McGriff
A Marsh & McLennan Agency LLC Company

Market Update

Q4 2024

McGriff.com

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About McGriff

When it comes to protecting what matters most in business and everyday life, we believe our clients should never settle for less than the best. For more than a century, we've relied on expertise, resources, and relationships to deliver insurance and risk management solutions focused on our clients' priorities and what they value most.

McGriff is part of Marsh McLennan Agency (MMA). Our solutions include commercial property and casualty, corporate bonding and surety, cyber, management liability, captives and alternative risk transfer programs, employee benefits, small business insurance, and personal lines.

Our experienced risk management specialists develop highly tailored solutions while listening, learning, and executing with precision under the guidance of our four core principles:

> **Integrity:** We do what we say, every time.
>
> **Determination:** We relentlessly pursue success on your behalf.
>
> **Passion:** We are specialists in our field driven to serve you.
>
> **Collaboration:** We build strong relationships with teammates, partners, and you to create the best solutions.

Join the thousands of businesses, organizations, and individuals across the country who choose McGriff, a firm dedicated to building long-term relationships and helping protect your most valuable assets.

With McGriff, you'll never have to settle for less.

Market Overview

The overall Property and Casualty insurance market continued to stabilize throughout 2024, with most rate increases continuing to decelerate year over year. This includes the Commercial Property market, even post Helene/Milton, as insured losses continue to accumulate. The Umbrella market is an outlier, with higher rate and premium increases and reduced capacity for the third quarter, driven partly by extended litigation and massive verdicts.

Commercial Property Insurance

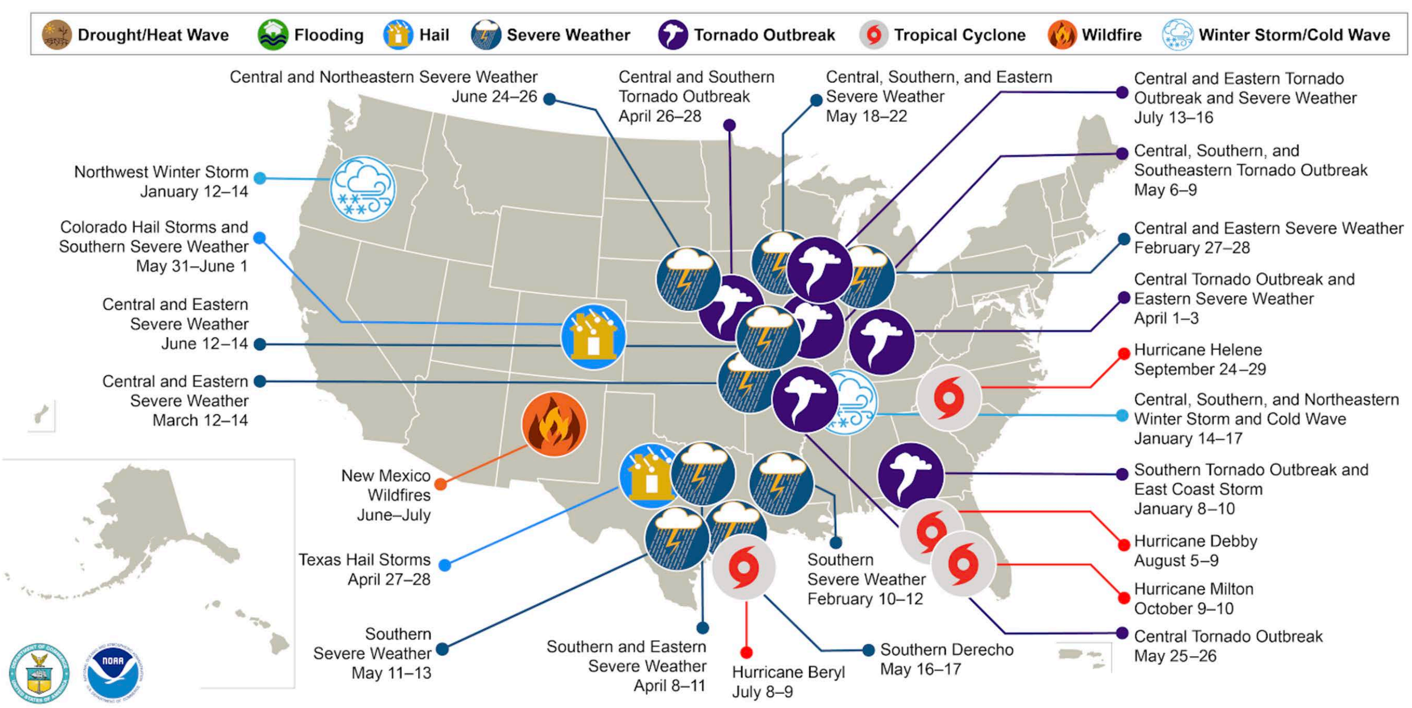
The Commercial Property insurance market continued to improve throughout 2024, with third-quarter premiums increasing an average of 7.9%, down from 10.1% in the first quarter and 8.9% in the second quarter, according to the most recent report from the Council of Insurance Agents & Brokers (CIAB). While we experienced back-to-back hurricanes this season with insured losses estimated for Helene and Milton between $35 billion and $55 billion[1], the global Property market is better able to withstand these large losses than in previous years. Rate adequacy and a more measured approach have enabled insurers to better manage line sizes and reinsurance structures for catastrophe-exposed risks. Initial projections suggest the combined impact from those two storms on treaty reinsurance will be minimal. However, the full impact of these storms on the insurance market will come into better focus in 2025, possibly after some of the April CAT treaty renewals.

Severe convective storms (SCS), such as hail, wind, and tornadoes, continue to drive significant losses and remain a concern for insurers. According to Swiss Re, global insured losses from natural catastrophes reached $60 billion in the first half of 2024, 62% above the 10-year average. Severe thunderstorms, mainly in the U.S., accounted for 70% of insured losses globally.

Flooding is another area of concern. When Hurricane Helene hit, it caused flood damage inland in areas not usually considered high-risk flood zones. The storm's aftermath underscored the critical need for a more comprehensive approach to Flood insurance from both the private market and federal programs like NFIP.

