

Improved Profitability Fuels Competition

Lockton Market Update

JUNE 2024



Contents

Economic outlook: cautious optimism	4
Strong commercial insurance profitability	7
Marine market remains favorable to buyers despite growing caution	10
Six strategies to consider for the remainder of 2024	12
Buyer's market returning for property insurance	13
Profitability keeps workers' compensation competitive	15
Liability rates increasing but competitive	18
D&O remains a buyer's market	21
EPL insurers competing for business	24
Cyber rates falling, but warning signs emerging	26

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As we anticipated in our March 2024 *Lockton Market Update*, insurers are increasingly competing for business across a number of lines, contributing to greater stability and predictability for insurance buyers. Insurers reported strong returns in the first quarter, buoyed by solid investment returns and improving conditions in personal lines. Profitability is expected for the rest of this year, despite continuing concerns about natural catastrophe losses, social inflation, and geopolitical uncertainty.







Insurers' returns have been bolstered by a stronger-than-expected U.S. economy that has benefited from a stable labor market and demand for services. Entering 2024, many hoped that the Federal Reserve would make at least three interest rate cuts, starting midyear. Although inflation has been more persistent than expected, recent progress and a cooling labor market have reopened the door for possible rate action later this year. Business leaders remain cautiously optimistic about the economy but are continuing to monitor key headwinds.

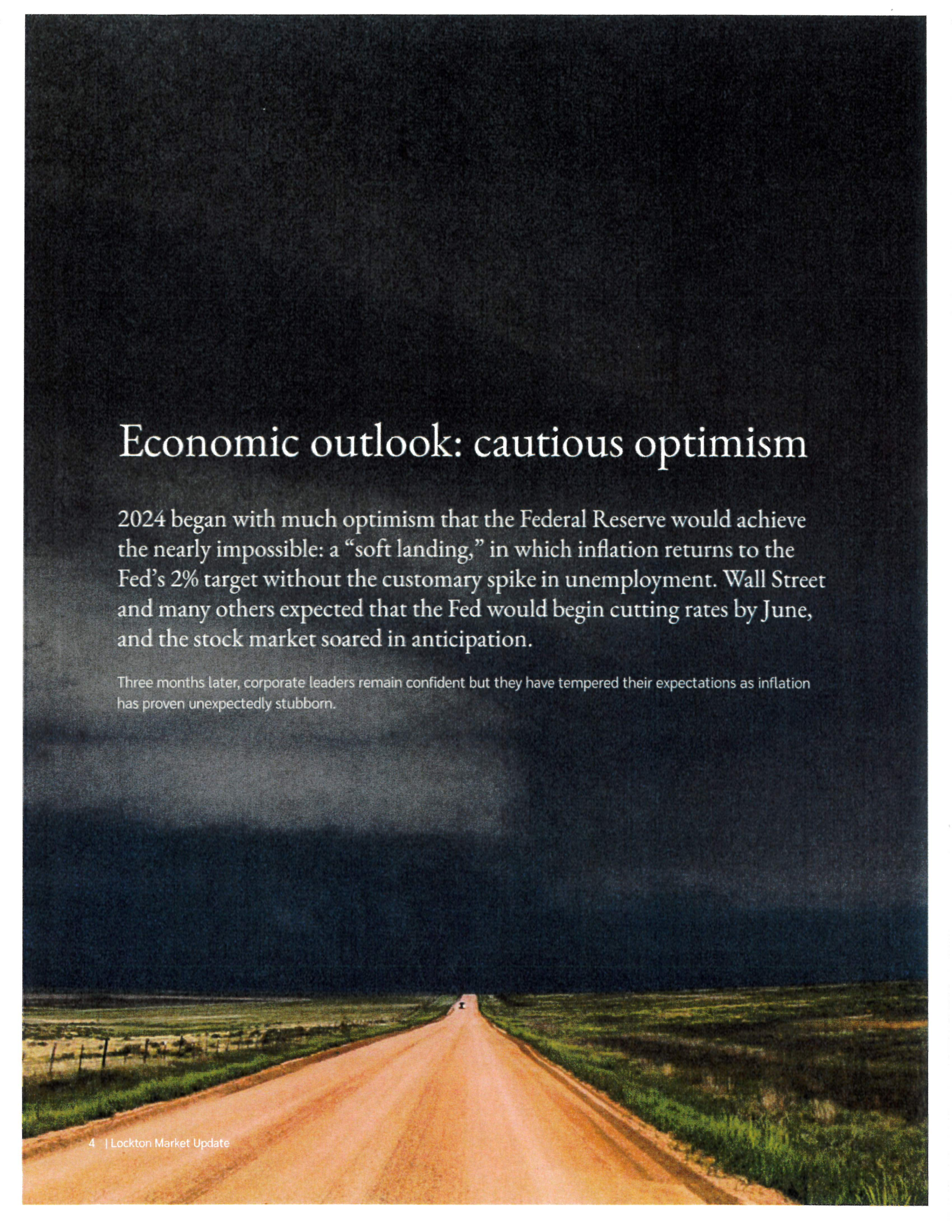
Against this backdrop, it is essential for buyers to continue to challenge their thinking on P&C insurance programs, rather than simply renewing them as is. Now is the time to revisit past assumptions, reexamine limit adequacy, and capitalize on safety and risk mitigation investments to realize improved renewal outcomes.

KEY TAKEAWAYS

- Although rates still rose in the first quarter, the property insurance market is rapidly becoming more buyer-friendly.
- Workers' compensation remains highly profitable to insurers, which has buyers benefiting from competitive rates.
- Liability rates continue to climb, but results have become more predictable for most buyers.
- Pricing for key financial and professional lines, including directors and officers liability and cyber, continues to fall.

PRICING ENVIRONMENT IN INDIVIDUAL LINES

Property	 Mixed
Workers' compensation	 Favorable
Liability	 Mixed to difficult
D&O	 Favorable
EPL	 Favorable
Cyber	 Favorable

A long, straight dirt road stretches into the distance under a dark, stormy sky. The road is flanked by green grass and a fence on the left. The sky is dark and ominous, with some light breaking through near the horizon.

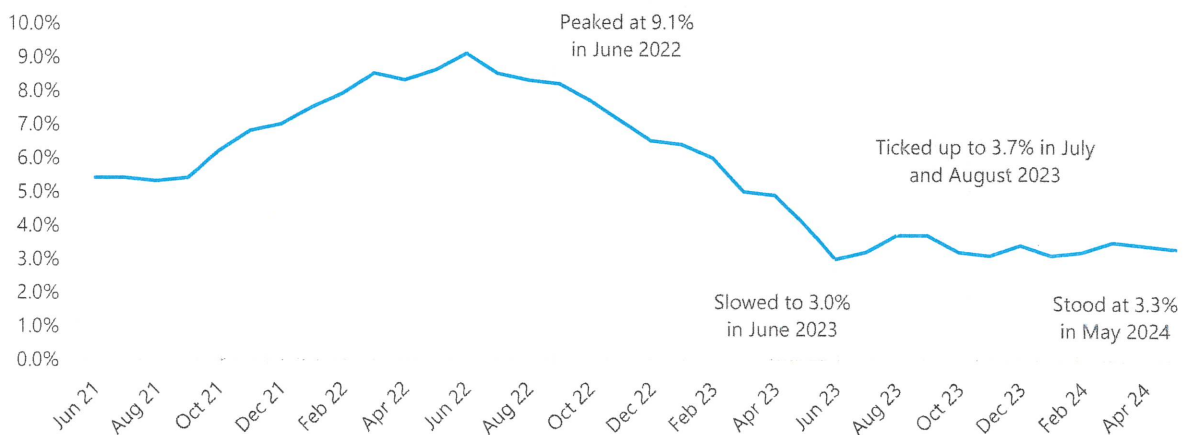
Economic outlook: cautious optimism

2024 began with much optimism that the Federal Reserve would achieve the nearly impossible: a “soft landing,” in which inflation returns to the Fed’s 2% target without the customary spike in unemployment. Wall Street and many others expected that the Fed would begin cutting rates by June, and the stock market soared in anticipation.

Three months later, corporate leaders remain confident but they have tempered their expectations as inflation has proven unexpectedly stubborn.

After increasing to a pandemic-era high of 9.1% year over year in June 2022, the Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI) — commonly referred to as “headline inflation” — slowed to 3.0% in June 2023. Since that time, however, the CPI has moved up and down, increasing to 3.7% in August and September 2023 and, most recently, falling slightly from 3.4% in April 2024 to 3.3% in May (see Figure 1).

