THE 2024 START OF YEAR REPORT

INSURANCE MARKETPLACE INSIGHTS AND OBSERVATIONS

Alliant

The More Rewarding
Way to Manage Risk

INTRODUCTION

The Insurance Marketplace Insights and Observations is the fifth state of the insurance market report produced by Alliant. The observations and commentary are gleaned from our industry-specific broking teams, in their own words, and are intended to reflect their individuality and ways of looking at their respective markets.

Navigating the challenging and ever-changing market requires a strategic plan within risk management departments. Some tips for Risk Managers to consider.

- Begin renewal discussions early with underwriters and share details about your risk management organization, culture, and processes.
- Endeavor to be organized and prepared.
- Start early on the renewal process.
- Stand ready to provide more detailed exposure information than has been requested or required in prior years.

As a result of the pressure, we expect from the market, we have included a special and now regular section to our report on Alternative Risk programs that could present viable solutions to clients looking for alternatives to traditional insurance.

As we observe and experience any significant changes in cost and capacity, we will also from time to time produce updated versions of the trend report to make clients aware of changing market conditions real-time.

Alliant. The More Rewarding Way to Manage Risk.

WHAT'S INSIDE

MARKET TRENDS BY PRODUCT LINE

PRODUCT LINE	PRICING	CAPACITY	RETENTIONS	COVERAGE
PROPERTY				
Challenged Exposures	▲🟥	◀▶🟧	◀▶🟧	◀▶🟧
Non-Challenged Exposures	▲🟥	◀▶🟧	◀▶🟧	◀▶🟧
Standalone Earthquake	▲🟥	▼🟥	◀▶🟧	▼🟥
Builder's Risk (Project Specific)*	▲🟥	◀▶🟧	▲🟥	▼🟥
Builder's Risk (Renewable Programs)*	▲🟥	◀▶🟧	▲🟥	▼🟥
Stock Throughput (Life Sciences)	◀▶🟧	▲🟩	◀▶🟧	◀▶🟧
CASUALTY				
General Liability	◀▶🟧	◀▶🟧	◀▶🟧	▼🟥
Automobile Liability	▲🟥	▼🟥	▲🟥	◀▶🟧
Workers' Compensation	▼🟩	◀▶🟧	◀▶🟧	◀▶🟧
Umbrella Liability	◀▶🟧	◀▶🟧	◀▶🟧	◀▶🟧
Excess Liability	◀▶🟧	◀▶🟧	◀▶🟧	◀▶🟧
Project-Specific/CIPS*	▲🟥	◀▶🟧	◀▶🟧	▼🟥
Subcontractor Default*	◀▶🟧	◀▶🟧	◀▶🟧	▼🟥
Pollution Liability*	◀▶🟧	◀▶🟧	◀▶🟧	▼🟥
MANAGEMENT & PROFESSIONAL				
Cyber	▼🟩	▲🟩	◀▶🟧	◀▶🟧
Directors & Officers Liability	▼🟩	▲🟩	▼🟩	◀▶🟧
Employment Practices Liability	◀▶🟧	◀▶🟧	◀▶🟧	◀▶🟧
Fiduciary	▲🟥	◀▶🟧	▲🟥	◀▶🟧
Fidelity/Crime	◀▶🟧	◀▶🟧	◀▶🟧	◀▶🟧
Representations & Warranties	▼🟩	▲🟩	▼🟩	◀▶🟧
Professional Liability*	▲🟥	◀▶🟧	◀▶🟧	▼🟥

*Denotes Construction-Specific Product Line

MARKET TRENDS BY PRODUCT LINE

PRODUCT LINE	PRICING	CAPACITY	RETENTIONS	COVERAGE
AVIATION				
Corporate	▲🟥	◀▶🟧	◀▶🟧	◀▶🟧
Charter	▲🟥	◀▶🟧	▲🟥	▼🟥
Owner-Flown	▲🟥	◀▶🟧	▲🟥	▼🟥
Commercial	▲🟥	▲🟩	▲🟥	◀▶🟧
Airports/Municipality	▼🟩	◀▶🟧	▲🟥	◀▶🟧
Products & Completed Operations	◀▶🟧	▲🟩	◀▶🟧	▲🟩
Aviation General Liability	▲🟥	▼🟥	◀▶🟧	▼🟥
Unmanned Aerial Vehicles (UAS)	▼🟩	▲🟩	▲🟥	▲🟩
LIFE SCIENCES				
Product Liability	▼🟩	▲🟩	◀▶🟧	◀▶🟧
E&O Liability	◀▶🟧	▲🟩	◀▶🟧	◀▶🟧

Color Key: As a buyer, is that movement positive, neutral, or something that could present a challenge during my renewal?

Positive Change 🟩
Neutral/No Change 🟧
Potential Challenge 🟥

Arrow Key: What direction are pricing, capacity, limits, deductibles, and coverage moving?

Increasing ▲
Stabilizing/No Change ◀▶
Decreasing ▼

CAPTIVES — PURE (ONE OWNER)

CAPACITY	◀▶	Capacity is driven by capitalization of a pure captive and a pure captive does not inherently transfer risk outside the organization. A pure captive can provide access to ART and reinsurance markets. Not all domiciles have reported, but captive demand remains strong. AM Best has reported strong reinsurer results which has translated into moderate improvement in reinsurance capacity for captives.
COVERAGE	▲	With the state of the property market in particular, captives are seeking more solutions to increased retentions, increased pricing, decreased capacity and in some cases an inability to find any limit for harder to place risks (CAT). Pure captives can directly write any commercial line of insurance and can reinsure any insurance, all subject to regulation of the specific domicile of the pure captive. Direct captive policy forms can be customized.
RETENTIONS	◀▶	Pure captive retentions are driven by capitalization of the pure captive, in coordination with retention optimization of lines on renewal, an overall risk financing strategy and organizational needs. We are seeing an increase in retentions, as we are not seeing material moderation in traditional insurance pricing, however alternative structures have allowed insurers to increase their retained risk with a higher-level protection.
PRICING	◀▶	Premium pricing for a pure captive is calculated based on an actuarial determination of expected losses of the insured. The pricing may be indicative of market pricing but may provide an opportunity for an insured to "bet on themselves" into the future. While there has been improved reinsurance capacity, there has not been corresponding pricing improvement.

CAPTIVES — GROUP (MULTIPLE OWNERS)

CAPACITY	▲	There continues to be growth in the group captive market. However, a group captive includes risk retention. Group captives' price their premium to target "good" risk –overpriced in the marketplace based on historical loss experience. We have seen some increased interest in group captives for contractors, while industries like trucking continue to struggle in the group captive space.
COVERAGE	▲	While group captives which can be accessed in the marketplace for nearly any traditional exposure, many group captives are not homogenous and typically include many insureds. There is an increasing trend to form more closely held group captives within specific industries and/or known parties. This allows for greater control and customization of programs.
RETENTIONS	◀▶	Group captive retentions have an element of customization available, however it depends on the specific group program, the insured's loss experience and the premium cost.
PRICING	◀▶	Group captives' typically target "good risk" which can result in a premium savings to the traditional market. Insureds having had adverse loss experience may not experience an expected cost savings and may be assuming more risk.

INTEGRATED AGGREGATES, REINSURANCE AND STRUCTURED PROGRAMS

CAPACITY	▼	There is a continued need to push more capital behind these programs as they are integral to risk financing as the industry moves forward in the coming years. Markets have significantly pulled back on integrated aggregate programs. Structured programs, which typically fit well into the low frequency, high severity risks (property risks), have seen some pullback which is in step with the rest of the property market all while we are seeing. increased interest in such programs from insureds with a strategic appetite for risk. Captive reinsurance has seen a tick up in capacity, however, as AM Best points out there is still significant undeployed capital. Another item we are watching very closely is the INSURE Act in Congress which proposes targeted federal CAT reinsurance, potentially backed by CAT bonds, which could utilize capacity limiting deployment to other ILS transactions.
COVERAGE	◀▶	Integrated aggregate and reinsurance programs focus on more predictable casualty lines and try to steer away from volatile lines and CAT exposures. The markets providing structured programs are less averse to the more difficult risks, however any programs will be designed with material retentions and premiums commensurate with the risk.
RETENTIONS	▲	Programs are facing increases in retentions that are permeating the rest of the industry. However, good risks can find a bit more amenable playing field.
PRICING	▲	Integrated aggregate, reinsurance and structured programs usually have higher attachment points and are designed to protect against the infrequent "adverse" event. Captive reinsurance premiums previously demonstrated some level of increase; however, they did not mirror the increases seen on the treaty reinsurance side. Increased capacity in the reinsurance structure has not resulted in meaning premium pricing relief. Structured programs are underwritten and priced individually, and there are increases in pricing due to the nature of risk being closely tied to property and the increases are expected to continue.

ALTERNATIVE RISK FINANCING

INSURANCE-LINKED SECURITIES (ILS)

CAPACITY	▲	The ILS, particularly CAT bond, market resulted in $16.4B of total issuance — beating the 2021 record by nearly $2.5B. The spreads for investors continue to increase, which is good for investors and attracting capital. Scale is highly relevant for most insureds considering accessing the ILS markets — entry cost, minimum premiums, finite and binary nature of the transactions all contribute to the need for larger programs. However, with capital continuing to be available and attracted, this could result in increased accessibility by corporate insureds. The markets need to continue to develop.
COVERAGE	◀▶	With a record $15B in 144A property CAT bond issuance and the first ever 144A cyber-CAT bonds, the increase in capital to the sector is allowing it to develop from a coverage and structure standpoint. The industry needs to continue pressing its needs for more creativity to develop in the ILS space.
RETENTIONS	◀▶	Retentions are going to be determined at the insured level prior to any ILS transaction. However, a higher retention by an insured could lead to a more marketable ILS issuance and improve pricing.
PRICING	▲	Due to increases in reinsurance and still high interest rates, spreads on ILS are at record highs. While this is good to continue attracting capital, it means the costs of ILS for insureds will continue to increase.

PARAMETRIC PROGRAMS

CAPACITY	▲	The parametric program market continues to develop, alongside improvements in insurtech and new entrants to the market looking to "disrupt." However, overall capacity continues to be low on a "per deal" basis and parametric programs are still sitting in more of a cash "expeditious" primary or deductible buydown position on larger CAT programs.
COVERAGE	▲	Parametric programs have expanded from the typical named windstorm, quake and wildfire covers to include hail, rainfall, drought, water level, wind yield loss, crop yield, frost, and "basic" weather programs (temperature, humidity, snow, etc.). Many of these programs will be utilized in conjunction with a captive for non-traditional and other business-related policies.
RETENTIONS	◀▶	There has not been significant pressure to increase retentions on parametric programs, however many such programs are tailor-made, so it is a bit more challenging to quantify retention pressure.
PRICING	▲	Parametric programs are unique by transaction and are priced that way. However, we saw claims paid in 2023. While this is good from a market credibility standpoint, it is likely to result in pricing increases.