According to the NOAA National Centers for Environmental Information (NCEI), as of November 1, 2024, 24 confirmed weather/climate disaster events have affected the U.S., with losses exceeding $1 billion each. These events included 17 severe storms, four tropical cyclones, one wildfire, and two winter storms.

U.S. 2024 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the ***24 separate billion-dollar weather and climate disasters that impacted the United States through October 2024.***

Source: NOAA

While the Property insurance market has improved, clients must continue to optimize their programs. We recommend the following strategies.

Evaluate Risk Retention and Sublimits in Your Program Structure

Review your optimal risk-retention level to optimize your program structure. Structures such as plus aggregates or alternative all other perils (AOP) deductibles may potentially benefit you.

Explore Bifurcating Programs

Understand what is behind your program's cost. A specific location, construction type, or risk in your portfolio of properties may be driving up your probable maximum loss (PML) or average annual loss (AALs). Explore a stand-alone solution for this challenging issue and optimize specialized markets for that risk, which supersede a consolidated or global program.

Analyze Non-traditional Program Structures

Non-traditional programs may include alternative risk transfer (often called "ART") solutions that allow you to self-insure a portion of your property risk while complying with lenders by providing "A" rated paper. You can also consider parametric coverage, which is a type of non-traditional "insurance" that is triggered by a peril's degree of exceedance for a specific event rather than the actual loss experienced. Parametric solutions bring a new option for peak catastrophe risks and are designed to provide a fast, transparent claims recovery process.

Planning for Renewal

Remember that "data is key" so we recommend that you proactively work with your broker to ensure your submission/underwriting package will go to the "top of the stack" by following these guidelines:

- Ensure exposures are current with full COPE data during the coverage term, particularly for any mid-term changes.
- Provide renewal exposure updates early (120 days out) along with any required supplementary applications.
- Proactively address any critical open loss control recommendations and provide all supporting documentation no later than 90 days before renewal.
- Tell the story of "lessons learned" from large losses and how you have mitigated the potential for similar future losses.
- Let underwriters know about your risk management strategies to protect your assets and outline any major CAPEX for physical improvements or risk control.
- Meet with carriers early to understand any of their concerns or issues and thoroughly examine potential options.
- Seek underwriter commitment to general renewal terms early in the process.

Protecting Your Assets

McGriff's experienced Property insurance specialists can/will:

- Review critical operations to assist in developing or enhancing your business continuity plan.
- Assess and mitigate property risk using catastrophe modeling.
- Review building values using Core Logic (aka Marshall & Swift) software to help validate "reasonable" insurance to value (although true Insurable Replacement Cost Appraisals remain the best validation).
- Develop alternative solutions that best correspond with your company's goals and objectives.

Our knowledgeable claim specialists are available to consult on the following:

- Crisis events
- Catastrophic losses and ways to minimize their impact
- Litigation and expense management
- Technical coverage analysis/claim research before submission of a loss to the insurance carrier
- Time element analysis to better establish the exposures that exist for business income and/or extra expense losses
- Claim auditing services, including TPA and carrier claims-handling reviews
- Training and education to enhance internal and external claim management programs

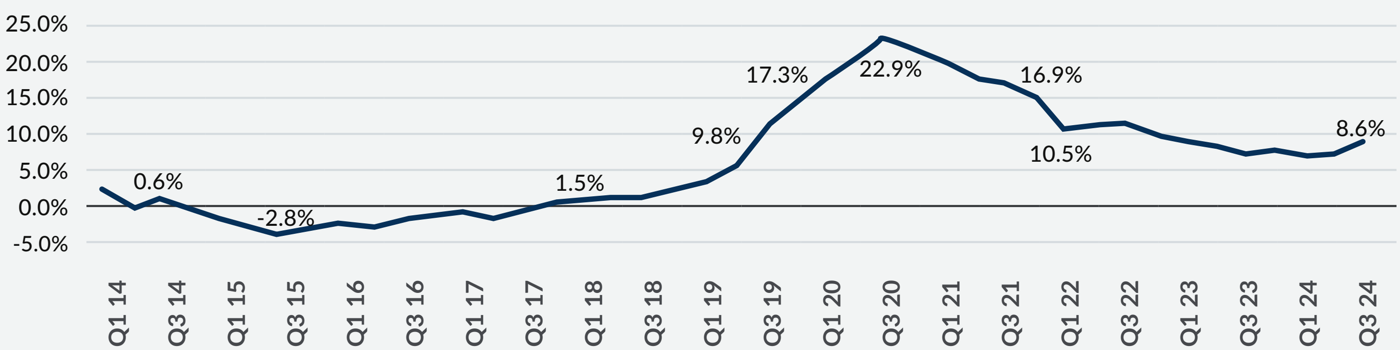
Commercial Umbrella Insurance

While all major Property & Casualty lines for Q3 2024 recorded increases lower than in Q2, according to CIAB, Commercial Umbrella premiums saw an 8.6% average increase in the third quarter. This represents the highest increase of all lines and a 19% shift from Q2's average increase of 7.2%. Social inflation, characterized by a rise in litigation and larger jury awards, is one of the main drivers behind Umbrella increases. According to data from Swiss Re, in 2023, there were 27 cases of courts awarding more than $100 million in compensation. These nuclear verdicts have been fueled by trial lawyers' increased use of psychology-based strategies, digital media advertising, and litigation funding. Juror attitudes on economic inequality and a negative sentiment toward corporations also drive these sizable verdicts.

Commercial Auto Liability claims are typically the highest single severity line contributing to Umbrella/Excess losses. According to AM Best, distracted driving and the shortage of experienced commercial drivers are negatively affecting the frequency and severity of accidents involving commercial automobiles.

The result of these massive verdicts is that the Umbrella and Excess lines are experiencing increasingly more losses. As a result, insurers are reviewing their risk portfolios and adjusting pricing to reflect the potential for higher awards.

Premium Change for Umbrella, 2014 - Q3 2024



Source: CIAB

Implementing effective risk management practices can help organizations minimize the likelihood and impact of high verdicts and settlements on their operations. Here are the steps you can take:

Enhance Your Risk Management and Claims Strategy

A large share of these massive verdicts stems from safety and corporate responsibility issues. Establishing and documenting robust risk management protocols demonstrates your organization's commitment to safety, ensuring procedures are rigorously applied and prioritized.