FIGURE 1: PROGRESS IN CONTAINING INFLATION HAS BEEN LIMITED OVER THE LAST YEAR.



Source: Bureau of Labor Statistics

This has been driven by a stronger-than-expected economy, bolstered in large part by continued consumer spending and a resilient labor market. The cost of shelter, which increased 5.5% in April, has been especially difficult to control.

The U.S. added 272,000 jobs in May, well above many economists' and other observers' expectations. Despite this, there are long-term indications that the labor market is finally starting to cool. The U.S. added just 175,000 jobs in April, according to the BLS, far fewer than the 300,000 jobs added in March. And unemployment is slowly rising, from 3.8% in March to 3.9% in April to 4.0% in May.

Job openings, which reflect labor demand, fell by nearly 300,000 to just over 8 million as of April 30. This means there were just 1.24 job openings for every unemployed person as of April 30, the fewest since June 30, 2021.

A slowing labor market may further reduce demand and drive down inflation, although it is too early to know if this will happen. The Fed has signaled it is comfortable leaving interest rates “higher for longer” if necessary; acting too early could risk reigniting inflation.

These recent labor trends, however, may open the door to a change in policy. Following its most recent meeting on June 11 and 12, the Federal Open Market Committee announced it would hold interest rates steady for the moment but indicated it expects to cut rates once in the second half of 2024.

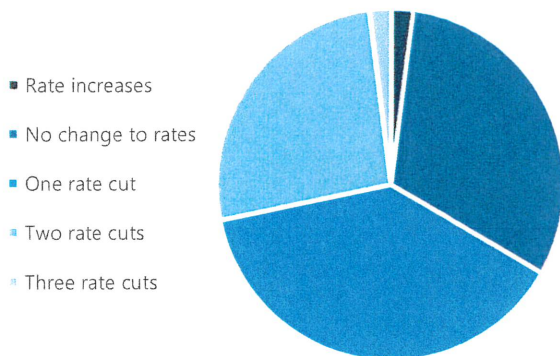
Ahead of the Fed’s meeting, early action taken by other central banks had raised expectations about it cutting rates in the coming months. On June 5, the Bank of Canada became the first G7 central bank to ease rates following the recent period of high inflation. One day later, the European Central Bank announced its first rate cut since 2019. And officials at the Bank of England have suggested that it could announce a rate cut as early as this summer.

Whether this is the beginning of a more aggressive easing cycle remains to be seen. It is also worth noting that the U.S. economy is very different from those of Canada, the European Union, and the U.K.

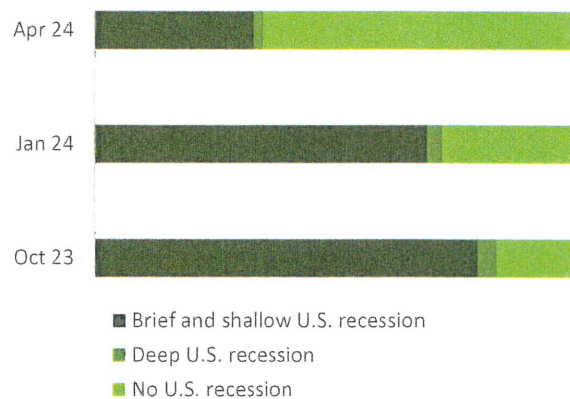
U.S. corporate leaders appear to be counting on at least one Fed rate cut in 2024. Nearly 40% of CEOs surveyed by The Conference Board in April expect the Fed to cut rates once this year, and a quarter of CEOs expect two rate cuts (see Figure 2).

FIGURE 2: CEOs SURVEYED IN APRIL WERE CAUTIOUSLY OPTIMISTIC ABOUT THE ECONOMY.

WHAT INTEREST RATE ACTIONS CEOs EXPECT FROM THE FED IN 2024



CEOs’ EXPECTATIONS FOR THE NEXT 12 TO 18 MONTHS



Source: The Conference Board Measure of CEO Confidence in collaboration with The Business Council

The same survey found that nearly two-thirds (65%) of CEOs do not anticipate a U.S. recession over the next 12 to 18 months, a marked change from recent surveys by The Conference Board. And slightly more CEOs (30% compared to 26%) expect economic conditions to improve rather than worsen over the next six months.

The upcoming U.S. presidential election, meanwhile, will have enormous implications domestically and internationally, and occurs against a complex geopolitical backdrop. The continuing Russia-Ukraine war, conflict in the Middle East, elevated tensions between the U.S. and China, and recent European Union parliamentary elections reflect how uncertain the global economic outlook remains.



Strong commercial insurance profitability

Three months ago, we anticipated a shift in the P&C insurance marketplace toward greater competition and more predictable renewal outcomes. We are now seeing these conditions materialize for commercial insurance buyers.

Insurers continue to benefit from higher rates, improved investment income, exposure growth, and their long-term efforts to de-risk their portfolios (see Figure 3). In the first quarter of 2024, competition has improved in some lines, leading to more favorable outcomes for buyers. Carriers with personal lines operations have also been helped by major improvements since 2022 and 2023, as inflation has reverted toward long-term averages and much-needed rate increases have boosted premiums.

FIGURE 3: U.S.-BASED INSURERS REPORTED STRONG RETURNS IN THE FIRST QUARTER.

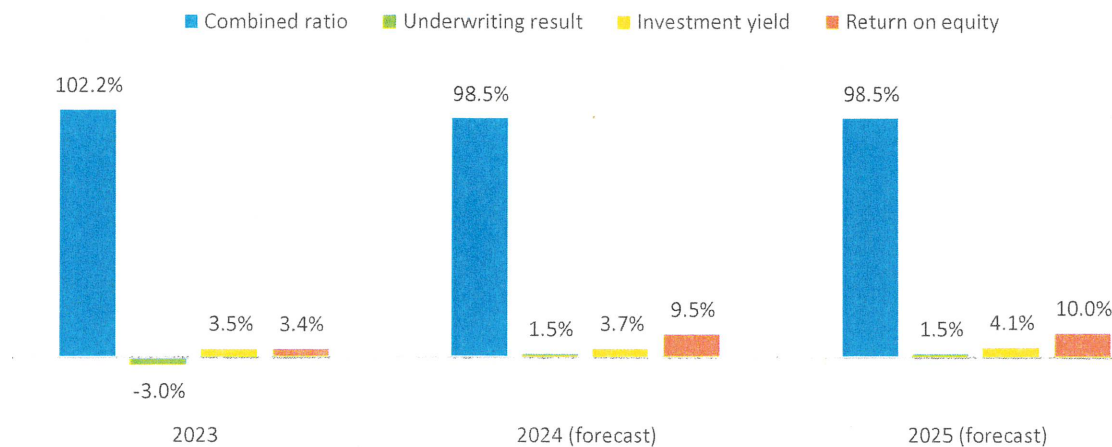
Carrier	Net written premium			Combined ratio			Return on equity			Net investment income		
	2024	2023	Change	2024	2023	Change	2024	2023	Change	2024	2023	Change
Carrier A	\$10,588	\$9,417	12.4%	86.0%	86.3%	0.3	14.6%	14.3%	0.3%	\$1,391	\$1,107	25.7%
Carrier B	\$10,182	\$9,396	8.4%	93.9%	95.4%	1.5	18.0%	17.5%	0.5%	\$846	\$663	27.6%
Carrier C	\$4,512	\$4,495	0.4%	89.8%	91.9%	2.1	13.3%	11.6%	1.7%	\$762	\$746	2.1%
Carrier D	\$10,958	\$11,155	-1.8%	95.8%	103.2%	7.4	23.9%	-1.2%	25.1%	\$811	\$710	14.0%
Carrier E	\$4,206	\$3,856	9.1%	92.8%	95.7%	2.9	18.5%	12.8%	5.7%	\$459	\$392	17.1%
Carrier F	\$2,390	\$2,247	6.4%	94.6%	93.9%	-0.7	13.8%	13.8%	0.0%	\$609	\$525	16.0%

Source: Select insurers' investor calls and presentations

Dollar figures in millions; data for three months ending March 31 in each year.

The future looks similarly bright: The Swiss Re Institute forecasts U.S. P&C industry ROE of 9.5% in 2024 and 10.0% in 2025, significantly higher than the 3.4% ROE the industry earned in 2023 (see Figure 4). Swiss Re also forecasts an overall industry combined ratio of under 100 in 2024 and 2025, fueled by improving margins in personal lines.