AVIATION

RATE TRENDS	"LOW END"	"HIGH END"
Corporate	+0%	+10% Higher Limits
Charter	+10%	+15%
Owner-Flown	+10% Standard Limits	+15% Higher Limits
Commercial (Utility/External Load Helicopters, Heli-Skiing, EMS, ENG, Power Line Patrol, Chemical Spraying, Flightseeing/Tours, Firefighting, Alaska-Based, Over-Water/Off-Shore and Search and Rescue Businesses)	+10%	+15%
Airports/Municipality	-10%	+5%
Products and Completed Operations (PCO)/Commercial General Liability (CGL)	+0% +10%	+5% +25%+ (CGL Loss Sensitive on Severity & Frequency)
Drones/eVTOL's (Unmanned Aerial Vehicles)	0%	+2.5%
Helicopters	+5%	+10%

CAPACITY	◀▶	Is stabilizing but reinsurance treaties will eventually impact the market with increased cost for protection. The Russia/Ukraine situation will not become a factor until 2025.
COVERAGE	◀▶	War risk will be capped/aggregated and must be purchased separately in the market. Minimal reprieve on lost or reduced ancillary coverages now with some exceptions. Non-Pro/Owner Flown pilots are still encountering pushback/obstacles in the market. Helicopters remain a tough business segment regardless of use.
RETENTIONS	▲	Are stabilizing unless attritional losses dictate otherwise. Underwriters are focused on earned premium dollars rather than self-insured retention and deductible options. Drones are seeing an increase in deductible on higher insured values of ten to fifteen percent.
PRICING	▲	Moderate increases will prevail for the balance of 2024. March 1st, 2024, will start a new trend of 5% increases due to ongoing reinsurance pressures that take on renewals in Q1 and Q2 of 2024.

CASUALTY

RATE TRENDS	"LOW END"	"HIGH END"
General Liability	0%	10%
Automobile Liability	5%	30%
Workers' Compensation	-5%	5%
Umbrella Liability	0%	+15%
Excess Liability	0%	+10%
Project-specific/CIPs*	5%	40%
Subcontractor Default*	Flat	10%
Pollution Liability (Contractor's & Site Liability)	Flat	10%

*Denotes Construction-Specific Product Line

CASUALTY

CAPACITY	◀▶	Capacity is available for less complex risks. New insurer capacity entering the market is slowing down from the two prior years. Capacity is still constrained for difficult risks. Auto liability capacity is extremely limited due to rising claim frequency & severity, coupled with an uptick in Hired and Non-owned (delivery operations) losses. More insurers will restrict capacity or exit the marketplace, particularly in California and Florida.
COVERAGE	▼	Increased focus on clarifying or excluding chemicals, with Perfluoro Octane Sulfonic Acid and Per and Polyfluoroalkyl Substance (PFOS/PFAS) exclusions are being automatically attached to most accounts irrelevant to class. Biometric Information underwriting questions are being asked and exclusions added due to the increase in mass tort litigation. Continued increase in Abuse & Molestation, Assault & Battery, and wildfire exclusions. Per location coverage is limited, and territory restrictions due to various global conflicts will continue.
RETENTIONS	◀▶	ESG/climate risk concerns continue to be on the rise, which may impact insurer underwriting decisions. Retentions remain flat, however, attachment points should be analyzed and adjusted, if necessary, to ensure you are designing the optimally priced and structured program. Retention is linked to risk profile and type of risk, with loss history playing a key role in selection.
PRICING	▲	Third party litigation funding, social inflation, mass torts/class actions, nuclear verdicts, judgements for noneconomic damages (pain and suffering) and reinsurance charges are adding to claim cost volatility. Markets are concerned over rate adequacy and depletion of surplus. Although material rate changes have not been market sweeping, we anticipate the market remaining firm for Auto Liability (AL) and increasingly for General Liability (GL). Auto liability, especially fleets with heavy autos and poor loss experience will be forced to bear the greatest rate increases and evaluate adequacy of retentions. GL specific to premises exposures such as wildfire, high-hazard industries, tough products exposures, and habitational real estate will experience pricing pressures. Workers Compensation remains the most consistent profit generator for insurers. The market will remain competitive and stable for most classes, whether written on a guaranteed cost or loss sensitive basis. There is some caution built into the pricing of Umbrella (limited insurer competition) and Excess (more competition) business as loss costs and loss development continue to rise. Insurers continue to invest in data, analytics, and AI to gain competitive advantages. The quantifiable business impact they are seeking to achieve remains to be determined.

CYBER

RATE TRENDS	"LOW END"	"HIGH END"
Cyber	10%	15%

CAPACITY	▲	Insurers continue to offer $10MM+ for good risks. Total capacity, while not yet at pre-pandemic levels, is creeping back up and any one risk can obtain $400MM+. Certain industries (Energy, Manufacturing, Critical Infrastructure and Public Entity) are still considered elevated risk and are monitored more closely than others. As a result, these industries may not be able to obtain as much limit. MGAs continue to enter the cyber market, typically focused on small-and-medium sized enterprises.
COVERAGE	◀▶	Incumbents are willing to improve certain coverages and policy wording, while reducing premiums, to retain business. Coverage terms are improving for qualified risks; Increases for sub-limits in Social Engineering, Business Interruption, and Hardware Replacement are possible for companies with strong cyber resilience. Exclusions around Catastrophic and Systemic Risk along with more defined as well as specific language around website tracking (e.g., MetaPixel) and wrongful collection will be a focus for many insurers this year. War Exclusions continue to be added to new and renewal business both domestically and in London, although application remains inconsistent in the U.S.
RETENTIONS	◀▶	Most insurers are not pushing for higher retentions. Lower retention options may be available for additional premium. Underwriters determine retention based on revenue, industry, controls, and loss history.
PRICING	◀▶	Pricing has stabilized, is down slightly for companies with good controls, no losses, and comprehensive submissions. Some MGAs have noted expected increases this year, given claims activity in the market, though most increases are expected to come in under 10%. Excess pricing is generating more competition; ILFs more consistently in the low 70% range on excess towers. Pricing continues to vary based on controls, loss experience, and by insurer.

ENVIRONMENTAL

(SITE POLLUTION — PLL AND CONTRACTORS POLLUTION — CPL)

CAPACITY	▲	Although there have been some changes in leadership at several environmental insurers/divisions of insurers offering this line of coverage, and some new entrants, on balance the overall market capacity relative to domestic capacity has not materially changed.
COVERAGE	▼ ◀▶	Given recent loss history, uncertainty around regulatory scrutiny/standards for PFAS, redevelopment exposures and corporate attention to ESG considerations, carriers are vigilant towards new submissions and exclusions/term limitations are on the rise. 10-year terms for redevelopment projects are decreasing in availability. There no longer is a market for cost-cap/remediation stop loss. On the other hand, carriers continue to grow appetites for contractors' pollution, contractors' pollution + professional and combined general liability + site pollution.
RETENTIONS	◀▶	Remain unchanged. $25,000 is no longer widely seen.. $50,000 and $100,000 (depending on the exposure/risk) is more common. The premium price break is not significant between these retentions.
PRICING	◀▶	Year-over-year pricing is neutral to unchanged. At the low-end carriers are offering flat renewals to a high end of 10%-15% increases.

FINANCIAL INSTITUTIONS

SUB-SECTOR	PRIMARY MARKET APPETITE	VIABLE PRIMARY MARKETS
Mutual Fund and Investment Adviser	Strong	10+
Long/Short Equity Hedge Funds	Strong	10+
Multi Strategy Hedge Funds	Moderate	5-10
Private Equity Funds	Moderate	5-10
Community Banks < $25 Billion in Assets	Moderate	5-10
Insurance Companies	Moderate	5-7
FinTech	Moderate	5-7
Regional Banks > $25 Billion in Assets	Low	5-7
Mortgage Originators, Servicers, REITS	Low	Less than 5
Broker Dealers	Low	Less than 5
Crypto	Low	Less than 5
SPACs	Low	Less than 5

CAPACITY	◀▶	Anticipate that primary and excess insurance capacity will remain robust, yet stable in 2024. Current market capacity levels likely mean there will be displacement of some excess layer incumbents.
COVERAGE	▲	Changes to terms and conditions remain top-of-mind for insurers to maintain their market share as pricing (see below) starts to moderate in 2024. For Financial Institutions, the focus for underwriters' willingness to broaden coverage will be external factors impacting client-specific exposures, e.g., impact of regulatory actions on the sector (Cyber disclosure, ESG) as well as usage of AI, industry M&A, and even reputational risk.
RETENTIONS	◀▶	Underwriters seem to have paused their pursuit of higher self-insured retention amounts across most products and industry classes — the exception being Employment Practices Liability claims involving high wage earners and Fiduciary Liability claims involving fees and proprietary funds.
PRICING	▼	Pricing expectations are that 2023 new market entrants and aggressive insurer budget targets will result in continued pricing decreases for good risks with clean claims histories. Retaining business for incumbents will be the largest challenge this year — and pricing is the proverbial low-hanging fruit and first line of defense in maintaining position as primary or excess for client programs.

FORESTRY

CASUALTY

CAPACITY	◀▶	Capacity including coverage for wildfire and logger's broad form property damage continues to be scarce. There are very few domestic retail insurers willing to write forest products accounts. We continue to have support from the wholesale and London Marketplace as well as interest from Bermuda.
COVERAGE	▼	Underwriters are continuing to push for Wildfire exclusions and no logger's broad form. Additionally, on all casualty renewals insurers are attaching exclusions for Lead, Perfluorinated Chemicals or PFCs ("forever chemicals"), Biological Agents/Fungus, Total Pollution and adding restrictive Silica/Mixed Dust language.
RETENTIONS	◀▶	Retentions remain unchanged except for clients with poor loss histories. Clients receive no rate credit on the casualty side for taking higher retentions.
PRICING	▲	Pricing continues to be up but not as dramatically as the past few years. General Liability rates are ranging from 3-5%, Auto 8-10% and Umbrella/Excess are +10-15% for the entire excess tower.