Proactively Review Open Claims

Regular assessments of open claims are vital in identifying outliers and volatile risks. Evaluate emerging trends and evolving threats that could lead to outsized jury awards, and ensure your insurance limits and retentions are sufficient to address present and future risks.

Maintain Consistent Communication with Insurers

Schedule regular discussions with your insurer and broker to review open claims, focusing on those with the highest risk potential. Effective communication fosters a shared understanding of the claims process and equips you with the insights to navigate complex cases.

Leverage Early Intervention Tactics

Collaborate with legal counsel to identify early intervention strategies to resolve claims efficiently. Where appropriate, consider pre-trial settlements and engage stakeholders to appoint experienced defense counsel tailored to the specific industry, legal domain, and jurisdiction involved.

Prepare Thoroughly for Litigation

For claims that cannot be resolved early, prepare diligently for defense and explore alternative dispute resolution methods, such as mediation or arbitration. These approaches often result in less volatile outcomes than jury trials, potentially mitigating the financial impact of a verdict.

Notify Insurers Early

When an incident could result in a nuclear verdict, promptly notify all insurers with relevant policies. Early notification ensures that insurers are engaged in the process from the outset, providing critical support and resources to address the claim effectively.

[1]Moody's RMS

Property & Casualty

The overall Property & Casualty market continued to improve in the second half of 2024, with the majority of lines experiencing lower premium increases in the third quarter, according to the most recent Council of Insurance Agents & Brokers (CIAB) Commercial Property & Casualty Market Report. Nonetheless, it's important to note that while average premium increases are lower, this is the 28th consecutive quarter of increases. Social inflation continues to drive the Casualty market increases, particularly for Commercial Auto/Excess insurance. D&O premiums continue to drop as do Cyber and Workers' Compensation.

The CIAB indicates continued market stabilization, with premiums rising an average of 5.1% across all account sizes for Q3. Medium-sized account premiums saw the highest increase out of all three account sizes, at an average of 5.6%, while large accounts experienced increases of 5.3% and small businesses saw increases of 4.4%.

Average Commercial Premium Increases

By Account Size	Small	Medium	Large	Average
Third Quarter 2024	4.4%	5.6%	5.3%	5.1%
Second Quarter 2024	5.0%	5.1%	5.4%	5.2%
First Quarter 2024	7.3%	8.5%	7.3%	7.7%
Fourth Quarter 2023	6.7%	8.2%	6.1%	7.0%
Third Quarter 2023	7.9%	8.9%	7.5%	8.1%
High	20.8%	31.7%	33.0%	28.5%
High Date	4Q01	4Q01	4Q01	
Low	-10.0%	-15.0%	-15.9%	-13.6%
Low Date	1Q08	3Q07	3Q07	

Source: CIAB

All lines with the exception of Commercial Umbrella, experienced lower premium increases in Q3 than in Q2. Directors & Officers (D&O), Workers' Compensation, and Cyber recorded premium decreases, according to the CIAB.

By-Line Third Quarter 2024 Premium Changes Ranged From -1.4% to +8.6%

	Commercial Auto	Workers' Comp	Commercial Property	General Liability	Umbrella	Average
Third Quarter 2024	8.5%	-1.4%	7.9%	4.8%	8.6%	5.7%
Second Quarter 2024	9.0%	-2.2%	8.9%	5.1%	7.2%	5.6%
First Quarter 2024	9.8%	-1.8%	10.1%	4.1%	7.0%	5.8%
Fourth Quarter 2023	7.3%	-1.8%	11.8%	3.8%	7.6%	5.7%
Third Quarter 2023	8.8%	-2.0%	17.1%	4.2%	7.4%	7.1%
High	28.6%	24.9%	45.4%	26.0%	51.9%	35.3%
Low	-11.6%	-12.3%	-15.0%	-13.6%	-13.5%	-13.2%

Source: CIAB

Premium Changes in Other Lines

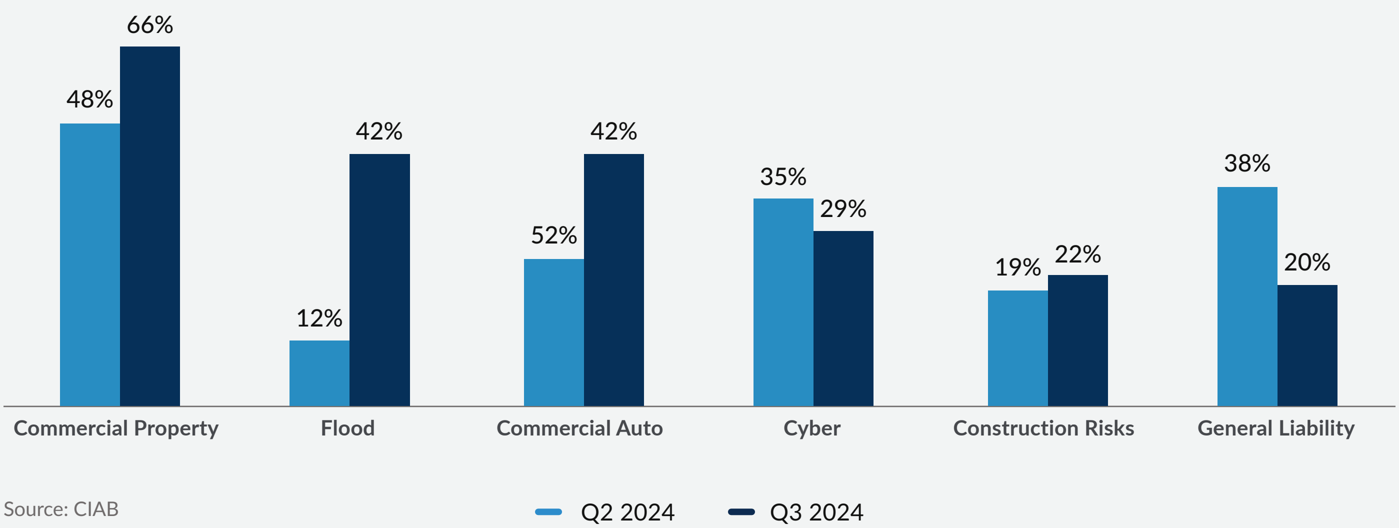
	3Q24	High	Low
Broker E&O	1.6%	15.4%	-4.5%
Business Interruption	3.1%	28.8%	-10.2%
Construction	3.4%	38.7%	-10.7%
Cyber	-1.5%	34.3%	-1.7%
D&O Liability	-1.9%	32.4%	-8.7%
Employment Practices	0.3%	21.9%	-8.1%
Flood	3.3%	8.6%	-2.7%
Marine	1.6%	4.5%	-10.6%
Medical Malpractice	1.6%	32.5%	-4.1%
Surety Bonds	0.3%	11.2%	-2.3%
Terrorism	0.3%	10.4%	-3.6%