FIGURE 4: U.S. P&C INSURERS ARE EXPECTED TO BE HIGHLY PROFITABLE IN 2024 AND 2025.



Source: Swiss Re Institute

In major lines, buyers are generally seeing more predictable conditions:

- The property market is rapidly shifting, bolstered by improved profitability in 2023 and greater stability in the reinsurance market. Although median rates still climbed in the first quarter of 2024, the pace of increase dramatically slowed, and many buyers were able to secure rate reductions at renewal.
- 2023 was the 10th consecutive year of profitability for the workers' compensation line, according to NCCI, and the seventh consecutive year in which insurers recorded a combined ratio below 90. This has helped keep pricing highly competitive for both guaranteed cost and loss-sensitive buyers.
- Although liability rates continue to increase, capacity remains plentiful for most and pricing has generally become more predictable.
- Pricing for directors and officers liability, employment practices liability, and cyber insurance continues to fall.

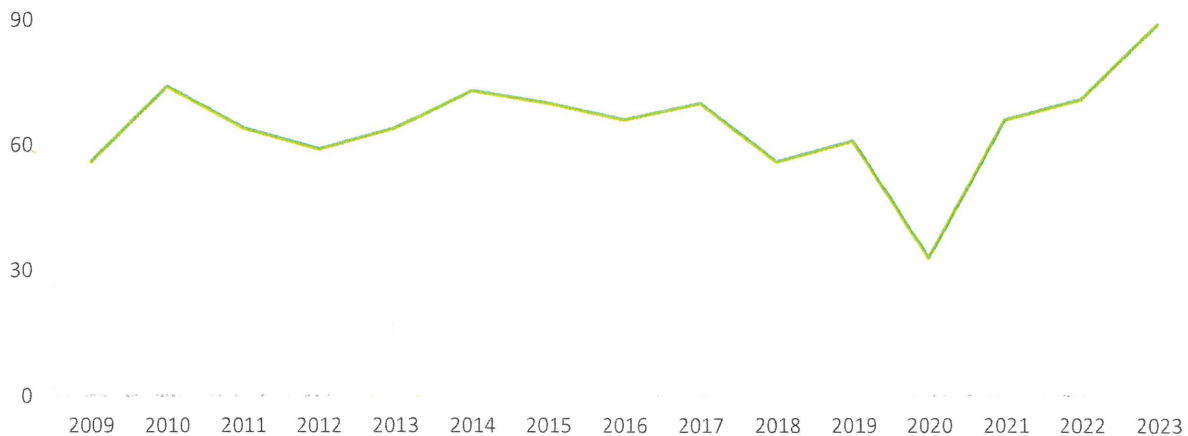
Challenges, however, remain. Climate change represents a long-term threat for property insurers, and most are bracing for an active Atlantic hurricane season in 2024. Severe convective storms also remain a problem.

In the D&O and cyber space, it is unclear for how far rates can continue to fall given ongoing threats and the litigation landscape. And even as workers' compensation profitability persists, insurers remain apprehensive about medical inflation.

Social inflation, meanwhile, continues to plague liability insurers, both prospectively and retroactively. Adverse reserve development remains a challenge and is expanding beyond just the soft market years of 2015 through 2019. Insurers are focused on keeping comfortably ahead of liability loss rates, which are climbing between 7% and 10% annually.

New data suggests the impact of social inflation may be worsening. So-called nuclear verdicts against businesses — civil litigation judgments of \$10 million or more — are increasing in both size and number. In 2023, 89 nuclear verdicts were awarded in litigation against businesses in U.S. courts, according to Marathon Strategies, the most in a single year since Marathon began tracking nuclear verdicts in 2009 (see Figure 5). Of these 89 nuclear verdicts, 27 were “thermonuclear,” as dubbed by Marathon Strategies, totaling \$100 million or more each.

FIGURE 5: NEARLY 90 NUCLEAR VERDICTS WERE AWARDED AGAINST BUSINESSES IN 2023.



Source: Marathon Strategies

Insurance industry executives are becoming more vocal about the long-term implications of social inflation. In the insurer's 2023 annual report, Chubb Chairman and CEO Evan Greenberg described rising litigation costs as “a major tax on society and innovation.” Greenberg also noted that the insurance industry cannot lead the charge against social inflation: “Ultimately, the business community needs to band together, pool resources, and take the lead in driving reforms if we are to bring costs down.”

Marine market remains favorable to buyers despite growing caution

Although the Francis Scott Key Bridge collapse in March captured public attention and headlines, the overall loss environment in the marine insurance market is still favorable. Marine capacity is stable, buoyed by new entrants in recent years, and insurers continue to demonstrate resilience and a focus on growth.

The tragic bridge collapse took a significant human, emotional, and financial toll on Baltimore and the surrounding community that will continue to manifest for years. The collapse, however, came at a time of relative quiet in the marine insurance marketplace, which thus far has kept its impact on the overall availability and pricing of coverage minimal. In 2023, the global maritime industry reported a record low 26 losses of large vessels — those with 100 gross tonnage or more — according to Allianz.

Importantly, marine insurers will not bear losses from the bridge collapse by themselves. The insurance industry will be challenged in determining whether and how losses will be allocated among various traditional property and casualty coverages, in addition to marine-specific insurance policies.

Prior to the bridge collapse, the hull and marine liability market — often referred to as “wet” marine — could best be characterized as “stable,” with most buyers seeing single-digit rate increases at renewal. While significant and immediate price increases are not expected, rate corrections may eventually be imposed over several renewal cycles should marine insurers and reinsurers face a multibillion dollar loss.

It is not yet clear whether marine insurers and their reinsurance partners will absorb the largest share of covered losses or if these claims will be borne by other P&C insurers and their reinsurers. Until that becomes clear, marine underwriters and reinsurers are likely to be more cautious. Underwriters may deploy capacity for individual risks more judiciously and are likely to require more information in underwriting submissions.

The cargo insurance market appears to be softening. Insurers are aggressively competing for business, especially new business, but are still underwriting responsibly. The London market remains attractive to buyers seeking additional capacity or those with complex or specialty risks.

Relative to the U.S., the London market is also especially attractive for retail buyers seeking stock throughput coverage. While U.S. marine insurers typically require a schedule of locations with assigned limits for each, buyers can secure blanket limits for all locations via the London market.



Cargo thefts are increasing in frequency and severity, prompting buyers to reinforce loss control and risk mitigation practices. These may include contractual risk controls with respect to third-party transportation and logistics partners.

Marine insurers are also monitoring weather volatility. Above-average activity is expected during the 2024 Atlantic hurricane season, and severe convective storms are now a year-round threat. Losses resulting from these risks could affect upcoming renewals.

Wet marine underwriters are weighing the potential impacts of emerging and often contradictory environmental regulations around the world, which could affect where and how ship owners and operators do business and the associated costs. Similarly, both wet marine and cargo insurers are wary of elevated tensions in the Middle East, given the amount of marine traffic that flows through the region.

Marine insurers are responding to current trends with new and innovative insurance solutions. These include products that can provide supplemental coverage and/or cover gaps for certain risks that may be excluded under standard placements, such as geopolitical risk.

Amid attacks on commercial vessels navigating the Red Sea and other affected trade lanes, insurers have taken steps to restrict coverage against war risks. Buyers should focus on the benefit of coverage certainty by exploring standalone war risks coverage, which can be structured to address the specific exposures of insureds operating in high-risk areas.

Stock throughput programs are increasingly covering risks that fall under typical property statements of values, including equipment, inventory, and sometimes real property. Given this, it is important for organizations to manage cargo insurance and property insurance holistically, rather than in silos. A multidisciplinary approach can ultimately yield better results and broader coverage.

It's vital that insureds also understand the nature of their marine risk, including their maximum anticipated exposure. This can inform insureds' decisions about program structures to ensure adequate limits and other policy terms and improve their standing with insurers during renewal discussions. Underwriters are more willing to provide favorable renewal terms for insureds that can demonstrate an understanding of their risk and that they are taking steps to mitigate that risk, rather than simply relying on policies.

Six strategies to consider for the remainder of 2024

01

Revisit past assumptions. Economic conditions require a careful analysis of estimated future exposures. Payrolls, sales, and business interruption values should reflect current expectations. Buyers should also revisit potential contingent business interruption exposures associated with changed in suppliers.