PROPERTY

CAPACITY	▼	The retraction in available global market capacity for Forest Products continued throughout 2023, led by domestic insurers either reducing deployed line sizes or exiting the Class entirely due to industry losses. The London market remains a robust supporter of Forest Products renewal business with Lloyds typically writing majority share of working layers.
COVERAGE	◀▶	Underwriters appear to have established a comfort level in the policy form languages that are currently in force, as significant changes to terms were not the norm in 2023. However, where Insureds are unable to satisfy underwriter's need for quantification of renewal exposures, the imposition of new Margin Clauses may still be imposed on a case by case basis.
RETENTIONS	◀▶	Base policy deductibles remaining unchanged for accounts with favorable loss experience. However, fringe deductibles that are traditionally much smaller that the base deductible are seeing upward pressure.
PRICING	▲	Following multiple renewal cycles of large rate increases, numerous buyers in 2023 opted to self-insure specific layer/participations where individual insurer pricing was beyond the balance of the market. This behavior could signal the exceedingly early signs of a reversing market cycle. With a reinsurance marketplace outlook that is forecasting more premium stability for insureds in 2024, there is optimism that the rate at which premiums are increasing will begin to slow.

HEALTHCARE

RATE TRENDS	"LOW END"	"HIGH END"
Primary HPL — Hospital Health System	5%	15%
Excess HPL — Hospital Health System	5%	20%
Allied Health	3%	10%
Physicians	3%	10%
Senior Care — Skilled Nursing Facilities	0%	+20%

CAPACITY	◀▶	Insurers continue to limit HPL/excess capacity, but new market entrants have offset limit restrictions. Some markets have withdrawn or taken a more conservative approach for Children's hospitals. However, there is adequate capacity to complete the excess towers for all lines of insurance for most healthcare systems.
COVERAGE	◀▶	Insurers continue to express concern on claims alleging sexual misconduct, but insureds can avoid absolute exclusions with a robust reporting and compliance process.
RETENTIONS	▲	The increasing frequency of nuclear judgements and settlements is increasing the working layer of expected loss and resulting in some excess carriers requiring higher underlying retentions to bind and quote coverage. Auto liability underlying attachment points are being monitored by excess markets.
PRICING	▲	Rate trends are up for HPL and excess liability due, in part, to the continued emergence of multiple nuclear verdicts (those excess of $10M) and high life care plans.

LIFE SCIENCES

RATE TRENDS	"LOW END"	"HIGH END"
Product Liability	-15%	5%
E&O Liability	-5%	5%

CAPACITY	▲	Market growth has increased overall capacity. Insurers continue to limit their per risk capacity.
COVERAGE	◀▶	Insurers are further limiting their exposure to potential mass tort situations (e.g., opioid, weight loss drugs). Insurers seeking market share more likely to be flexible.
RETENTIONS	▼	Competitive market providing opportunity for decreases.
PRICING	▼	Competitive market continues to offer rate reductions.

CONTRACTOR'S PROTECTIVE PROFESSIONAL LIABILITY

CAPACITY	▲ ◀▶	There are ~30 carriers that write CPRL with varying levels of target appetite and most having at least $10M in limits available. Several carriers with sizable capacity are selectively releasing and are reserving Project-Specific capacity only for existing insureds. There have been several new entries into the market and one exit over the past few months. Residential 'for-sale' construction in Southeast remains the most challenging for capacity and market appetite. Structural, geotechnical, process-engineering, and large civil projects inclusive of bridge work are challenging capacity.
COVERAGE	◀▶	Deeper underwriting review on non-traditional delivery methods, especially for Rectification/Mitigation Coverages on large scale projects requesting multiple parties be insured on one policy, continues to be a challenge. Depending on risk factors, some coverage parts are being sub limited whereas in the past full policy limits were available. However, no real material change to coverage terms and conditions is expected across market.
RETENTIONS	▲ ◀▶	Retentions remain in a similar pattern (flat) for Middle Market risks. Larger insureds are electing higher retentions to lower premium. Higher attachment points expected on Project-Specific policies for large projects. Retentions for insureds with losses are pushed higher by underwriting guidelines.
PRICING	▲	The new "flat" for insureds with clean loss history is a 0-5% rate increase. Insureds with material changes to delivery methods, project mix, or geography in year-over-year review could assume 5-9% rate increases, even with no losses. Insureds with losses could assume 10-25% rate increases. Market competition should create cost savings on renewals and offer some rate relief.

REPRESENTATIONS & WARRANTIES

CAPACITY	▲	M&A activity remains historically low, with total deal value not hitting $3T for the first time since 2013 according to most sources. This slowing is driven by lingering concerns over high interest rates, geopolitical events, and potential headwinds in the overall economy. While both new entrants and hiring by existing insurers have slowed over the course of 2023, there remains significantly more capacity in the market than there are deals to Underwrite, and yet this is still set against a claims backdrop whereby more claims were made, and paid, over the past 24 months.
COVERAGE	◀▶	In light of the increased competition for deals against a still depressed M&A market, coupled with brokers' consistent advocacy, insurers continue to seek differentiation in their terms by limiting deal-specific exclusions and purchase agreement commentary, as well as loosening underwriting in industry and asset classes that historically have been out of appetite for certain carriers (e.g., healthcare, subsets of energy, and financial services — including insurance companies and fintech).
RETENTIONS	▼	Increased competition has continued its downward pressure on retentions as insurers' efforts to win new business intensify. It is now universal that sub-1% retentions are available on all deals, regardless of size (some going as low as 0.5%) and industry class, broadly speaking. It remains to be seen what will happen to retentions — particularly on smaller deals — when M&A activity rebounds.
PRICING	▼	Although pricing has continued to soften, the rate at which it has done so has decelerated and it is anticipated that rates will bottom out at around +2.5%, absent a sustained and meaningful rebound in M&A activity. The rate bump typically seen in the fourth quarter did not materialize in 2023 given the typical year-end M&A surge was not significant enough to offset excess capacity.

CAPACITY	▲	Continued increase in competition, particularly on excess and Side A. Insurer Restrictions Based on select business classes and/or claims experience continue.
COVERAGE	◀▶	Coverage Remains Broad and Consistent on Private and Non-Profit D&O policies. Restricted Coverage for Negative Loss Experience & Financially Distressed Risks. Retention levels remaining consistent in 2024 for similar risk profiles year over year.
RETENTIONS	◀▶	Client's growth will be largest factor in maintaining existing retentions. Carriers continuing to apply higher retentions for mass/class actions and Anti-Trust Claims.
PRICING	▼	Primary pricing improving with rates averaging between flat and 5%. Excess pricing remains highly competitive.

PRIVATE COMPANY MANAGEMENT LIABILITY AND NONPROFIT MANAGEMENT LIABILITY

CAPACITY	◀▶	Primary Insurers Continue to Expand Appetites in most industry classes. Insurer Restrictions Based on select business classes and/or claims experience continue. Market Capacity for Excess remains flush. Minor Decrease in Underwriter Scrutiny & Information Requirements.
COVERAGE	◀▶	Coverage Remains Broad and Consistent on D&O/EPL/Fiduciary/Crime Insurance Programs. Restrictions in coverage are limited to those risks facing unique exposures (such as bankruptcy, anti-trust, specific geographic international operations, and certain professional services). Restricted Coverage for Negative Loss Experience & Financially Distressed Risks.
RETENTIONS	◀▶	In most cases, retention levels are remaining consistent in 2024 for similar risk profiles year over year. Certain adjustments are being made depending on growth, debt position, industry class, and claims experience. Many insurers have begun to apply specific, higher EPL retentions to claims brought by employees whose total annual compensation exceeds a specific dollar amount (generally $100,000 to $150,000). Depending on geographic location and employee count, insurers may also utilize specific, higher retentions for class action claims or claims brought in a specific state (most commonly CA, NY, NJ).
PRICING	◀▶	Hard market has subsided, and premiums have stabilized because of carrier competition. Expecting to see renewal premiums closer to flat, with greater pricing competition in marketplace overall. Management Liability Program Pricing changes: -5% - +5%.

DIRECTOR & OFFICER LIABILITY

PUBLIC COMPANY

CAPACITY	▲	Competition remains vibrant, especially for excess positions in layered programs. Carriers are hinting at an end to price reductions but that has not been realized yet.
COVERAGE	◀▶	Carriers are improving coverage on the margins of existing forms and products. Certain, newer forms are expected on the market soon which will expand how D&O insurance can respond to claims.
RETENTIONS	◀▶	Carriers continue to try and balance limits deployed against retention. Carriers interested in new primary opportunities are offering lower retentions to try and win market share.
PRICING	▼	Market for public D&O continued to see lower prices for renewals throughout 2023. Multilayered programs saw the largest decreases, with smaller-sized towers modest (i.e., single-digit) decreases.

FINANCIAL INSTITUTIONS

MARKET UPDATE

CAPACITY	◀▶	Anticipate that primary and excess insurance capacity will remain robust, yet stable in 2024. Current market capacity levels likely means there will be displacement of some excess layer incumbents.
COVERAGE	▲	Changes to terms and conditions remain top-of-mind for carriers to maintain their market share as pricing (see below) starts to moderate in 2024. For Financial Institutions, the focus for underwriters' willingness to broaden coverage will be external factors impacting client-specific exposures, e.g., impact of regulatory actions on the sector (Cyber disclosure, ESG) as well as usage of AI, industry M&A, and even reputational risk.
RETENTIONS	◀▶	Underwriters seem to have paused their pursuit of higher self-insured retention amounts across most products and industry classes — the exception being Employment Practices Liability claims involving high wage earners and Fiduciary Liability claims involving fees and proprietary funds.
PRICING	▼	Expectation that 2023 market entrants and aggressive carrier budget targets will result in continued pricing decreases for good risks with clean claims histories. Retaining business for incumbents will be the largest challenge this year — and pricing is the proverbial low-hanging fruit and first line of defense in maintaining position as primary or excess for client programs.

EMPLOYMENT PRACTICES LIABILITY

CAPACITY	◀▶	Capacity remains plentiful in the United States and Bermuda following past cutbacks, although certain jurisdictions remain troublesome for insurers.
COVERAGE	◀▶	Coverage offered remains broad; however, insurers are leery of the potential for cutbacks and resultant claims.
RETENTIONS	◀▶	While they have stabilized, certain risks are still seeing upward pressure on retentions. The market continues to apply separate retentions for California claims, class actions and for “highly compensated” employees.
PRICING	◀▶	Pricing is modestly improving for Insureds. Similarly, to D&O, insurers are cutting rates to try and win business for existing insureds with favorable track records.