Source: CIAB

Property

Average premium increases for Commercial Property in Q3 continued to decelerate at 7.9%. However, property and flood claims spiked due to natural catastrophes, including those caused by Hurricanes Helene and Milton.

Respondents Reporting an Increase in Claims



Source: CIAB

The impact of events generating above-average losses on the Property market moving into 2025 remains to be seen. We will continue to monitor this closely with January and April renewals.

General Liability

General Liability premium increases averaged 4.8% in Q3, slightly lower than in Q2, according to the CIAB. Certain industry classes experienced higher rates, including Real Estate, Habitational, Hospitality, and Public Entities, due to increased litigation, higher claims costs, and larger verdicts.

Commercial Automobile

While premium increases for Commercial Auto averaged 8.5% in Q3, they continue to be higher for loss-challenged accounts. According to a report from AM Best, the Commercial Auto segment incurred a net loss of $5 billion in 2023, with results in the first half of 2024 showing further deterioration from the prior year. High verdicts and settlements and the cost of components, especially in newer vehicles loaded with advancing technologies, have contributed to increased loss severity in Commercial Auto.

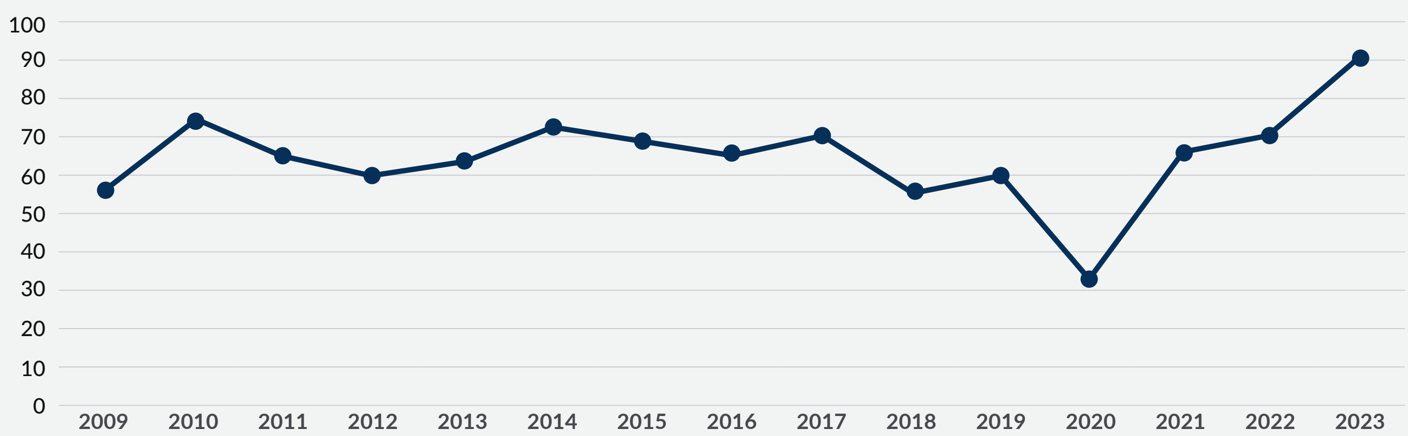
Commercial Umbrella

According to the CIAB report, the Commercial Umbrella and Excess market experienced an average premium increase of 8.6% in Q3, higher than the previous quarter. Certain classes of business and those with adverse loss development are seeing even higher increases. Insurers also continue to limit capacity in Excess towers. Carriers previously providing $25 million often provide only $15 million, and those that provided $10 million have reduced capacity to $5 million, at least in the first $25 million of limits.

Long-tail auto claims and higher severity trends in general/product liability claims are impacting the Umbrella market. The market also continues to feel the effects of nuclear verdicts and liability settlements. Factors like legal system abuse, third-party litigation financing, and innovative plaintiff strategies drive up settlement costs as insurers opt for larger payouts to sidestep the uncertainties of jury decisions.

According to Marathon Strategies, in 2023, juries found corporate defendants liable for more than $14 billion in nuclear verdicts in 89 cases.

Number of Corporate Nuclear Verdicts: 2009-2023



Source: Marathon Strategies

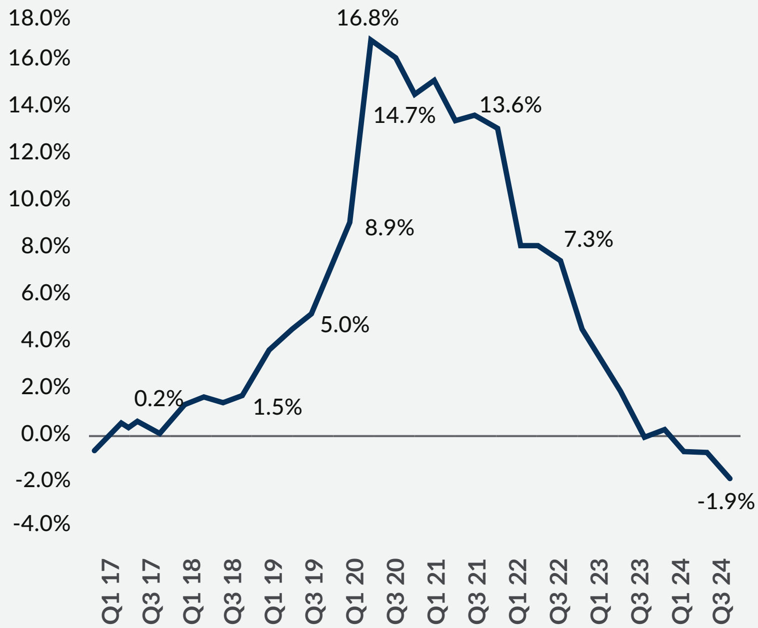
Workers' Compensation

Workers' Compensation premiums remained flat or had small decreases in Q3, although underwriters continue to be about increasing reserves and rising medical costs.