02

Reassess program structure based on overall tolerance for risk, volatility and/or budget deviations. Lockton's Dynamic Capital Modeling capabilities can validate potential outcomes under various structures, providing a framework for decision-making.

03

Consider alternative risk solutions to support your strategy. Capacity and appetite for captive insurers, parametric policies, structured solutions, and alternative options are growing, and they've demonstrated their value in recent years.

04

Meet with incumbents and potential backups. Relationships matter in commercial insurance, and telling your story directly to the marketplace is essential to generating positive outcomes. Document investments in risk controls and safety to differentiate your risk for underwriters.

05

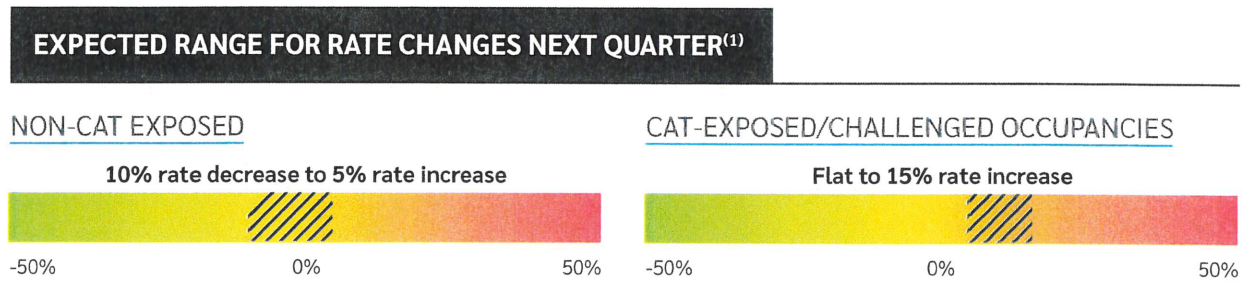
Monitor terms and conditions. As the risk environment continues to evolve, guard against coverage restrictions and carvebacks.

06

Sweeten the pot. As conditions vary by line, explore ways to leverage desirable lines of business to help complete more difficult placements.



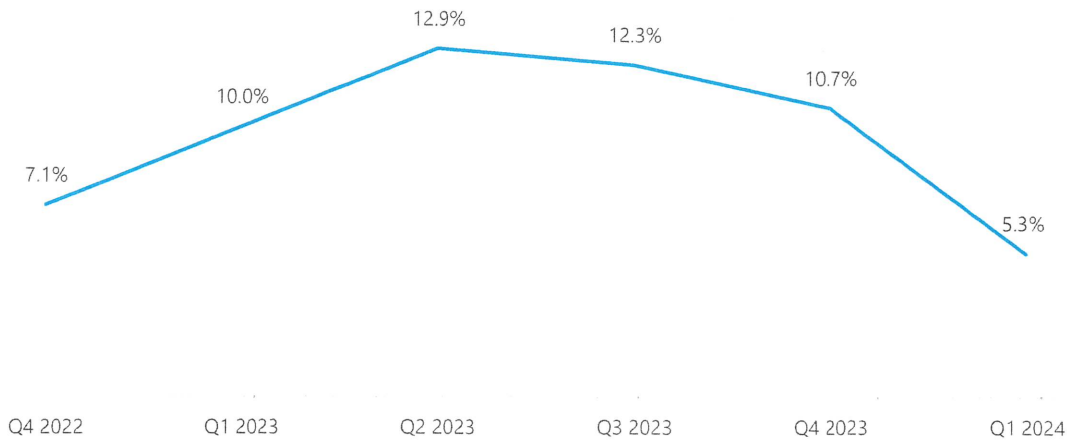
Buyer's market returning for property insurance



⁽¹⁾ Note: Rate ranges presented here reflect expected renewal outcomes — as of the Lockton Market Update publication date — over the next quarter for the majority of insurance buyers. These should not be taken as a guarantee of any specific result during renewal negotiations. Depending on risk profiles, loss histories, account specifics and other factors, individual buyers may renew their programs outside of these ranges.

After a challenging five years, the property insurance market has moderated, becoming more competitive and favorable to buyers. In the first quarter of 2024, median rates increased just 5.3% (see Figure 6).

FIGURE 6: MEDIAN PROPERTY INSURANCE RATES ROSE JUST 5% IN THE FIRST QUARTER OF 2024.



Source: Lockton P&C Edge Benchmarking Report, Q1 2024; median rate changes year over year shown

While prices continue to climb on a median basis, many buyers are now able to renew with rate reductions. Insurers are looking to grow and appear willing to deploy more capital than they had during the harder side of the market cycle. Individual insureds' risk characteristics, including catastrophe exposures, loss histories, and occupancies, nevertheless remain crucial to renewal outcomes.

Property insurance buyers are benefiting from greater flexibility on the part of insurers. Deals are closing more quickly, nonconcurrences are being cleared up more easily, and insurers are being less aggressive on retentions, deductibles, sublimits, and policy language. Discussions between insurers and policyholders regarding valuations, which have been a major point of contention over the last two to three years, are becoming decidedly less intense.

Although conditions are more favorable for buyers with limited catastrophe exposures, even those accounts with significant catastrophe risk are experiencing an improved rate environment in early 2024. This is in part due to a relatively benign 2023 Atlantic hurricane season. Elevated interest rates are also driving stronger returns.

Despite limited hurricane activity in 2023 — a more active hurricane season has been forecast for 2024 — insurers are growing concerned about other perils. For example, severe convective storms — which the Insurance Information Institute notes can include thunderstorms, tornadoes, hail, and destructive straight-line winds — generated more than \$60 billion in insured losses globally last year, according to Swiss Re. Flood and winter storm losses are also growing. An uptick in catastrophe losses in the coming weeks and months could lead to renewed pricing pressure later this year.

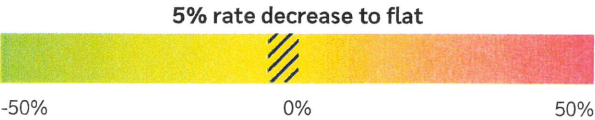
Supply chain disruptions as a result of weather and other events can elevate time element loss costs above insurers' expectations. Insurers are closely monitoring the conflict in the Middle East, tensions between the U.S. and China, and the collapse of the Francis Scott Key Bridge as they consider sublimits around contingent time element and ingress/egress.

Given more competitive market conditions, policyholders should work with their brokers to leverage incumbent relationships while marketing their programs more broadly, looking to restructure their property policies — for example, through relayering — and/or exploring the stock throughput market. Despite the improving rate environment in the traditional market, companies may also still wish to consider alternative risk options. Captives, structured risk programs, parametric insurance policies, and other solutions can help close gaps, disintermediate traditional insurers, and reduce risk volatility from year to year.

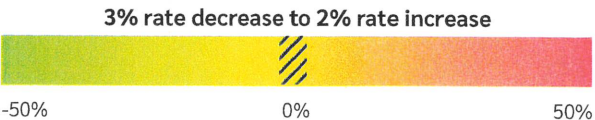
Profitability keeps workers' compensation competitive

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER⁽¹⁾

GUARANTEED COST



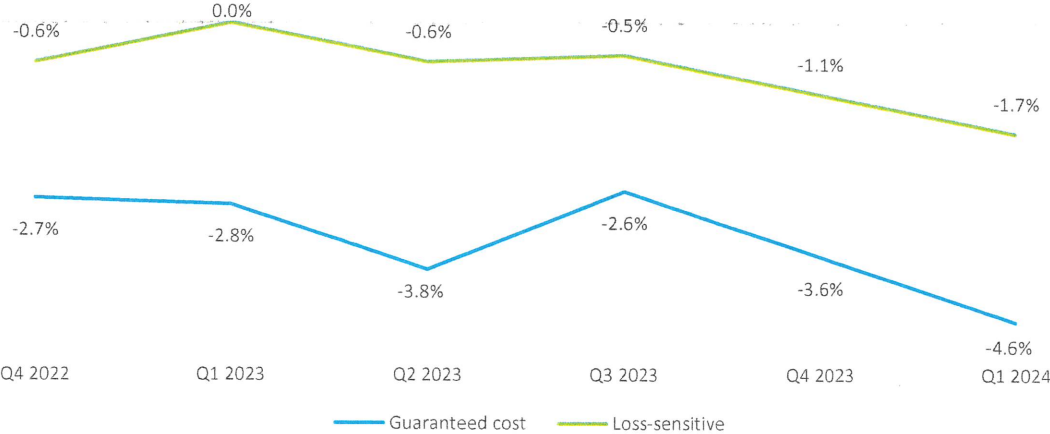
LOSS-SENSITIVE



⁽¹⁾ Note: Rate ranges presented here reflect expected renewal outcomes — as of the Lockton Market Update publication date — over the next quarter for the majority of insurance buyers. These should not be taken as a guarantee of any specific result during renewal negotiations. Depending on risk profiles, loss histories, and other factors, individual buyers may renew their programs outside of these ranges.