FIDUCIARY LIABILITY

CAPACITY	◀▶	Insurers monitoring deployed capacity. Now layered programs are built in smaller blocks, adding incremental cost.
COVERAGE	◀▶	Coverage is broad; but the application of certain standards of retentions makes accessing said cover a taller hurdle.
RETENTIONS	▲	Retentions are now stable for most classes of business as insurers have gone through two cycles of increasing retentions on their renewals to address continued exposure to excessive fee claims.
PRICING	▲	Pricing continues to trend negatively, but not as severely as prior renewal years. Insurers still view this line as under priced relative to total limits deployed and seek to gain greater balance.

CRIME

PRIVATE COMPANY MANAGEMENT LIABILITY

CAPACITY	◀▶	In general capacity remains stable. Some Primary Insurers expanding their Appetite and offering higher limits in some instances to attract or retain business. Market Capacity for Excess is readily available. Underwriting more flexible as carriers seek to write new accounts; larger more complex accounts continue to get more scrutiny.
COVERAGE	◀▶	Coverage Remains Broad and Consistent for crime in general. Greater frequency of social engineering claims continues to impact the industry with underwriters generally seeking additional underwriting for this exposure; capacity to entertain high limits of social engineering varies significantly Ability to secure excess social engineering has improved.
RETENTIONS	◀▶	In most cases, retention levels are remaining consistent in 2024 for similar risk profiles year over year. As revenues and complexity of insureds increase underwriters seeking higher retentions. Social engineering retentions may be higher than other retentions depending on the risk and limits being offered.
PRICING	◀▶	Given the capacity and desire of most underwriters to grow this book we anticipate flat pricing for most accounts. Excess capacity being ample excess pricing should be flat or down 5%.

PROPERTY

RATE TRENDS	"LOW END"	"HIGH END"
CAT Property with Poor Loss History or Risk Quality	20%	>20%
CAT Property with Good Loss History or Risk Quality	10%	20%+
Non-CAT Property with Poor Loss History or Risk Quality	15%	20%+
Non-CAT Property with Good Loss History or Risk Quality	5%	10%

CAPACITY ◀▶

1/1/2024 Treaty Renewals were more orderly and stable due to increased availability of capacity. However, treaty underwriters still practiced underwriting discipline.

Most insurers are messaging that the re-underwriting of their books is complete, and they will be looking to maintain line sizes from 2023. Many carriers are reporting an increased appetite for new business in 2024.

Difficult geographies (California, Florida, and Texas) should expect to continue to face some challenges, particularly those Insureds that have sustained losses in recent years.

There are limited new insurer entrants for 2024 with many experts anticipating a need for at least one additional year of profitability before investor capital expands into the Property (re)insurance market.

Excess layers on large programs may continue to be toughest to find capacity but should be more readily available than in the previous year(s).

COVERAGE ◀▶

Following years of limit reduction(s) as part of larger book re-underwriting and limited reinsurance capacity, many insurers are not reducing coverage limits for 2024.

On select accounts, natural catastrophe coverage will continue to undergo scrutiny.

Valuations remain topical for all Insureds. Carriers expect for insureds to have a proactive valuation narrative and philosophy. Ideally, insureds can demonstrate that there is a valuation process in place that ensures valuations will continue to be appropriately adjusted over time, most preferably via a 3rd party appraisal firm.

Without a compelling narrative or adequate valuation metrics, expect carriers to again push for Occurrence Limit of Liability or Margin Clause provisions (even with valuation increases/trending).

RETENTIONS ◀▶

Following years of cat and non-cat deductible increases, many insurers are finally putting less pressure on retentions.

Exceptions to this include insureds that continue to report attritional loss activity. Insureds will look to correct this by increasing All Other Perils retentions, especially for Water Damage.

In the same vein, CAT-deductibles which have not been re-underwritten or adjusted recently will be reviewed.

Severe Convective Storm and Winter Weather losses that hit the industry hard in recent years will continue to be singled out as perils that could require a separate, increased retention.

PRICING ▲

Pricing (and more broadly, overall renewal results) will be very dependent upon individual loss experience, industry class, carriers' viewpoint of the specific account's rate adequacy and changes that have been implemented at the account level.

Rate increases will continue to be the norm for 2024, albeit not near the levels we saw in 2023.

Carriers are eager to work with insureds to restructure/layer programs to avoid "trading dollars" and want to reward those buyers that are making efforts to put more "skin in the game" which should lead to greater long-term rate and pricing stability.

REAL ESTATE & HOSPITALITY

CAPACITY ▲

Property capacity is increasing for many real estate risks.

Some estimates indicate global Property capacity will increase by 10% in 2024.

Accounts in challenged asset classes and/or with poor loss experience may need to make concessions about deductibles and program structure to gain interest from the marketplace.

Brokers and insureds should aggressively market renewals based upon clearly defined strategies.

COVERAGE ◀▶

Property coverage remains stable and consistent.

Casualty risks for certain asset classes and geographies continue to face more restrictive coverage (assault & battery, the State of Georgia, etc.).

It remains critical for non-concurrencies to be identified and fully understood prior to binding.

RETENTIONS ▲

Insureds continue to face pressure to accept higher Property deductibles for AOP, water damage, flood and/or convective windstorm/hail.

Percentage deductible increases for CAT exposures have not materialized to the degree some anticipated following increases to reinsurance retentions in 2023.

PRICING ◀▶

2024 should be a year of Property rate stabilization for many real estate accounts.

Casualty rates are stable in most instances.

Deductible levels should be measured against loss experience to ensure attritional activity does not adversely affect renewal pricing, coverage terms, and/or available capacity.

INDUSTRY PERSPECTIVES

The Insurance Marketplace Insights and Observations is the fifth state of the insurance market report produced by Alliant. The industry perspectives and commentary are gleaned from our industry-specific broking teams, in their own words, and are intended to reflect their individuality and ways of looking at their respective markets.

INDUSTRY ISSUES

The agriculture and food industry continue facing a number of challenges, which include: water scarcity, labor costs, logistic challenges, rising input costs, and environmental issues. Water resources are becoming increasingly scarce in some regions, which could lead to government-imposed caps on water usage for agricultural companies.

In Western United States, the short-term water outlook improved dramatically after record amounts of snow and precipitation in many areas in 2023. Reservoirs are close to full, and the concern has turned from too little to too much water with mandatory releases causing flood damage to crops and even some towns. This has not changed the regulatory regime facing the industry long term, forcing major changes in agricultural land use and irrigation water decisions. Will the pattern of sustained drought years continue.

Labor costs continue to rise, putting pressure on agricultural businesses. The global supply chain has normalized since the 2020-2023 headwinds, which has eased backlogs and made it easier to export agricultural products and import inputs, parts, and equipment. A key environmental issue is if removing dams in Washington, Oregon, and California could further constrain the ability of agricultural businesses to move product by barge.

Every five years, Congress passes legislation that sets national agricultural, nutrition, conservation, and forestry policy through the Farm Bill. In November 2023 Congress voted to extend the 2018 Farm Bill through September 2024. This major piece of legislation has major impacts on farming and the food chain, including crop insurance and how those programs are funded.

INDUSTRY OUTLOOK

The insurance industry is in the middle of hard-cycle especially in property and product liability lines. In the agribusiness space some of the smaller insurance companies and mutuals have severely reduced their capacity or all together have left the space.

Additional constraints are evident from carrier rating issues and limited capacity for difficult risks. The industry is challenged across the board. For example, in property placements are now commonly completed through shared and layered programs even on small-middle-market placements. Only a couple of years ago monoline carrier placements were the standard for 99% of our clients.

FACULTATIVE REINSURANCE IS NECESSARY ON MOST PLACEMENTS THUS PUTTING PRESSURE ON CLIENTS TO BETTER UNDERSTAND THEIR RISKS THROUGH RISK ENGINEERING AND REGULAR APPRAISALS.

One of the few bright spots that we have noticed is that in lower-risk jurisdictions or occupancies, some carriers have improved limits, terms, and conditions for better than average risks.

Because of the current market, alternative risk transfer methods, such as single parent captives, group captives, and structured programs continue to be utilized effectively. These alternative structures have been especially attractive for accounts with superior loss history and good operational controls.

Liability Insurance Outlook

Overall, the liability insurance market continues to stabilize from the 2019-2022 rate increases. However, insureds must be prepared for the possibility of rate increases and higher retentions as profitability of other lines of insurance affect insurer's ability to compete.

Mid-excess layers are more competitive than they have been in the last 5 five years with some new entrants into the space. Rates for lead umbrella layers continue to increase as auto losses mount and effective reinsurance becomes unavailable. The remainder of excess towers are seeing single- digit increases.

Primary general liability limits have generally increased. Attachment points for excess programs remain elevated. New capacity entering the market is limited to specialty areas. Insurers are increasingly excluding emerging liabilities such as PFAS and biometric privacy risks from general liability policies.

Implications for Buyers

Buyers of liability insurance will see flat to high- single-digit rate increases. Automobile Liability rates will be very challenging especially for large fleets and fleets with heavy units, with rate increases in the low to mid-teens common place. Retentions and attachment points will most likely remain elevated. Buyers should consider excluding emerging liabilities from their coverage.

Property Insurance

Continues to see limitations across the board. Insurer profitability has improved in 2023 and additional capacity is being deployed in comparison to last year's very tough market.

Overall, the property insurance market is seeing lower volatility, with rates increasing in single digits. in response past natural catastrophe losses. Brokers should prepare property insurance buyers by continuing to address insurance to value and risk engineering recommendations.

THE AVERAGE ANNUAL COMMERCIAL INSURANCE PREMIUM SHOULD SEE RATE INCREASES FROM FLAT TO LOW-SINGLE DIGITS FOR NON-CAT EXPOSED CLIENTS TO LOW DOUBLE DIGITS FOR CAT EXPOSED LOCATIONS WITH LOW INSURANCE TO VALUE RATIOS. INFLATIONARY PRESSURES AND NATURAL CATASTROPHE LOSSES CONTINUE TO BE THE MAIN DRIVERS OF INCREASES.

Summary

Insurers continue to earmark Food and Agribusiness property as "high hazard" and a "tough class" due to very challenging loss history and poor experience in the line. Retentions and attachment points will remain elevated. Insurers in some cases are mandating scheduled limits, margin clauses, and/or Co-insurance.