Directors & Officers (D&O)

According to CIAB, D&O premiums dropped the most out of the lines whose premiums decreased, at an average of -1.9% in Q3. Carrier competition and increased capital contributed to the downward pressure on premiums.

Premium Change for D&O, 2017 - Q3 2024



Source: CIAB

Cyber

Systemic attacks and single-point-of-failure events have insurers looking to quantify this exposure better and address it moving forward. Meanwhile, carrier competition has held premiums in line and driven some rate decreases.

Employee Benefits

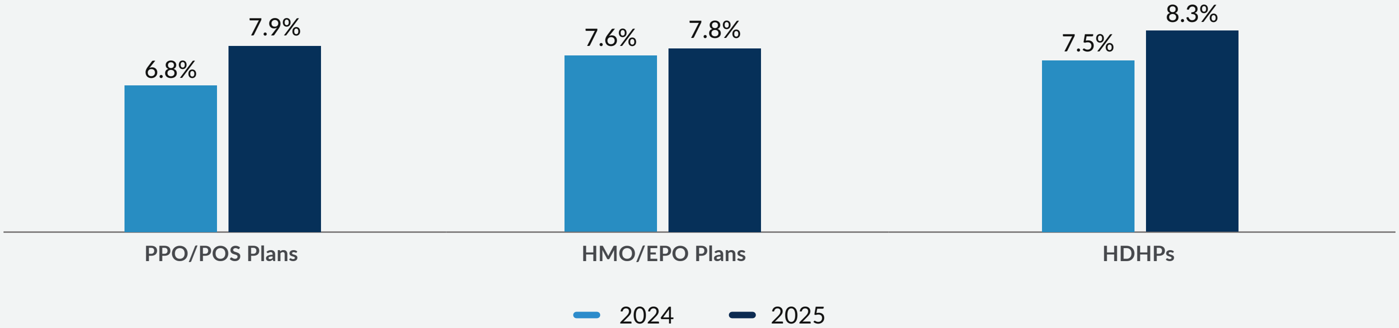
The employee benefits landscape is expected to continue to shift going into 2025, driven by cost trends, regulatory changes, and evolving healthcare needs.

Healthcare Costs Continue to Trend Upwards

Healthcare costs continue to rise, according to a survey conducted by consulting firm Segal, with medical costs expected to be 7.5% to 8% higher heading into 2025. Consultancy group PwC underscores the Segal projections, projecting medical cost growth to reach its highest level in 13 years in 2025 with an 8% year-over-year increase for the group health insurance market.

The increase in healthcare costs is driven by several factors, including the aging population, growing prescription drug spending (including costly weight loss medications), delayed treatments during the pandemic, the higher costs associated with advanced medical devices and treatments (such as gene therapy in cancer care and transplant procedures), rising utilization of behavioral healthcare (spending on mental healthcare has increased more than 50% since the pandemic), provider consolidation, medical price inflation, workforce shortages, and regulatory changes.

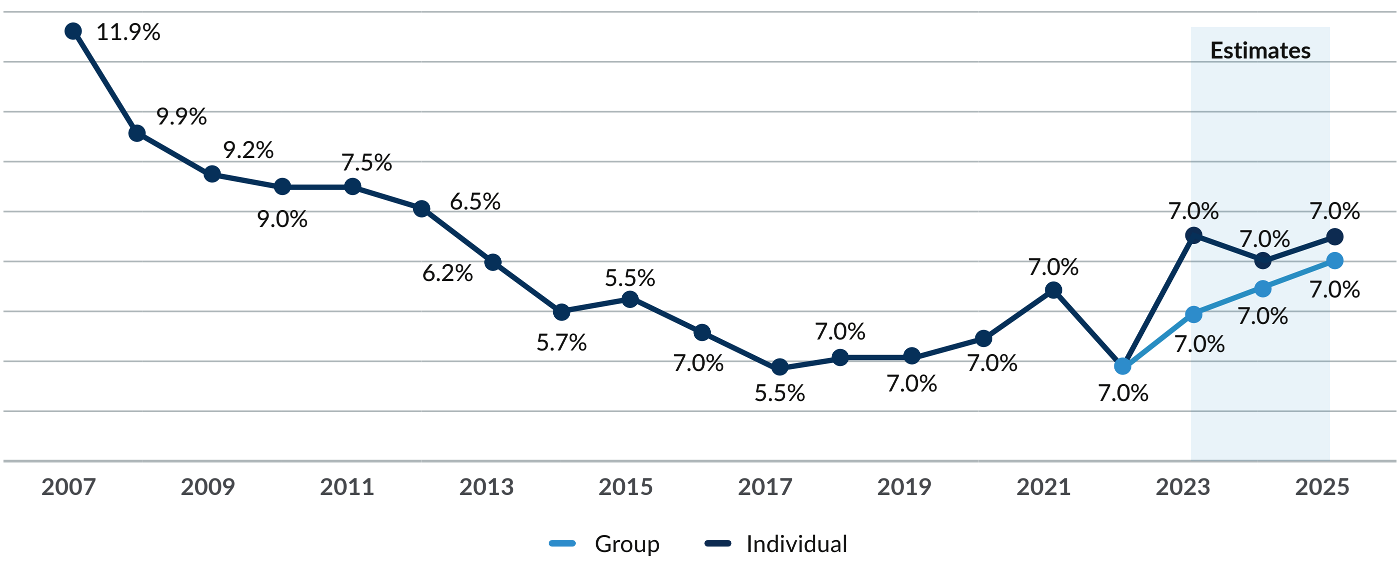
Medical Trend Projections* for 2025 Are Higher Than 2024 Projections



* Projections are for active and non-Medicare retirees and exclude prescription drugs.