Pricing for both guaranteed cost and loss-sensitive workers' compensation programs continued to fall in the first quarter of 2024, as workers' compensation continues to outperform many other commercial lines (see Figure 7).

FIGURE 7: BUYERS ARE BENEFITING FROM WORKERS' COMPENSATION PROFITABILITY.



Source: Lockton P&C Edge Benchmarking Report, Q1 2024; median rate changes year over year shown

2023 was the 10th consecutive year of profitability for workers' compensation insurers and seventh consecutive year in which they recorded a combined ratio of less than 90, according to the National Council on Compensation Insurance's (NCCI) State of the Line report. Workers' compensation insurers recorded a combined ratio of 86% for the 2023 calendar year, reflecting prior year adjustments, and 98% for the 2023 accident year.

NCCI analysis suggests that higher values for combined ratios in recent accident years are driven by reserving conservatism rather than an increase in claims severity. Over time, those values will likely drop 8 or 9 points into the high 80s. In fact, NCCI estimates there is an \$18 billion reserve redundancy for the industry as a whole, the highest it has been over the last 20 years. This redundancy has been critical in helping to offset reserve strengthening in liability lines.

Unlike liability lines, where claim costs have rapidly escalated due to both economic and social inflation, workers' compensation has benefited from a highly stable claims environment. Lost-time claims frequency declined by 8% in 2023, more than double the average decline over the last 20 years, according to NCCI. Indemnity costs in 2023 were up just 5%, likely in part due to higher wages.

Payroll increases, however, also mean more premium for insurers, which blunts the impact of severity increases. This is a far different story from auto liability, where rising loss rates have had a devastating impact and the same natural inflation hedge has not been present.

Surprisingly, medical claim severity in workers' compensation rose just 2% in 2023, despite industry worries about medical inflation. State fee schedules and other cost control measures have helped keep this in check.

Catastrophic claims, however, are becoming more severe, with claim costs accelerating at a faster pace than normal medical inflation. This is being driven by extended ICU hospitalizations and increases in the cost of durable medical equipment, advanced state-of-the-art care, and attendant care, which do not fall under state fee schedules.





Focus on workplace violence growing

Effective July 1, 2024, California employers with at least 10 employees — with some exceptions — will be required under California SB 553 to implement comprehensive written workplace violence prevention plans. Among various other requirements, SB 553 mandates that employers record all instances of workplace violence in detailed incident logs and provide training to employees about how to prevent workplace violence.

Legislatures in 10 other states are currently weighing their own workplace violence bills. Most proposed legislation under consideration is limited to the healthcare and/or education sectors, although New York is considering a bill similar in scope to California's, which would apply to employers across all industries. Employers should consider engaging outside experts to assist in creating prevention plans in compliance with the California law and in preparation for the passage of workplace violence bills in other states.

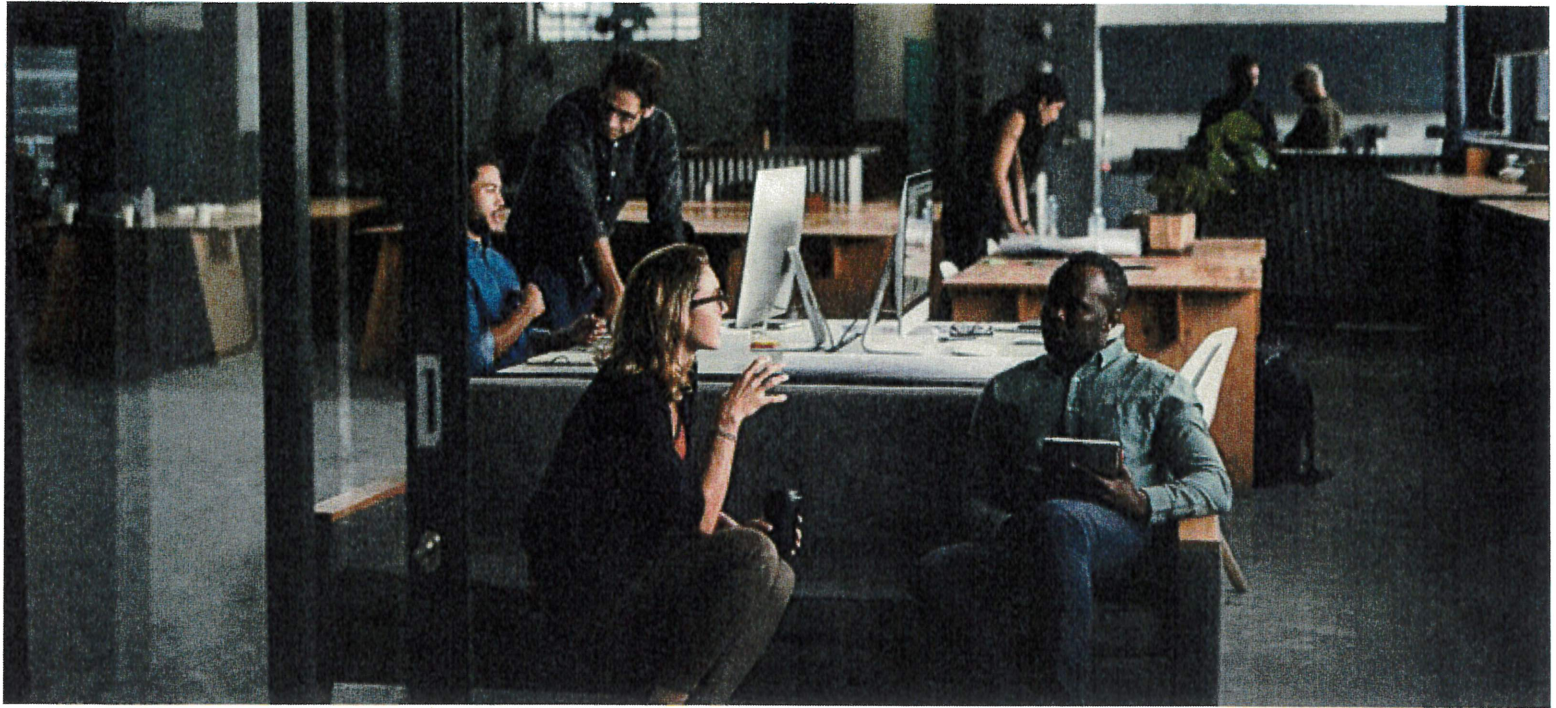
Preparing for heat-related claims

Nearly 1,000 American workers, or roughly 33 per year, died as a result of heat-related injuries and illnesses from 1992 through 2021, according to BLS data. Extreme temperatures have become commonplace in recent years; in June and July 2023, for example, temperatures in Phoenix reached 110° or higher for three consecutive weeks and temperatures in El Paso reached 100° or higher for more than 30 consecutive days.

As summer begins in the United States, employers should be mindful of the risks that warm temperatures can present to their employees' health and their operations, including potentially costly workers' compensation claims. These threats are especially acute for workers and employers in industries in which significant amounts of work are done outdoors.

Heat illness prevention plans can help employers mitigate their risk. Among other items, heat illness prevention plans should:

- Identify the person(s) responsible for daily oversight regarding heat-related issues;
- Detail any special precautions that should be taken to protect new and temporary workers and those who are not acclimated to high temperatures;
- Address training on how to recognize and respond to signs of heat stroke, exhaustion, and other heat-related illnesses, including fatigue, weakness, dizziness, confusion, irritability, and nausea;
- List steps to be taken in the event of heat advisories, including shortening workdays, moving employees to alternate work locations, and providing additional rest/breaks, shade and fluids to workers; and
- Identify a process for determining — for individual workers — whether total heat stress is too high, based on the conditions of that day and accounting for possible carryover effects from previous high-temperature days.