AVIATION

INDUSTRY ISSUES

As COVID-19 has receded the insurance implications remain. Conditions are improving for Aviation related insureds moving into 2024. Beginning in 2020 through the end of 2023, over thirty-five significant losses were categorized as major loss events more than $1M. Several awards also exceeded $100M including a recent rotor-wing loss settlement with an original equipment manufacturer have made a significant impact to the market.

REINSURANCE CONTINUES TO BE A POINT OF CONTENTION AS MOST AVIATION INSURERS EXPERIENCED 50%-150% INCREASE IN THEIR REINSURANCE PROTECTIONS DUE TO POOR UNDERWRITING RESULTS AND NATURAL DISASTERS HAVING A SIGNIFICANT IMPACT.

Some business sectors are likely to incur greater increases in their insurance premiums at renewal due to either attritional loss activity or an uptick in both high frequency and high severity loss events. Such segments include FBO's/Ground Handlers, Commercial Aircraft/Helicopter Operators and EVTOL's (Electric Vertical Take Off and Landing).

Another contributing factor to loss ratios is the rising costs for claims management. The market has not addressed this to date, although sources indicate that a correction is forthcoming.

Finally, as inflation increases, it has a nullifying effect on profitability. Actuaries are playing a significant role with most underwriting facilities by assessing risk and exposures, reasonable rates on return, and analytical/catastrophic modeling.

Each of the major aviation segments, including Airlines, Products Manufacturers/Suppliers, and General Aviation, has unique characteristics that blend to create a very dynamic marketplace.

Trunk carriers (passenger or cargo), regional operators and charter companies make up the Airlines segment. This segment has had one of the safest accident records over the last few years. Despite this, underwriters are barely making a profit due to attritional loss activity, which has meant pricing in this segment is not stabilizing.

Furthermore, new capacity has entered the market both domestically in the United States and internationally in the London Market, putting downward pressure on rates and premiums. Negative changes to the loss experience for products manufacturers/suppliers is the result of billions in losses from aircraft groundings and other frequency events.

General Aviation is seeing a resurgence in rates, but recent claims activity has caused pause and reflection on how to remain writing in the sector profitably. Insurers are focused on adequate insured values to be kept in check during a competitive used and new aircraft market. Aviation manufacturers, airports, drones, and workers compensation products continue to be the most competitively priced Aviation risks, Owner flown turbine aircraft and rotor-wing placements continue to be the more challenging placements.

While the specialty insurance sector for Aviation is improving, we remain hopeful for conditions to improve for insureds as competition for profitable business continues to grow. We await a clearer picture of the resulting impact of the resurgence in Boeing MAX groundings, nuclear verdicts/settlements, and nationalized airline type aircraft in Russia.

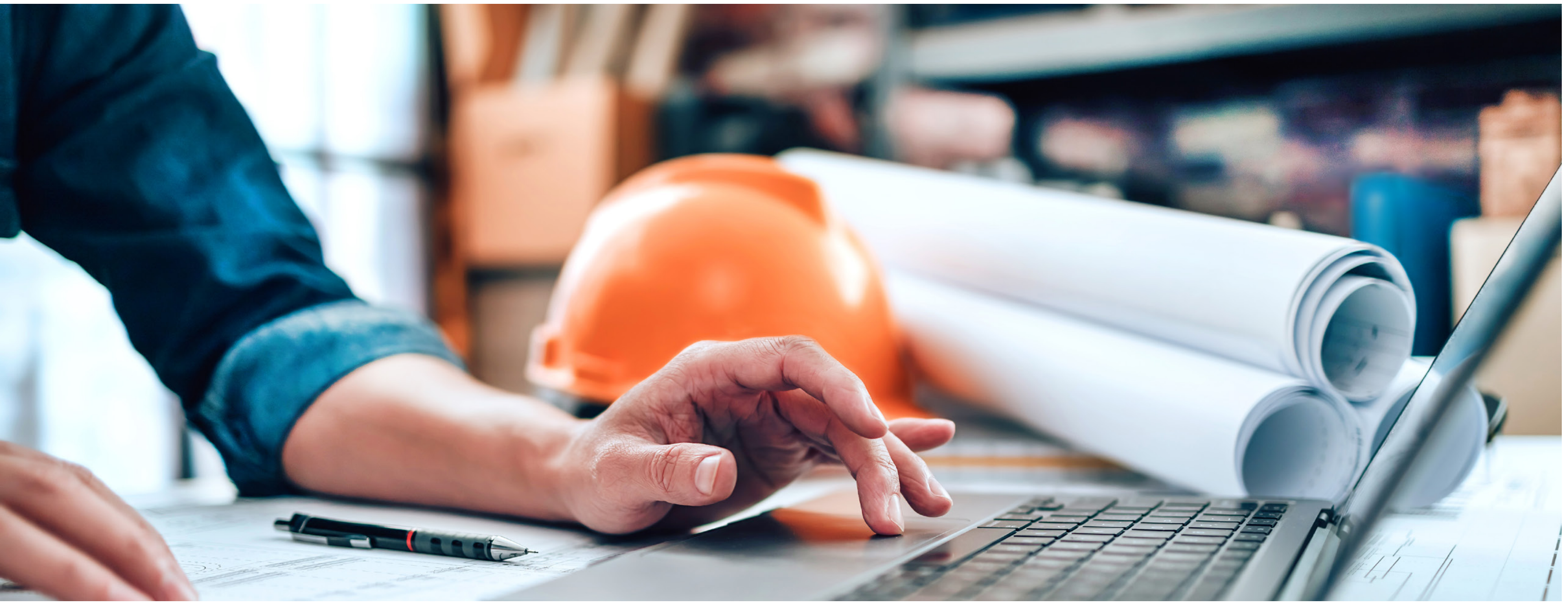
INDUSTRY OUTLOOK

The aviation insurance market continues to demonstrate resilience even as technology, socio-economic, political, and legislative factors continue to change the underlying risks facing the aviation industry.

New macroeconomic challenges impacting the sustainability of the Aviation industry include inflationary pressures, supply chain issues, and rising interest rates. Safety impact will be an area of renewed focus as the talent shortage puts pressure on operators with varying talent levels.

THE CHALLENGE REMAINS FOR UNDERWRITERS TO FOLLOW STRINGENT UNDERWRITING PROTOCOLS COMBINED WITH DATA AND ANALYTICS TO BALANCE BUSINESS DECISIONS AGAINST THE MARKET NEEDS.

Clients that outline clear underwriting information, details of their risk, and consistent safety risk management directives are receiving the most competitive rating structure as increased capacity levels come into play. Have early engagement with your agent on the renewal process to ensure this is a reality.



CONSTRUCTION INDUSTRY OUTLOOK

As the U.S. economy continuous to defy a recession cautious optimism is the sentiment at most construction firms for 2024. There are expectations that the funds associated with the Infrastructure Investment and Jobs act, Inflation Reduction Act, and the Creating Helpful Inceptives to Produce Semiconductors will flow into the industry further buoying certain sectors such as civil infrastructure, industrial manufacturing, and sustainable energy projects. These sectors will continue the trend of mega projects in the U.S. which is expected to continue and accelerate.

Increased interest rates and saturated supply has led to a more pessimistic view for certain sectors including multifamily residential and industrial warehouses sectors. Said slowdown is anticipated to begin in H2 of 2024 with increasing severity into 2025.

> **VOLATILE SUPPLY CHAINS AND A SKILLED LABOR SHORTAGE ARE HEADWINDS CONTRACTORS ACROSS INDUSTRY SECTORS WILL FACE. THOSE FIRMS WITH ESTABLISHED RISK MITIGATION PLANS FOR THESE EFFORTS WILL BE BEST POSITIONED TO TAKE ADVANTAGE OF THE INFLUX OF FEDERAL CAPITAL.**

Large construction and infrastructure shops are continuing to develop and implement technology strategies across their operations including the deployment of advances in artificial intelligence. A recent Deloitte survey cites that 55% of chief operating officers had indicated that the main barrier to creating business value with artificial intelligence was identifying the right use cases. These executives noted concerns around cyber risk, data security, and lack of trust. To combat this concern the survey notes that industry leaders are exploring a human-in-the-loop concept that requires the involvement of highly skilled individuals to carry out tasks such as fact-checking, in-depth analysis, and understanding the complex details needed for each construction process.

CONSTRUCTION INSURANCE MARKET OUTLOOK:

Property

January 1, 2024, reinsurance renewals yielded flat to moderate increases. These are at the elevated levels stemming from the market correction seen in 2023 so clients will not see continued increases but stabilized prices higher than a 3–5-year historical view.

The builders risk market has sufficient capacity, although this capacity can be restricted based on location/CAT exposure, project size and type of construction. Projects that involve innovative technologies, alternative construction methods or materials (such as modular or CLT) and those exposed to natural disasters may encounter resistance from the marketplace and be subject to more stringent terms and conditions.

Water damage losses continue to plague the industry and are a major loss driver/challenge to the market. Increased water damage deductibles can be anticipated, especially on high-rise, residential and wood frame projects.

Project extensions continue to be a lagging impact from the pandemic. Increased rates and deductibles, in addition to possible restrictions in coverage, are being levied against insureds when extending coverage.

The builders risk space saw its first ruling with respect to LEG III cover. As highlighted in SDV's Top 10 Cases of 2023 the court cited Illinois law and determined that the "honeycombing and voiding" of the concrete did constitute damage, which the court defined as a "detrimental change in the condition of the insured property." The District Court found the LEG 3 language ambiguous as far as it was unclear whether the damages sought to rebuild the faulty components constituted an excluded "cost incurred to improve the original material workmanship design plan or specification." Considering this ambiguity, the court construed the language against its insurance company and in favor of the insured. While the coverage remains, available clients should be prepared for elevated underwriting and conduct appropriate due diligence on policy wordings.

Casualty

While the primary and excess casualty market has stabilized for quality risks with clean loss experience, litigation funding, social inflation and nuclear verdicts continue to be pain points for the casualty market. at large. The use of new building materials and the unknowns associated with long term performance are a sticking point for underwriters.

Alliant is paying close attention to the impact of Florida's House Bill 837/Senate Bill 236 and Senate Bill 360. Enacted last year, this legislation looks to address how suits a filed and litigated and revising the term for which defect claims will be brought. The impacts of these changes have yet to reflected in carriers' appetite but could be a case study in tort reform as they begin to have their intended effect.

Professional liability carriers are seeing an uptick in the number and severity of rectification claims particularly on infrastructure projects. As federal funds flow into this sector clients can expect higher minimum insured retentions and may experience strained capacity. With limited players in the space carriers look to reward current clients with capacity.