Source: 2025 Segal Health Plan Cost Trend Survey

HRI Projects Medical Cost Trend to be 8.0% for Group and 7.5% for Individual in 2025

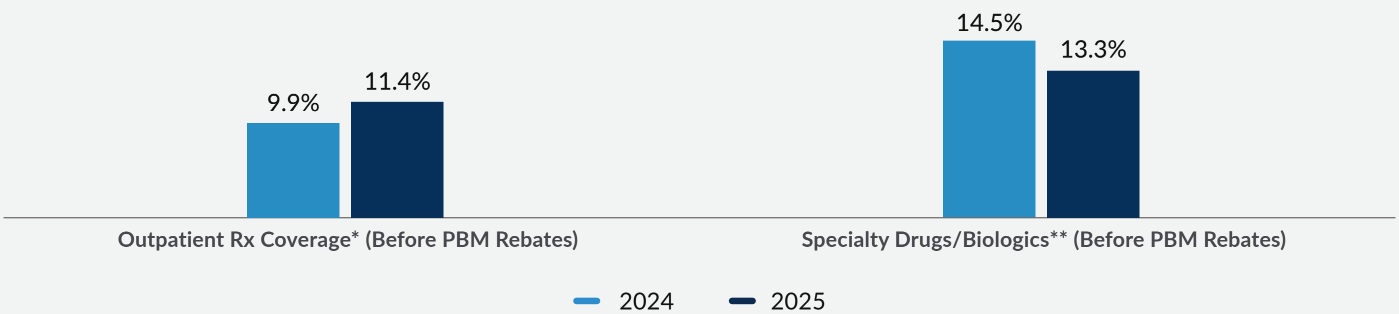


Source: PwC's Health Research Institute (HRI)

Specialty Drug Costs

Specialty drug costs are also projected to rise by 13.3% by 2024, somewhat lower than in 2024, according to Segal. The principal factor behind the continued specialty drug trend is the utilization of new high-cost specialty drugs replacing lower-cost therapies.

Prescription Drug Trend Is Projected to Reach Double Digits for Outpatient Rx Coverage with Specialty Drugs a Significant Driver



* Outpatient Rx trend is for all prescription drugs (non-specialty and specialty drugs combined) for employer-sponsored plans for actives and non-Medicare retirees.
** Specialty drug/biologics trend is for outpatient specialty coverage. This data is for all coverage of specialty drugs for actives and non-Medicare retirees.
Source: 2025 Segal Health Plan Cost Trend Survey

Access to Care – Delays and Overburdened Providers

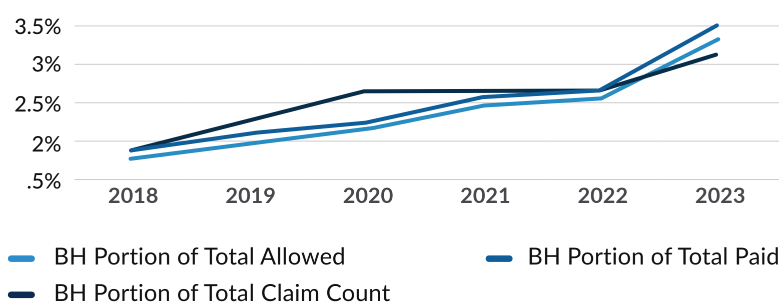
One of the emerging trends is the significant strain on the healthcare system, exacerbated by both post-COVID demand and a growing aged population. This has led to longer wait times for appointments, as healthcare providers are stretched thin, and difficulty in accessing routine care can lead to delayed diagnoses and more costly interventions when conditions worsen.

Employers should continue promoting preventive care and exploring alternative care delivery methods, such as telemedicine or partnerships with urgent care centers, to mitigate these challenges.

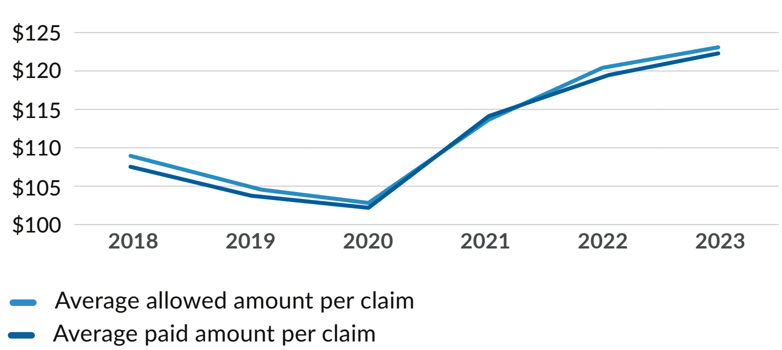
Behavioral Health Claims

The utilization and cost of behavioral care have grown since the pandemic. At the same time, there's an increasing demand for behavioral healthcare workers and not enough workers to meet the demand.

Percentage of Behavioral Health Total Claims and Claim Counts Among All Medical Claims 2018-YTD 9/30/2023



Behavioral Health Unit Cost Trend 2018 - YTD 9/30/2023



Source: PwC's Health Research Institute (HRI)

Medical Inflation

According to the Segal report, medical price inflation in mid-2024 exceeded the growth for non-medical goods and services. Inflationary pressure has led to higher contracting reimbursement rates. Additionally, ongoing clinical workforce shortages are expected to contribute to financial challenges for hospitals, forcing them to seek higher reimbursement rates from payers during contract negotiations. Telemedicine and virtual care options, while helpful in deflating some costs, have not fully alleviated the strain on an already overstretched healthcare system.

Regulatory Changes

Medicare Part D Changes & Creditable Coverage Challenges

The Inflation Reduction Act significantly changed the structure and value of Medicare Part D. Seniors now receive more substantial financial breaks, and Medicare covers more costs. Consequently, the "actuarial value" of Medicare Part D has increased.

Employers offering prescription drug coverage to Medicare-eligible employees must conduct an annual Part D Creditable Coverage Determination to confirm whether their plan is as valuable as the enhanced Part D benefit. Historically, many employer plans passed this test, but with the increase in Part D value, more plans may fail to meet the standard. If a plan fails, employees who continue on that plan may face penalties when they eventually switch to Part D.