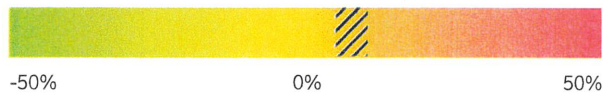


Liability rates increasing but competitive

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER⁽¹⁾

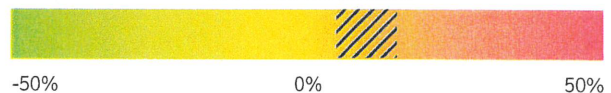
GENERAL LIABILITY

5% to 10% increase



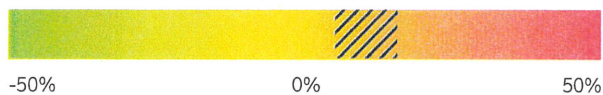
AUTO LIABILITY

5% to 15% increase



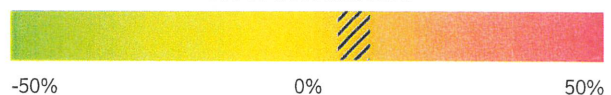
LEAD UMBRELLA

5% to 15% increase



EXCESS

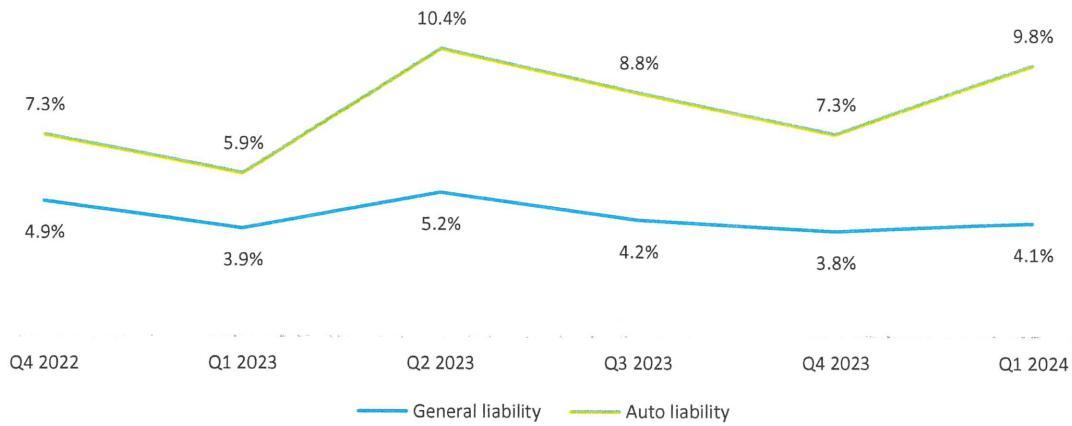
5% to 10% increase



In contrast to workers' compensation, liability lines remain a challenge for insurers, driven by the impact of economic and social inflation. In the first quarter, average general liability and auto liability rates increased 4.1% and 9.8%, respectively, according to the Council of Insurance Agents & Brokers (see Figure 8).*

* Charts in this report using Lockton P&C Edge Benchmarking data show median rate changes year over year. Median figures, however, are not available for Figure 8, which includes data from CIAB.

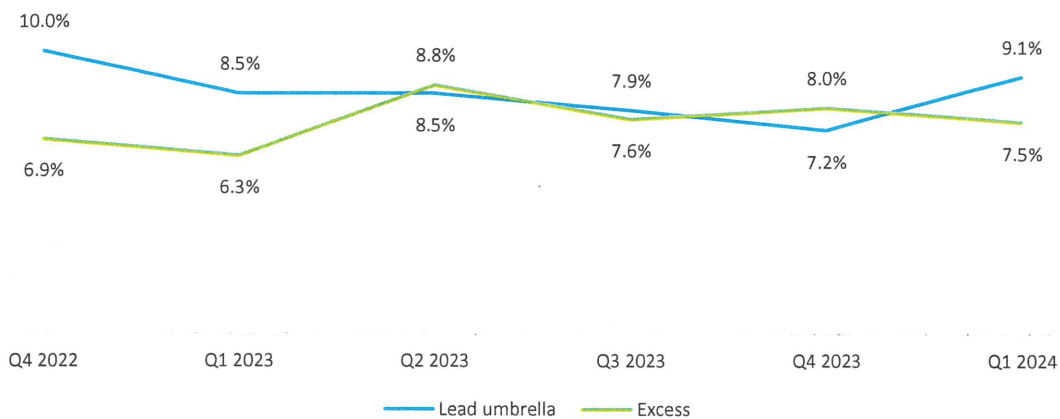
FIGURE 8: PRIMARY LIABILITY RATE INCREASES ACCELERATED SLIGHTLY IN THE FIRST QUARTER.



Source: Council of Insurance Agents & Brokers; average rate changes year over year shown

Median lead umbrella price per million increased 9.1% and median excess liability PPM increased 7.5%, according to Lockton data (see Figure 9).

FIGURE 9: MEDIAN UMBRELLA AND EXCESS RATES CONTINUE TO CLIMB IN THE HIGH SINGLE DIGITS.



Source: Lockton P&C Edge Benchmarking Report, Q1 2024; median rate changes year over year shown; figures shown on a PPM basis and do not reflect true, exposure-adjusted rate changes

Most buyers can expect a more stable, predictable renewal environment. Those with large commercial fleets, significant losses or challenging products, however, will face continued underwriting scrutiny and more difficult conditions. Underwriters will also maintain their focus on profitability, with rate increases and program structures closely tied to loss trends.

Insurers have reported some underwriting gains as a result of their improved management of capacity, terms, attachment points, and pricing. At the same time, losses continue to escalate in severity, going deeper into excess layers and contributing to significant adverse reserve development. Notably, this adverse development is expanding behind the “soft cycle” policy years of 2015 through 2019 to include policy years 2020 through 2022, specifically for auto liability.

Underwriters are also keenly aware of mounting litigation costs, including the growing size and number of verdicts of \$10 million or more being assessed against businesses. With large verdicts becoming more commonplace and the plaintiffs’ bar growing more sophisticated, insurers are exploring a variety of strategies and tools to manage their growing litigation exposures. These include examining high/low agreements when entering trial settings along with mock and shadow juries, among others.

Liability insurers are watching the evolving risk environment, including the potential for claims related to per- and polyfluoroalkyl substances (PFAS, also known as “forever chemicals”). In addition, they are narrowing coverage related to information security and privacy protections. Other potential risks on insurers’ radars include those related to artificial intelligence and climate change, although these are largely conceptual at this point.

Although buyers can expect to find adequate capacity and more competitive conditions, the long-term outlook remains clouded given the litigation environment. Absent wide-ranging and meaningful tort reform, losses can be expected to continue to climb, adding cost and volatility to insurance programs.

Buyers should continue to focus on identifying emerging threats, strengthening contractual controls and reinforcing claim resolution practices. More than ever, alternative risk tools can also play an important role in helping insureds create flexibility and manage costs.

D&O remains a buyer's market

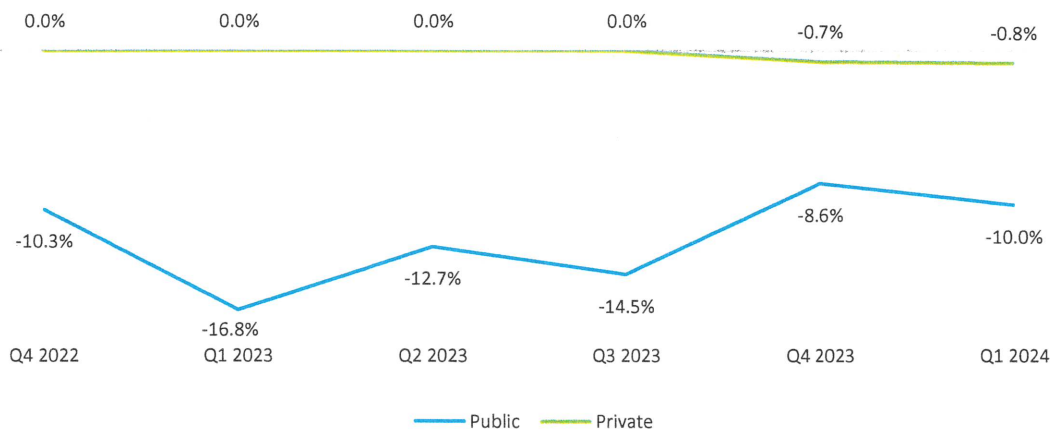
EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER⁽¹⁾⁽²⁾



⁽²⁾ For total programs.

Directors and officers liability (D&O) pricing remained favorable to buyers in the first quarter of 2024. Median pricing fell 10.0% for public companies and 0.8% for private companies (see Figure 10).