SURETY INDUSTRY ISSUES

2023 was a phenomenally successful year for the surety markets. Premiums were up slightly over the record set in 2022, as the elevated level of construction activity translated into a significant demand for surety bonds. Inflation generated significant uplift as the value of bonded projects were higher due to broad cost escalations. Losses incurred from defaulting contractors rose during the year, and that trend is expected to continue.

> **WHILE IN THEORY THE COSTS FOR SURETIES TO MANAGE DEFAULTED CONTRACTORS COULD ULTIMATELY BE HIGHER, THAT WON'T BE FELT IMMEDIATELY.**

Well-run construction companies will find a receptive marketplace, and significant flexibility to match people styles and other specific attributes of certain insurers. U.S. builders owned by foreign companies will in some cases find a more limited marketplace to support their needs, but the support does exist.

Actuaries for the industry peg the cost of the default relative to remaining backlog at the time of default, and universally the actual cost of curing defaults is materially more than actuarial projections. This unfavorable trend continues to worsen, with negative impact for surety companies and, notably, their reinsurers.

Project owners have lost some COVID-era collaboration in dealing with contractors over schedule and supply chain issues. Anecdotally, owners are holding contractors more accountable to the letter of the deal than they had been.

SURETY INDUSTRY OUTLOOK

Despite modestly rising default claims, earnings for primary sureties remain solid. The sector remains extremely attractive to insurance companies with surety operations, and to those considering entering the surety marketplace.

NOTE THAT SURETIES ARE BEGINNING TO SEE A SLIGHT UPTICK IN THE FREQUENCY OF CONTRACTOR DEFAULTS, AND MOST SIGNIFICANT, THE SEVERITY OF THE COST OF DEFAULTS IS EXTREMELY HIGH.

Nonetheless, the profitability of surety will do nothing to quiet the trend of new entrants seeking what they view as favorable earnings potential, and nothing to blunt the appetite of established markets to expand a profitable business.

Contractors owned by private-equity funds is a trend that continues, and while surety support remains solid for well-run and well-financed companies, companies without experience have increased pressure on the availability and terms for adequate surety support.

The cost of borrowed money has become an unwelcome headwind for leveraged contractors. Also noteworthy is the underlying banking industry challenges… the middle market lenders who historically favor contractors are facing some net outflow of deposits, which is limiting their ability to lend. While the largest banks can manage that issue better, they tend not to favor contractors from a risk standpoint. We expect this issue to be prominent in the industry during 2023.

A shift is underway among certain infrastructure agencies to procure work on a more balanced basis. For example, design/build work remains popular, but in some cases, owners are providing contractors more latitude to commit to a fixed price further into the development of design documents than was the case a few years ago.

FINANCIAL INSTITUTIONS

INDUSTRY ISSUES

The Financial Institutions industry started 2023 with the failure of three large U.S. banks that resulted in a concerning banking crisis that continues to permeate throughout the industry. The failed banks' $548.7B in combined asset value represented the highest amount ever for failed banks in a single year. Throughout 2023, many feared that the bank failures could trigger a contagion event across the banking industry. However, regulators acted quickly and took extraordinary measures to reassure markets and depositors of the safety and security of the banking system. The measures were sufficiently effective and helped ensure that there were. no further large bank failures during the year. While the aggressive regulatory action may have helped the banking industry to dodge additional failures, it did not necessarily remedy the underlying concerns for many banks.

CONCERNS REGARDING COMMERCIAL REAL ESTATE PORTFOLIOS INDICATE THAT THE BANKING SECTOR MAY NOT BE ENTIRELY SAFE JUST YET.

Remote and hybrid work arrangements have caused rising vacancy rates in office buildings, which has stressed the commercial real estate sector, putting many landlords in a difficult spot as they continue to try to service their debt. The stress is anticipated to put many borrowers in a position where they cannot roll over their debt as existing loans mature. The increased vacancy rate and the drying up of lending capacity increases the likelihood of commercial real estate loan defaults in the coming years.

Macroeconomic factors are also a concern for financial institutions and the underwriters who represent the insurers that focus on risk transfer for the industry. One noteworthy factor in the large bank failures from 2023 was the impact of elevated interest rates. However, rapidly-rising high interest rates are only one of several factors affecting the overall business environment as we enter 2024. Other significant factors include rising economic inflation, labor supply, geopolitical disruption, the pending general election, and global supply chain disruption.

As has been the case for the past several years, ESG (Environmental-Social-Governance) issues also remain at the forefront for regulators, investors, and other stakeholders. As pressure from ESG activists has developed, financial institutions may find themselves increasingly trying to avoid the political and legislative-related ESG controversies, and as a result are resorting to "green hushing" — that is, taking a much lower profile on ESG-related concerns. However, given the pending and existing regulatory concerns regarding ESG, we expect that ESG will continue to be a high-profile issue for corporate executives, investors, and other stakeholders for years to come and such priorities should remain a priority item into the near future.

For all the above reasons and issues, we fully expect that regulatory change and activity will continue at a record pace in 2024. There are more regulatory rulemaking initiatives and enforcement actions than could be covered in a concise way, but regulators have been emboldened by their focus on cybersecurity risk, cryptocurrency assets, ESG, auditing requirements, and disclosure and expense initiatives that are meant to protect investors and the integrity of the financial markets. Financial institutions across the globe will remain focused on compliance and legal activities to show regulators that they prioritize such regulations and activity.

INDUSTRY OUTLOOK

While many would argue that no segment of the financial institutions industry is safe from the challenging global economic issues, challenges, and uncertainty, industry sectors such as asset management, registered investment advisors, mutual funds, and hedge funds continue to be a highly sought after risk class by insurance underwriters looking for diversification within their risk portfolios. Insurers also continue to favor financial institutions for traditional property & casualty insurance programs as the exposure is deemed to be highly profitable. Insurers have rarely seen a series of significant or market-wide losses pertaining to workers' compensation, general liability, or property losses in the financial institutions sector. As such, P&C insurers are continually trying to increase their underwriting market share in financial institutions.

From late 2019 through the end of 2021, the financial institutions management and professional liability insurance marketplace was in a so-called "hard" market, meaning that most buyers saw their insurance premiums increase significantly. The same period also saw unheard of activity involving SPACs (Special Purpose Acquisition Companies) and other investment vehicles that requires complex insurance solutions. The "hard" market pricing environment attracted new capital and new market participants, and such participants pushed significant competition in the financial institutions' insurance marketplace in 2022 and throughout 2023. Amidst the increase in insurance capacity, most insurance buyers have seen the return of a competitive environment that includes overall pricing decreases and an expansion in coverage. The favorable market has had an impact with respect to excess layers of insurance, in particular.

Coverage terms remain stable across most products, except for property coverage that contains wind, flood, and wildfire exposures. While insurers are seeking to limit their property-related loss exposures in disaster-prone regions, there continues to be enough capacity with more insurers competing for business. This competition is further aided by favorable workers' compensation loss ratios, which are deemed to increase an insurers' overall profitability for financial institutions.

We expect that underwriters will remain increasingly focused on retaining financial institutions clients with positive risk profiles by aggressively underwriting and competing on new and renewal business. Given the integrated nature of financial institutions, systemic cyber risk will be a leading concern for insurers seeking to limit exposure to catastrophic cyber events and losses. However, even in the cyber insurance market, financial institutions have fared well and avoided cyber losses from both a frequency and severity standpoint where a significant market correction would be necessary for the industry. While underwriters may be concerned about the continued claims activity, uncertainties, and the industry issues facing financial institutions, the laws of supply and demand control the cycles within the insurance marketplace, and the supply of capacity will continue remain above average and competitive throughout 2024.

WE EXPECT THAT COMPETITIVE CONDITIONS WILL REMAIN IN EFFECT THROUGHOUT 2024 AND THAT THE FINANCIAL INSTITUTIONS INSURANCE MARKETPLACE WILL CONTINUE TO EXPERIENCE FAVORABLE PRICING TRENDS AND THE CONTINUATION OF COVERAGE ENHANCEMENTS.

FORESTRY

INDUSTRY ISSUES

The forest products insurance market is continuing to face increased scrutiny from insurers. It is in part due to large losses in North America over the past several years, which led insurers to question the accuracy of insureds' property valuations. Insurers are also concerned about the volatility of the lumber market, which makes it difficult to accurately predict future losses.

Higher property valuations persist. However, insurers appear to have established a comfort level in current policy language. Rather than standardly imposing of margin clauses that limit the amount of recovery that an insured can receive if their losses exceed a certain percentage of their insured value, underwriters are doing it on a case-by-case basis.

Economic and climate-related risks are also growing challenges for the industry. These include physical risks, such as drought and wildfires, as well as transition risks, such as the shift to a low-carbon economy.

The scrutiny of the forest products insurance market is likely to continue in the coming months and years. Insurers are under pressure to reduce their exposure to risk, and they are using a variety of methods to do so. This includes demanding higher valuations, imposing more restrictive coverage provisions, and writing fewer policies in certain geographic areas.

INDUSTRY OUTLOOK

The outlook for the forest products insurance market is mixed.

ON A MACRO LEVEL, FORECASTS FOR FOREST PRODUCTS BUSINESS ARE SLIGHTLY UP RELATIVE TO THE LATTER PART OF 2022 AND PROCEEDED TO STABILIZE THROUGHOUT 2023. HOWEVER, THERE ARE SEVERAL CHALLENGES THAT COULD IMPACT THE MARKET IN THE COMING MONTHS, INCLUDING THE ONGOING SCRUTINY FROM INSURERS, THE VOLATILITY OF THE LUMBER MARKET, AND THE POTENTIAL FOR REGULATION CHANGES.

For insureds, the key to success will be proactively working with their insurance brokers to understand the challenges facing the market and to develop a plan to mitigate their risks. This includes reviewing their valuations, understanding the implications of margin clauses, and developing contingency plans in the event of economic disruption or increase governmental regulation.

HEALTHCARE

INDUSTRY ISSUES

The healthcare professional liability landscape is stabilizing. However, the rising frequency of substantial legal judgments and settlements is impacting anticipated loss reserves. This is prompting some excess carriers to demand higher underlying retentions and limit to quote and bind placements.

Carriers are raising retentions for accounts with unfavorable experience or those located in less desirable jurisdictions. Healthcare systems situated in desirable venues are also witnessing rate adjustments ranging from 5% to 15% in addition to premium increases driven by exposure growth. Physicians purchasing primary limits ($1M to $2M) are experiencing increases ranging from 3% to 10%.