This could become a more pressing issue in 2025 as the safe harbor rule CMS extended ends in 2026. Employers should begin reviewing their plans now to ensure compliance and avoid potential employee penalties. Many employers may need to adjust their plans, such as tweaking deductibles or out-of-pocket maximums, to ensure they remain creditable. Some may offer additional plan options that meet the new standards to avoid penalties for employees.

Mental Health Parity – Strengthened Regulations Coming in 2026

In another regulatory update, the Biden administration finalized new regulations to enhance the Mental Health Parity and Addiction Equity Act (MHPAEA). These changes aim to ensure that mental health and substance abuse treatment benefits are on par with medical and surgical benefits.

Employers must ensure that access to mental health and substance use services, including cost-sharing and out-of-network coverage, aligns with traditional medical services. This move follows a significant spike in the utilization of mental health services during the pandemic, highlighting the increased demand for equitable mental health coverage.

While many details are still being finalized, these regulations will largely go into effect in 2026, giving employers time to prepare and adjust their benefits packages accordingly.

The No Suprises Act

The No Surprises Act, implemented in 2022, prohibits providers who are out of a patient's network from sending a bill to a patient that exceeds in-network co-insurance and co-payment costs for all or all emergency and some non-emergency services. This may have an impact on in-network and out-of-network rates, specifically for care provided by emergency rooms, radiology, anesthesia, and pathology.

Looking Ahead

With rising claims, higher Rx spend, increase utilization of behavioral care, and delayed care leading to more severe and costly treatments, employers must budget for higher premiums and potentially increased employee cost-sharing. Some employers may need to rethink plan design, incorporating cost-control measures such as high-deductible plans or promoting more use of preventive services to avoid larger claims later.

In addition, adjusting to new Medicare Part D requirements and preparing for enhanced mental health parity rules are just a few of the critical areas where action is needed. Employers who proactively adjust their plans to align with these changes will not only remain compliant but also position themselves as responsive to the evolving needs of their workforce.

Market Update by Industry Sector and Coverages

Construction

Overall, the Construction insurance market has seen some stabilization, but certain risks—especially those related to catastrophic exposures, civil infrastructure, and high-risk projects—continue to face significant pressure. Carriers are increasingly selective, requiring higher deductibles, insisting on stricter risk controls, and limiting capacity for high-exposure projects.

The hard market in previous years has begun to stabilize, with rate increases now less pronounced for accounts with robust risk management controls and favorable historical loss performance. However, challenges remain for segments with greater exposure, particularly those impacted by nuclear verdicts, which have continued to affect liability claims. One contributing factor driving these verdicts is the growing scale and cost of projects. When a loss occurs, jurors may be influenced by the substantial financial investment involved, potentially skewing their judgment when determining verdicts. Due to the volatility of today's traditional insurance marketplace, many clients are exploring alternative risk solutions, such as captives.

Builder's Risk

The Builder's Risk market continues to be impacted by catastrophic exposures, especially in regions such as the Gulf of Mexico, the Atlantic Coast, and California. Properties and projects located in these high-risk areas are facing greater-than-average rate increases. The capacity for Builder's Risk insurance has also tightened, with coverage often requiring more carriers to participate to complete programs. This is a shift from previous years when a single carrier could usually provide the necessary limits.

While excess capacity is still available, limits are being reduced, and deductibles are increasing for risks such as severe wind and convective storms. In many cases, more carriers are required to participate through quota-share arrangements, making program structuring more complex. It is now common practice to utilize two or three carriers when putting together the same limits for a project that would have been written by one carrier in prior years.

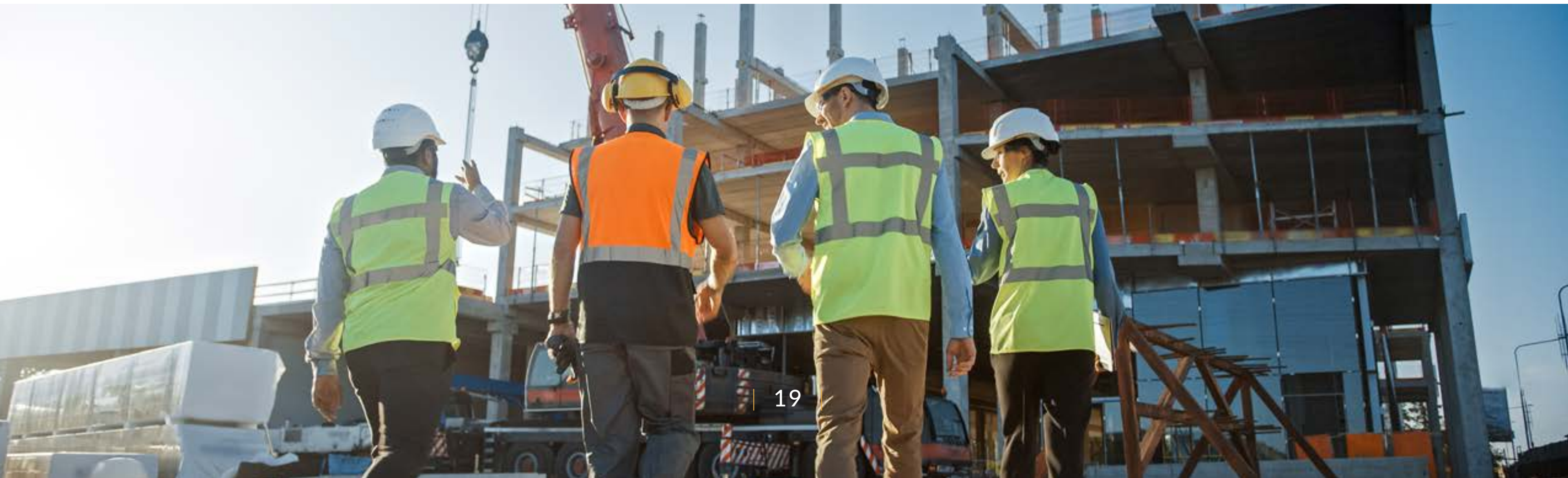
New exclusions are appearing for civil projects. Additionally, while still insurable, wood-frame construction projects face stricter risk mitigation requirements and more limited capacity due to fire risk.