FIGURE 10: PRICING FOR D&O INSURANCE CONTINUES TO BE COMPETITIVE.



Source: Lockton P&C Edge Benchmarking Report, Q1 2024; median rate changes year over year shown



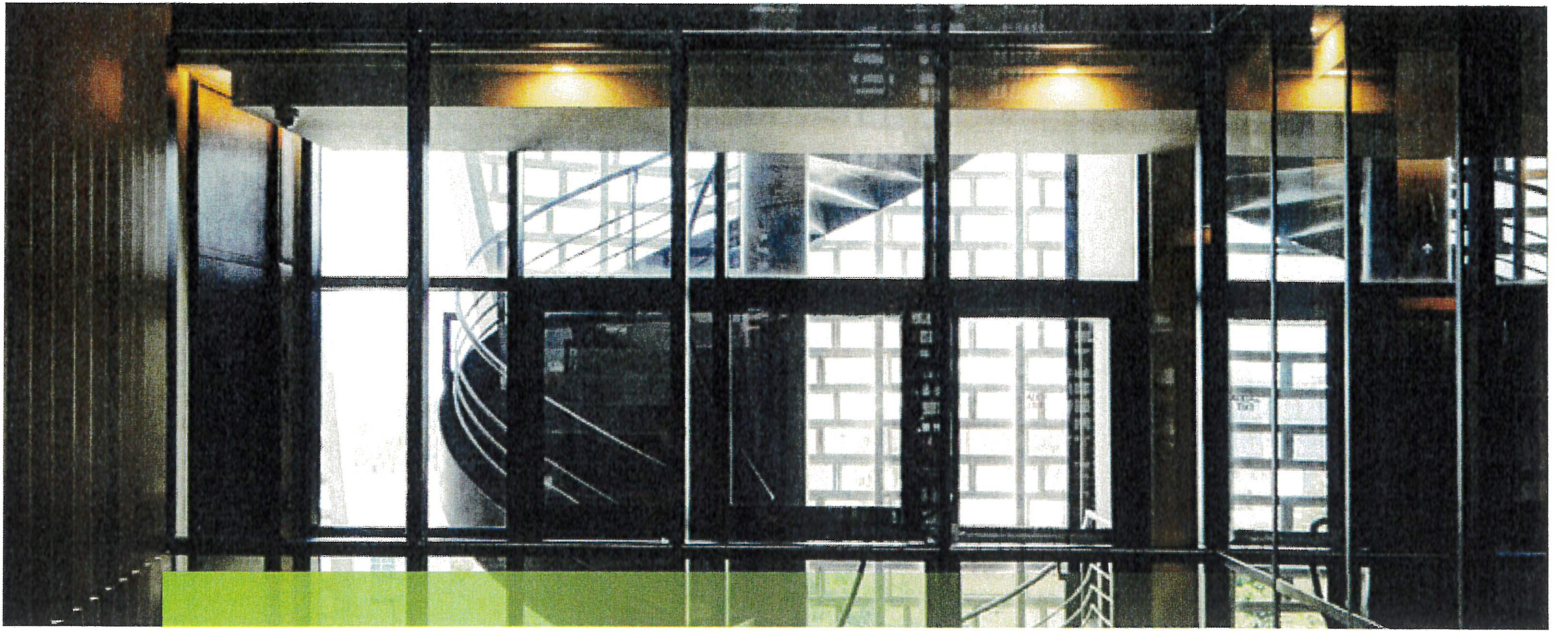
Public companies

The D&O market for public companies is generally leveling off, with pricing and retention adjustments becoming more limited. Capacity is still ample and rate decreases are available at renewal, but not to the same degree as over the last two years, as insurers more frequently hold the line on pricing.

Although insurers are still competing for new business, they are increasingly willing to walk away instead of dropping pricing even more than they have over the last two. Insurers on higher attachment points are increasingly seeking to quote primary coverage or drop down lower on programs, where pricing is not as commoditized.

Underwriters are scrutinizing de-SPAC renewals, companies' use of artificial intelligence, corporate debt levels and refinancing plans, and how businesses are approaching cybersecurity. In light of the Russia-Ukraine war and the conflict in the Middle East, insurers are also applying greater scrutiny to companies with potential exposures in those regions.

Available policy terms generally remain broad, although insurers are being cautious about granting entity investigation coverage, without significant additional premiums. And while the claims environment is generally stable, insurers are monitoring increasing enforcement activity by the Securities and Exchange Commission (SEC), including the commission's focus on AI washing and its recently implemented cybersecurity disclosure rules. Insurers are also monitoring Delaware stockholder agreement claims.



Private companies

The D&O market for private companies remains soft. Although median pricing changes in the first quarter of 2024 were not much different from the last several quarters, rate reductions continue to accelerate on an average basis, reflecting the frequency with which private buyers are now able to secure rate reductions at renewal that were not available a year ago.

Capacity is abundant, and carriers are aggressively competing on pricing, retentions, and policy terms. Incumbent carriers, notably, are requesting feedback on what they need to do to prevent marketing, which is creating opportunities for buyers to secure highly favorable terms.

Insurers are willing to go beyond adjusting pricing and retentions, and are also including broad form coverage enhancements to win deals. \$10 million limit deployments are returning to the market with regularity as carriers fight to maintain their market share.

Generally, private companies are able to secure expanded terms and conditions from underwriters. Insurers are increasingly open to reducing retentions, adding coverage for antitrust claims, and meeting more unique, client-specific requests to which they would not have been previously amenable. An exception is entity coverage for unicorn companies or privately held companies with more than \$3 billion in revenue.

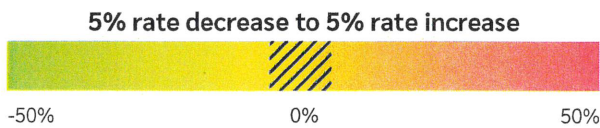
Underwriters are either completely pulling back from or applying greater scrutiny to certain pockets of the market, including for companies experiencing financial distress or in the healthcare and AI sectors. Buyers should expect more questions at renewal about violations of debt covenants, interest payments and the debt renegotiation process.

Insurers are monitoring state and federal regulatory activity related to AI along with new merger guidelines from the Department of Justice and Federal Trade Commission focusing on multisided platforms, which will likely draw greater scrutiny of private equity portfolio rollup platforms, especially in healthcare. Insurers are also mindful of the potential impacts the upcoming presidential election may have on tax structures.

EPL insurers competing for business

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER⁽¹⁾⁽³⁾

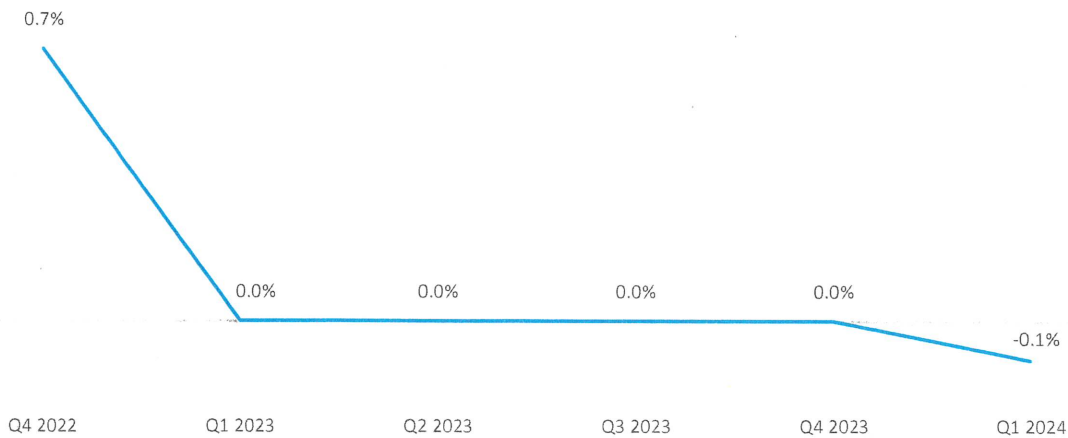
EMPLOYMENT PRACTICES LIABILITY



(3) For total programs.

Employment practices liability (EPL) pricing has changed little over the last year. In the first quarter, median pricing fell 0.1% (see Figure 11).

FIGURE 11: PRICING FOR EPL INSURANCE IS HIGHLY COMPETITIVE.