INDUSTRY OUTLOOKS

The recent substantial $261M jury verdict in Florida, alongside other significant judgments, and settlements, has led some markets to reconsider underwriting or further reduce limits for Children's hospital risks. Insurers are closely scrutinizing potential risks associated with sexual abuse or other batch-related exposures, particularly in the academic healthcare institutions.

MANY HEALTHCARE ORGANIZATIONS ARE CONTEMPLATING HIGHER LIMITS DUE TO THE CONTINUED INCREASE IN NUCLEAR VERDICTS AND SETTLEMENTS. WHILE THERE IS ADEQUATE CAPACITY FOR MOST TOWERS, EFFORTS TO INCREASE LIMITS WILL SEE HEADWINDS FROM MINIMUM PREMIUM PRICING AND THE RISK OF INVERTED PRICING RELATIVE TO LOWER LAYERS.

LIFE SCIENCES

INDUSTRY ISSUES

Last year was a tale of two industries, one for which the FDA approved a record number (71) of new therapeutic drugs (NTDs), and another in which capital from both private and public sources deepened its drought in the wake of 2021's waterfall of IPOs (100+).

Of the NTDs, Casgevy is the first FDA approved therapy utilizing CRISPR genome editing technology. This is tremendous news for patients with sickle cell disease and shortens the timeline for this technology to be used to treat patients with other rare diseases. While Casgevy and other gene therapy treatments went through the gamut of the FDA approval process for NTDs, it is important to note that due to their revolutionary advance, there is a dearth of historical data on potential long-term side effects. However, unlike the newly approved GLP-1 obesity drugs (e.g., Ozempic), there are neither off-label issues nor alternative treatments. Thus, Product Liability insurers can underwrite these sickle cell NTDs with far fewer concerns than the GLP-1s. However, with a record number of approvals, insurers will be seeking detailed underwriting information to assess the scope of new risks.

Another issue confronting Life Sciences companies is the potential impact of the Inflation Reduction Act of 2022 (IRA). In part, this is intended to lower prescription drug prices. In August, the Centers for Medicare & Medicaid Services (CMS) put forth its inaugural list of ten drugs selected for price setting. The list sent both investors and companies scrambling to determine how specific drugs, as well as classes, might be viewed by the CMS. It is too early to tell how this will play out, but history tells us that the plaintiffs' bar will seek redress for investors harmed by companies "mismanaging" their approach to the potential IRA consequences.

WHILE SUPPLY CHAIN AND LABOR CONSTRAINTS MAY BE EASING, MANUFACTURERS ACROSS THE LIFE SCIENCES SPECTRUM CONTINUE TO BE PLAGUED BY PHYSICAL DAMAGE TO THEIR FACILITIES/INVENTORIES AS WELL AS MATERIAL INTERRUPTIONS TO THEIR OPERATIONS ARISING FROM CLIMATE CHANGE/NATURAL CATASTROPHE EVENTS.

For an industry so dependent on sole source suppliers, this can have a cripplingly impact on companies. As noted previously in this space, companies must demonstrate robust Business Continuity Planning and a commitment to Risk Engineering.

INDUSTRY OUTLOOK

If the annual JP Morgan Healthcare Conference is any indicator, biotech will rebound in 2024 after a challenging 2023. In an industry that has grown used to abundant inexpensive sources of capital, the last two years have forced executives to become more creative in financing and operating their companies. According to the HSBC Venture Healthcare Report, VC funding dropped a whopping 23% from '22 to '23. On the public front, a historically high percentage of companies traded at or below their cash value in '23, IPOs barely made it into double digits (11), and north of 150 companies had workforce reductions. As we head into '24 with interest rates and valuations down and NTDs on the upswing, the industry is anticipating a resurgence in funding.

FORTUNATELY, '23 WAS A SOFT INSURANCE MARKET FOR MOST LINES OF COVERAGE WHICH ENABLED COMPANIES TO REDUCE COSTS ESPECIALLY FOR D&O, PRODUCTS/E&O, AND CYBER.

For public and private D&O, the outlook for Premium, Capacity, Coverage, and Retentions remains favorable. However, given significantly reduced D&O premiums for most of the major carriers, we are witnessing a less reasonable approach to claims resolution from some. It is more critical than ever to align counsel and rates as part of placement negotiations vs. when a claim arises during the policy period.

Products/E&O will also continue to be very favorable for buyers based on supply vs demand alone. In a market that was historically led by a handful of resolute carriers, competing for all but the most difficult risks. However, it remains caveat emptor with respect to ensuring coverage details and claims provisions/handling. Insurers continue to add new exclusions, particularly for indications and materials, which are seldom noted While all policies should be audited annually to ensure that they are “fit for purpose“ and “state of the market,” Products/E&O policies tend to have the most unannounced changes.

PUBLIC ENTITY

INDUSTRY ISSUES

Biometric Identifiers

A new and emerging area of concern involves the use of Biometric Identifiers and the prospective violation of privacy associated with those activities. Biometrics, in simple terms, involves the measurement and analysis of unique physical and behavioral characteristics to determine 1) who a person is and 2) if he or she really is who they claim to be. These distinct physical traits include fingerprints, vein, retina, and voice patterns as well as facial measurements. Behavioral identifiers often include signatures, keystroke patterns, hand-eye coordination, gait, and response times. The unique characteristics are used in both the private and public sectors to drive efficiency in authentication. Examples include airports replacing traditional boarding passes with face and finger scans or colleges as a method to access dorms and confirm identification ahead of taking exams.

Regulation of data privacy does not exist at the federal level, although all 50 States and the District of Columbia have data breach notification laws. Numerous States have either passed or introduced Biometric Information Privacy Acts (BIPA). As a result, the door is open for litigation around the violation of these laws. As more States are focusing on biometric data, so too are insurance carriers. Many carriers have recently begun adding exclusions for BIPA.

Recent Supreme Court Rulings

In June 2023, the U.S. Supreme Court ruled on several cases that will have an impact on higher education going forward. The most high-profile ruling was a consolidation of two separate cases both brought forward by the group Students for Fair Admissions (SFFA): one against the University of North Carolina and the other against the Fellows of Harvard College. The Court determined in both cases that the admission process lacked clear objectives and measurable goals to justify the use of race as a factor for undergraduate consideration. Chief Justice John Roberts, in the majority opinion, stated that Undergraduate applicants at UNC and Harvard cannot use race or ethnicity as a factor in determining selection because the practice itself depicted negative racial stereotypes, which was inconsistent with the Equal Protection Clause of the 14th Amendment. This landmark decision reverses the affirmative action direction on college campuses that has been in place for over forty years. Importantly, while the reversal itself will cause major changes to recruitment policies and practices in admissions, there is concern over the lack of clarity regarding the extent to which the intention of this ruling will apply (e.g., scholarships, student activities, academic programs, employment, etc.). This lack of clarity regarding the “intent” of this ruling is all too familiar with educational leaders as they have been struggling with a similar issue regarding running their Title IX on their campuses without guidance from the Office of Civil Rights and Department of Education. It is too soon to opine on how this particular ruling may or may not impact future premiums. A program that still lacks strong guidance from lawmakers, will result in litigation that will become the only guide toward understanding how far this affirmative action reversal will apply.

Per- and Polyfluorinated Substances (PFAS)
Because of their widespread use and their persistence in the environment, many PFAS are found in the blood of people and animals all over the world and are present at low levels in a variety of food products and in the environment. PFAS are found in water, air, fish, and soil at locations across the nation and the globe. Scientific studies have shown that exposure to some PFAS in the environment may be linked to harmful health effects in humans and animals. There are thousands of PFAS chemicals, and they are found in many different consumer, commercial, and industrial products (epa.gov).

The underwriting community remains focused on the growing potential of litigation, specifically for public entities that operate water and wastewater treatment facilities. Most carriers have been applying PFAS exclusion on all 2023 renewals.

Active Shooter Events
Concerns over mass shooting exposure remain highly relevant to Public Entities, venue owners, and event sponsors as many are named in various lawsuits that allege lack of security and failure to protect the public.

With rising awareness of and increased exposure to these tragic events, many insureds are exploring both active assailant and special event liability policies as means of transferring the potential exposure and litigation that can emanate from these events.

Sexual Abuse and Molestation (SAM)
Jury verdicts and settlements continue to grab headlines resulting in a hyper-focus by underwriters on this exposure. The full extent of the prevalence of this exposure and potential claims remains unknown, but so far, the numbers are simply staggering. Underwriters have set their sights on insureds who have this exposure ranging from K-12 schools to parks and recreation departments to police cadet programs. This trend is driven by numerous States who have enacted reviver statutes allowing otherwise time-barred claims for childhood sexual abuse to proceed. The statues vary by jurisdiction but do one of three things: (1) eliminate the statute of limitation (2) extend the statute of limitations or (3) create a window in which otherwise time-barred claims can be filed.

Law Enforcement Liability (LEL)
LEL continues to be a focal point for the underwriting community. One major insurer of LEL recently reported the average indemnity paid on an LEL claim has increased almost 2.5 times between 2016 and 2022. This same insurer noted the probability of experiencing a claim with a payout of $500k or more is 6X higher in 2022 than in 2016.

AS A RESULT OF THESE TRENDS, MANY CARRIERS HAVE LOOKED TO INCREASE RETENTIONS IN AN ATTEMPT TO ADDRESS THIS EXPOSURE, WITH AT LEAST ONE CARRIER MAKING THE DECISION TO NO LONGER PROVIDE COVERAGE FOR LAW ENFORCEMENT LIABILITY.

Insurers are now requiring significantly more underwriting information surrounding law enforcement training and procedures as well as early intervention performance and behaviors.

Hyper Social Inflation, Nuclear Verdicts
The term "social inflation" refers to the ways in which insurers' claim costs rise over and above general economic inflation, including shifts in societal attitudes, perceptions, and behaviors that lead to increased litigation costs. On the other hand, "nuclear verdicts" are large jury verdicts that exceed $10M in compensatory and punitive awards. These verdicts have been growing in frequency and size, with the median verdict rising significantly between 2010 and 2023. The increase in nuclear verdicts and social inflation has created challenges for liability claims in the United States, driving up settlement costs and leading to skyrocketing insurance costs. The impacts of social inflation and nuclear verdicts across various industries is raising concerns about its impact on businesses, consumers, and the legal system.

