.
- Create a narrative around safety programs, proactive and post-loss telematics usage, and claims management strategies.
- For loss-sensitive programs, perform a collateral analysis to ensure reductions are sought where possible.
- Evaluate the financial impact of higher deductibles or self-insured retentions to reduce premiums and improve cash flow.
- Consider alternative risk transfer programs, which will continue to be an attractive option to many motor carriers that are attempting to avoid the volatility of the traditional insurance marketplace. USI can perform an analysis to identify which of these programs may be a good fit.
- Perform a regulatory analysis to understand violation causation and develop a corrective action plan to reduce likelihood of future infractions. Poor roadside inspection performance leads to higher insurance premiums and operational costs.
- Perform a driver risk assessment to identify high-risk drivers and develop a remediation strategy for those that are going to be retained.
- Adopt and implement technology. Utilization of technology has become an expectation in the trucking industry. Now more than ever, effective and cost-efficient technologies are available to help mitigate risk. USI can assist in evaluating technologies available and develop strategies necessary to manage the risk associated with deployment.
- For composite rated policies, consistently review actual exposures versus projected ones to ensure minimum premium requirements are being met, and revise them if necessary and possible.

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USI'S CONTRIBUTORS

Danette Beck
Robert Bookhammer
Ryan Chartier
Matthew Countie
Anthony DiBernardino
Andrew Doherty
Renee Dube
Michael Gigliotti
Nadia Hoyte
Stacey Ince
Paul King
Chris Lepore
David Manglano
Nicole McMurtry
Douglas O'Brien
Timothy O'Connor
Glynis Priester
John Scales
James Van Meter
Charlie Wildes
Dru Wilson

How We Can Help

To help clients navigate complex business challenges, USI shares expert insights and key solutions through our Executive Series. Our cross-functional teams work to provide timely information on new and evolving topics in risk management, employee benefits, personal insurance and retirement. We then share tailored solutions to successfully guide your organization, enhance insurance coverage, and control costs. For additional information and resources, please visit our Executive Insights page: usi.com/executive-insights