Source: Lockton P&C Edge Benchmarking Report, Q1 2024; median rate changes year over year shown

The market for employment practices liability (EPL) insurance is highly competitive, particularly for private companies purchasing coverage as part of a broader management liability package. Insurers are aggressively competing to meet new business goals, and are often willing to offer favorable terms to secure accounts.

Despite this strong competition, wage and hour (W&H) defense cost sublimits are becoming more difficult to secure in EPL policies. In the soft market, insurers freely added these in an attempt to win business. As the market has become more neutral, they have become scarce, especially in California and other jurisdictions seen as friendly to plaintiffs. (Employers can still purchase W&H coverage on a standalone basis.)

Insurers are also monitoring several legal and regulatory trends:

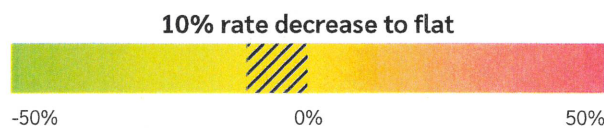
- As claims under the Illinois Biometric Information Privacy Act (BIPA) tick up, insurers are looking to better understand their potential exposure. Many are adding exclusions or sublimits for BIPA coverage.
- Underwriters are scrutinizing employers that are subject to California's new workplace violence prevention rules, healthcare and tech industry employers, and employers that are using AI to hire or screen job candidates, which could give rise to discriminatory claims.
- Insurers are watching for potential impacts from the Federal Trade Commission's recent action to invalidate noncompete agreements, which could be beneficial to insurers and policyholders. Carriers are also bracing for possible changes in workplace-related priorities following the upcoming presidential election.



Cyber rates falling, but warning signs emerging

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER⁽¹⁾⁽⁴⁾

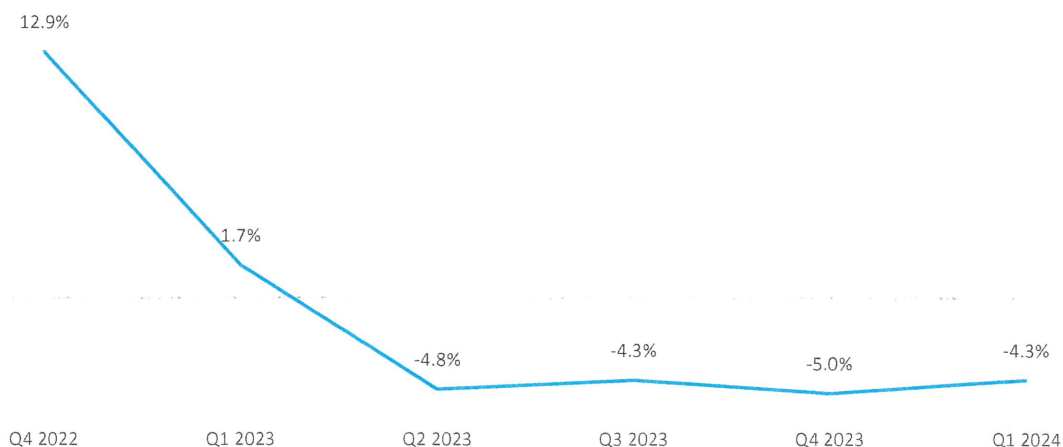
CYBER



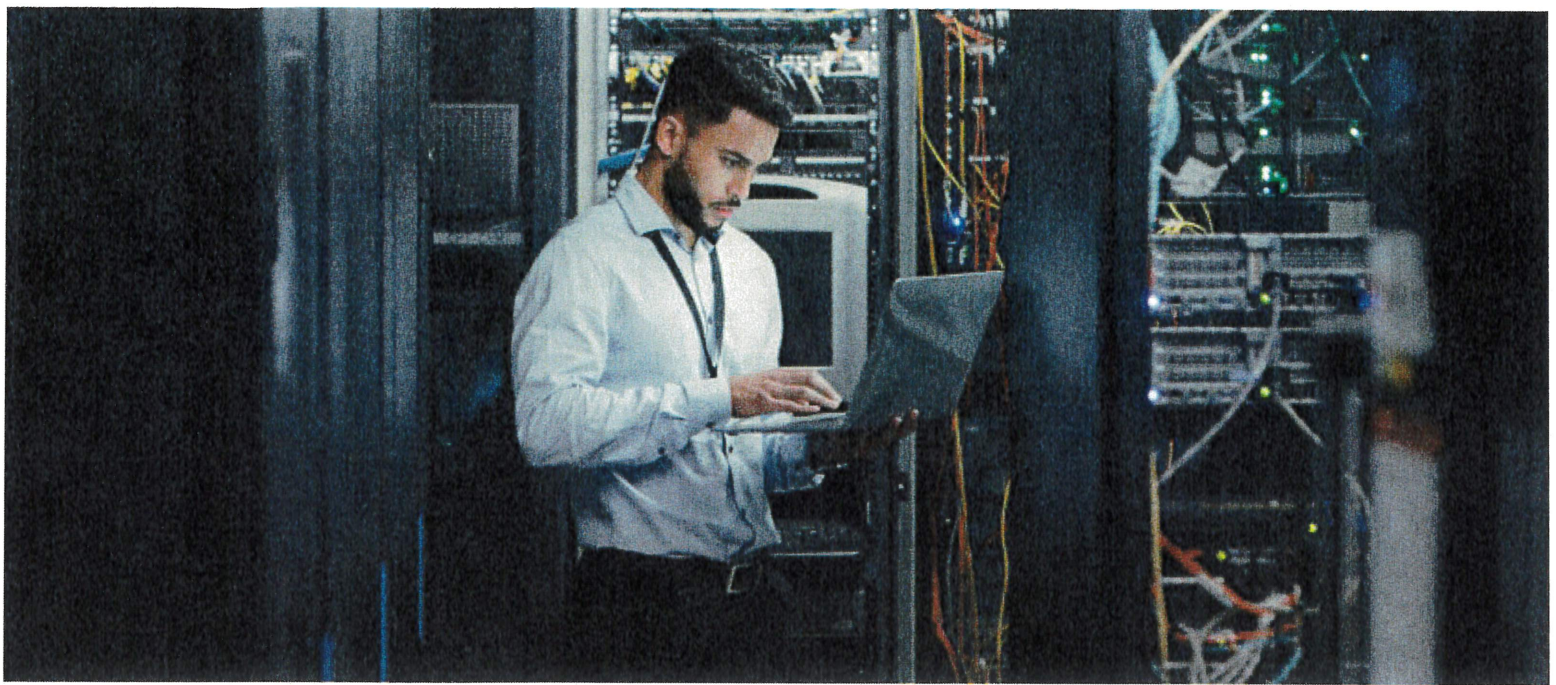
⁽⁴⁾ For total programs.

The cyber insurance market remains highly competitive and favorable to buyers. In the first quarter, median rates for total programs fell 4.3% (see Figure 12).

FIGURE 12: MEDIAN CYBER PRICING HAS FALLEN FOR FOUR CONSECUTIVE QUARTERS.



Source: Lockton P&C Edge Benchmarking Report, Q1 2024; median rate changes year over year shown



Buyers have benefited from strong capacity and competition over the last year. This has helped to limit insurers' ability to push for rate increases.

There are some indications, however, that we may be on the verge of a firming market as claims activity increases. Ransomware has long been a significant threat to businesses and insurers, but recent high-profile attacks — notably, in the healthcare sector — have attracted attention from Capitol Hill. Congress is now exploring new ransomware regulation, leading insurers to brace for new (and costly) regulatory requirements for companies following an attack.

Litigation risks, meanwhile, are growing, as is the threat of business email compromise. As the claims environment grows more difficult, some insurers are applying greater scrutiny to certain industries, such as healthcare. In fact, some are declining to write such risks altogether. Across all industries, insurers are also adding exclusions for potential risks related to pixels and other online tracking technologies.

Other insurers, however, are taking a different approach. Subject to satisfactory answers to underwriting questions, these insurers are:

- Updating language around non-data breach privacy and expressing their intent to provide coverage for wrongful collection of data;
- Offering affirmative coverage grants for legal fees associated with cyber incident reporting obligations arising out of the SEC's compliance and disclosure obligations for reporting such incidents; and
- Expanding definitions of security failure to include events where AI is identified as the root cause, and expanding language tied to fund transfer fraud to include fraudulent instructions transmitted through the use of AI technology, including but not limited to, deepfakes.

Cyber insurance buyers should work with their insurance brokers to effectively market their programs and consider various coverage options.



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