The impacts of social inflation and nuclear verdicts are significant, driving up insurance costs and settlement expenses. To mitigate these impacts, some experts suggest the need for tort reform like that introduced during the 1970s and 1980s. Additionally, efforts to raise awareness of how social inflation affects consumers and to explore solutions such as robust local corporate social responsibility (CSR) and the use of technology to prevent future nuclear verdicts. Certain states offer no legislatively effected damage caps for public entities facing tort liability claims. Other plaintiff strategies include bypassing state tort protections and making novel civil rights assertions under the U.S. Constitution, allowing the case to be heard in federal court. This approach has been around for the past decade but is picking up steam due to social inflation and the escalation of claim severity trends.

Emerging Risk-Fiscal Cliff in Public Transit
Public Transportation is a $79B industry employing more than 430,000 people and supports millions of private sector jobs. According to the May 2023 survey of public transit members by APTA, one-half (51%) of public transit agencies are facing a fiscal cliff in the next 5 years, defined as potential operating budget shortfalls. For larger agencies (200m+ operating budget), the percentage is 71%. Operating costs have increased since 2019 and as of the first half of 2023 ridership has recovered to 70% of pre-pandemic levels. Public Transit's response to the fiscal cliff will be to seek increased state funding, reduce transit agency costs, seek to increase local funding (transit tax increase), seek new revenue sources, reduce services, and/or increase fares. A more extreme measure that is less likely to occur would be a reduction in workforce.

PTSD Presumptive Legislation
Many state legislators have introduced bills to cover PTSD benefits for public safety with some expanding benefits beyond police and fire to include dispatchers, teachers or administrative positions. This trend is not likely to abate any time soon. Responding to these trends, public entities are examining or have implemented alternative benefits to providing treatment and disability leave outside of the workers' compensation system.

Property
During the second half of 2023, we saw signs of cooling inflation which should continue into 2024 and ease some of the inflationary pressures seen over the last several years. Despite these downward trends, property underwriters, particularly in the Public Entity space, still have insurance to value concerns. The viewpoint of underwriters remains that there is substantial ground to make up for the past 5-10 years of static valuations. An Insured must be able to point to their valuation "narrative" or "process" in the way of third-party appraisals, value trending and/or favorable comparisons to benchmarks, or risk facing restrictions on related terms and conditions. These restrictions include items such as Margin Clauses or Occurrence Limit of Liability Endorsements. Those insureds that have agreed to stair-step type valuation approaches over several years will be expected to continue to trend their values beyond what current inflationary factors are to get up to par with the current industry benchmarking standards.

Primary capacity was available for Insureds viewed as having a favorable risk profile, albeit at increased rates. Those insureds that took higher retentions were able to promote the most competition within their primary layers (via oversubscription), which resulted in better-than-expected pricing. Excess capacity continued to be more of a challenge, causing many programs to be unable to renew their towers on a "per expiring" basis due to pricing and market pressures. Those insureds that were able to renew with per expiring limits, specifically for CAT-exposed insureds, often did so by implementing Alternative Risk Transfer products, such as parametric, or by self-insuring parts of their excess layers that were deemed unreasonably priced.

Submission activity remains high, and renewals continue to take more time to be completed (especially for new markets). Certain carriers reported seeing a 30%+ increase in submission activity throughout 2023, so it is highly recommended to submit renewal information as early as possible to ensure proper lead time for renewal review and program completion.

Roof age was also top of mind with insurers and faced increased scrutiny, particularly in the K-12 education area. Insurers are requiring information on the condition of the roof, such as: roof maintenance, roof repairs, and re-roofing. In some cases, if sufficient evidence cannot be provided, the market is looking to impose actual cash value stipulations or similar types of restrictions on roofs over a certain age. In certain geographies, including the Gulf Coast, Arkansas and Oklahoma, secondary perils are still commanding higher dollar amounts, or even percentage deductibles.

Wildfire concerns have expanded from traditional areas, such as California, Oregon, Washington, Idaho, and Colorado. Recent reports have added States such as North Carolina, Florida, and New Jersey as geographies of concern. Unfortunately, this problem is not likely to improve given certain drought conditions across the country. Wildfire has even begun to become a focus for casualty placements in extreme circumstances, with excess liability and liability (re)insurers keying in on insured's wildfire mitigation plans.

Secondary perils continue to drastically impact Insurer profitability, with increased frequency and severity specifically due to severe convective storm events, freezes, flooding, and extreme heat.

THE DOMINANT DRIVER OF LOSSES IN 2023 WAS THE SEVERE CONVECTIVE STORM (SCS) PERIL, WHICH ACCOUNTED FOR ROUGHLY 58%, OR A **RECORD $71B** OF THE GLOBAL INSURED LOSS TOTAL. SIX OF THE TOP 10 MOST EXPENSIVE INSURED EVENTS OF THE YEAR WERE SCS EVENTS IN THE U.S.

INDUSTRY OUTLOOK

Liability

Many insurers are reporting loss cost increases in the range of 10-15%. As a result, Excess Liability will continue to be a challenging market. Capacity reductions and increased retentions have been commonplace, and SAM and law enforcement exposures continue to be heavily scrutinized by underwriters. The best approach to these sensitive topics is continued attention to risk control, early intervention, and education of staff. Innovative approaches being examined in the public sector include alternative risk transfer (ART) which is developing alternative methods to finance losses further than purchasing retail-level insurance. This novel approach uses any combination of funded and unfunded strategies depending on a client's needs, available capital sources and risk profiles. The ultimate results are either validation of the retail insurance marketplace or a viable financial alternative for funding future losses. Multi-year structured solutions are one solution gaining momentum, offering a program that can last years and include aggregate stop loss protection in the event of a series of large loss events in one year. A structured solution view is improving a client's total cost of risk and can provide the advantage of significant premium savings over time.

Unfavorable jurisdictions, many of which were included in the list of Judicial Hellholes published by the American Tort Reform Foundation, are still facing some very tough renewals which include capacity pullbacks and higher retentions. Conversely, more favorable jurisdictions have seen the market behave much more favorably — more competitive rates and capacity are easier to come by. New capital has begun to enter the liability market including the Bermuda carriers who have traditionally not had an appetite for public entity business.

Property

The 1/1/2024 treaty renewals experienced a stable and orderly process due to an increase in capacity supply. Despite the smoother renewal compared to the previous year, uncertainties persist, deterring potential new investors from entering the reinsurance space. Factors such as the impacts of climate change, inflation, litigation funding, and geopolitical risk contribute to this hesitancy. The focus for subsequent renewals in 2024 is on encouraging reinsurance appetite growth, considering positive developments at the 1/1/2024 renewals.

Insurers, after years of limit reductions and limited reinsurance capacity, are not widely reducing coverage limits for 2024. Valuations are crucial for insureds, and carriers expect a proactive valuation narrative and philosophy. Insureds with a robust valuation process, preferably conducted by a third-party appraisal firm, are more favorable. Those lacking a compelling narrative may face carriers pushing for Occurrence Limit of Liability or Margin Clause provisions.

While insurers have varying views on CAT models, RMS, an industry leader, released RMS v23 in June 2023, showing significant changes, especially in coastal regions and Named Windstorm. Regions like Texas, the Gulf, Florida, and the Southeast experienced up to a 30% uptick, while the mid-Atlantic and Northeast saw around 10%. Monitoring these changes closely is essential as carriers implement them throughout 2024.

Rate increases will persist in 2024, though not at the levels seen in 2023. Stabilization of capacity and carriers' interest in expanding on certain risks will contribute to minimal to moderate rate increases for well performing placements. Carriers aim to collaborate with insureds to restructure/layer programs, avoiding "trading dollars" and rewarding buyers putting more "skin in the game," with the aim for greater long-term rate and pricing stability.

INDUSTRY ISSUES

2024 is shaping up to feel markedly different than 2023 for the commercial real estate sector. Moderate improvements in interest rates coupled with hopes of further reductions throughout the year have well- capitalized investors gearing up to execute upon strategies that were put on hold in 2023. Further, concerns regarding inflation in the sector seem to have subsided. 2024 will be a year of transition for many real estate firms as they decide whether they will be net acquirers or sellers.

WHILE NEW DEVELOPMENT ACTIVITY IS VIRTUALLY NON-EXISTENT IN CERTAIN ASSET CLASSES (FOR EXAMPLE — URBAN COMMERCIAL OFFICE PROJECTS) OTHER ASSET CLASSES SUCH AS SUBURBAN AND EXURBAN HABITATIONAL DEVELOPMENT CONTINUES AT A STEADY PACE.

Although 2023 global insured losses appear poised to exceed $100Bn for the third consecutive year, carriers and reinsurers dodged major catastrophe losses in the traditional sense (i.e., U.S. Earthquake and Hurricane risk). Direct carriers report a continued uptick in "non-traditional" CAT losses including convective storms (wind/hail) and winter freeze. While non-traditional CAT losses coupled with the largest historical driver of real estate industry losses (water damage) continue to impact direct insurers, the implementation of larger reinsurance retentions over the past 12-18 months has provided some additional buffer for reinsurers. Direct insurers continue to retain significantly more risk than they have historically with many carriers reporting that their 2023 reinsurance treaty renewals often resulted in a doubling of retentions along with substantial increases in rates. Fortunately, reinsurance treaties renewing 1/1/24 were much less volatile with many carriers reporting stability in retentions and very moderate pressure on rates.

INDUSTRY OUTLOOK

2024 real estate Property renewals have been exceptionally less volatile than those experienced in the post-Ian environment of Q4 2022 and 2023. More capacity is coming back into the market after the pullback of 2023 due in part to the fact that 2023was a profitable year for most carriers writing U.S. real estate Property risks. Further, carriers have set meaningful growth goals for 2024 that are not achievable in the current environment based solely upon rate increases. Finally, insureds have reestablished some leverage in the marketplace upon implementation of alternative risk and/or captive strategies.

Real estate insureds with favorable Property loss experience should expect pricing stability in 2024. When marketed aggressively, many January renewals are coming in flat, flat, or in some cases, with slight rate reductions. We expect this trend to continue barring any large-scale widespread loss event(s) affecting the global marketplace.

The real estate Casualty market remains stable although pressure on deductible levels and coverage terms still exists for certain asset classes, exposures, and geographies. As an example, certain carriers have recently begun pulling out of covering habitational exposures within the State of Georgia due to poor loss experience.

ALLIANT REAL ESTATE AND HOSPITALITY RECOMMENDS THAT INSUREDS SET STRATEGIES EARLY, CLEARLY COMMUNICATE COMPANY GOALS WITH BROKER AND CARRIER PARTNERS, AND SEEK TO CAPITALIZE UPON THE MORE FAVORABLE MARKET CONDITIONS THAT EXIST IN 2024.

CONTACT INFORMATION

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