As discussed in our Spring 2024 Market Update, recent court rulings in 2023 and 2024 regarding LEG-3 language in the Builder's Risk policy have important implications for project owners and contractors. LEG-3 refers to a specific coverage extension in the Builder's Risk policy, commonly known as the London Engineering Group (LEG) Clause 3. This clause provides coverage for damages or losses related to defects in material, workmanship, design, or specifications during construction. Most Builder's Risk policies typically exclude faulty workmanship or design errors, while the LEG-3 clause allows for broader coverage, including repair or replacement costs resulting from such defects.

However, recent court interpretations of the clause have insurance carriers more hesitant to deploy the LEG-3 sublimit as freely as they have in the past. Coverage can still be achieved if adequate project details and methodology are provided for domestic and overseas underwriting review.

Workers' Compensation

The Workers' Compensation market remains stable and profitable for most insurers, though increased labor and medical costs are closely monitored. Certain states, such as New York, New Jersey, and California, are experiencing rate increases due to litigation pressures.



General Liability and Commercial Auto

The General Liability market remains stable for construction risks with favorable loss experience, although certain litigious states like New York and California are experiencing higher rates and a push for higher primary limits (e.g., from $1 million occurrence/$2 million aggregate to $2 million per occurrence/$4 million aggregate) for challenging risks.

Everyone in the market is closely watching the increased litigation involving perfluoroalkyl and polyfluoroalkyl substances (PFAS), including in the construction space and use of these substances in concrete, asphalt, paints, solvents, and other materials.

Commercial Auto insurance continues to be a challenging product line due to rising repair costs and large verdicts, with nearly all clients seeing rate increases, even those with good loss histories. We expect double-digit rate increases to continue throughout 2025.

Excess Liability

Excess Liability markets are seeing reduced capacity and increased rates, particularly for clients with an unfavorable claims history. We expect markets still participating in $25 million capacity within the first $100 million attachment point to either reserve this limit for a select few contractors, or to reduce it entirely, capped at $15 million.

Professional Liability and Pollution Liability

Professional Liability continues to face tightening, with reduced limits and stricter underwriting scrutiny, especially for projects involving design and engineering. Carriers are still restricting their capacity to $10 million, with a few insurers offering up to $25 million. We believe there is about $300 million in capacity in the U.S., London, and Bermuda markets. The Pollution Liability market remains stable with aggressive rates and ample capacity.

Contractor's Equipment

The Contractor's Equipment market remains stable with minimal increases even for those with unfavorable loss history. The market has plenty of capacity. Adequate deductible structure is imperative for keeping rates low and when searching for a long-term partner in the Contractor's Equipment space.

Surety

We are beginning to see upticks in the loss activity within the Surety market. While conditions in the Construction market remain favorable, we are still seeing record backlogs and a challenged labor market along with subcontractor balance sheet pressure.

The financial health of contractors is now more critical than ever. Surety underwriters are paying closer attention to contractors' balance sheets, project selection, and subcontractor relationships. Contractors with stronger financials and careful project management will continue to have better access to Surety capacity. It is imperative that clients maintain strong internal controls and a high degree of integrity in their internal financial data as underwriters are relying on and heavily scrutinizing interim information.

The lack of skilled labor in the Construction industry increases risk to project costs and delays, potentially affecting a contractor's ability to complete projects on time leading to potential claims. Because of this, it has forced many contractors to rely on less experienced teams, heightening the risk of defects and market risk.

Reinsurer Scrutiny of Surety Carrier's Book of Business

Rising scrutiny from reinsurers is beginning to take its toll, particularly in evaluating insurers' portfolios. Reinsurers are imposing higher attachment points, increased reinsurance costs and stricter terms, especially for sectors like oil, gas, and construction. This is leading to Surety carriers limiting their exposure to specific business classes and increased underwriting discipline.

Contractors with solid financial health, proven track records, and strong project management will fare best as the market continues to deal with increased reinsurance pressures. Those in sectors under increased scrutiny may face tighter Surety terms and higher costs.

It is critical for clients to maintain an open dialogue with their carriers and remain vigilant in maintaining a healthy balance sheet to curb the impacts of market fluctuations.

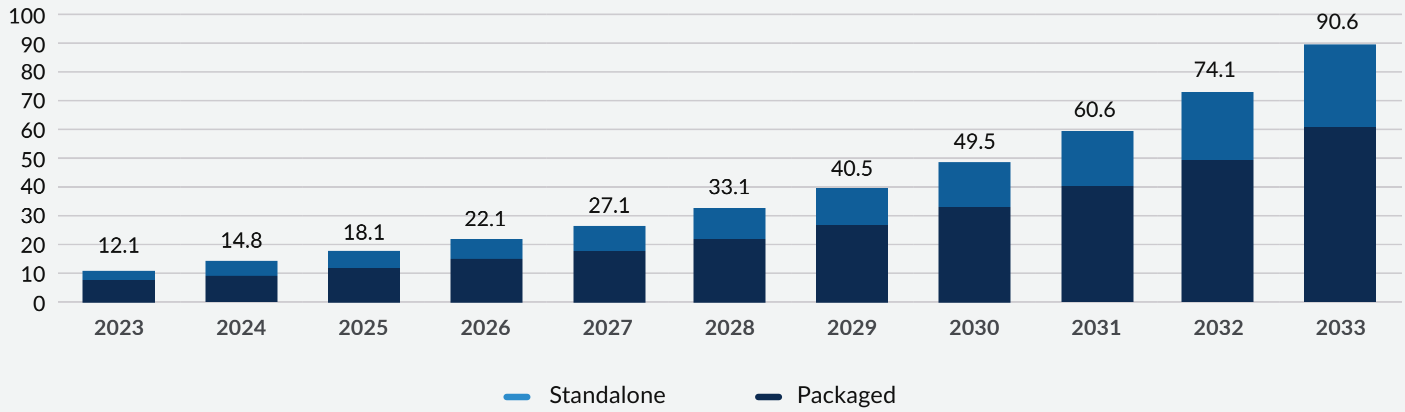
Cyber

While the Cyber insurance market remains stable for now, future large-scale events or systemic failures could lead to shifts in pricing and coverage availability.

As we head into the final quarter of 2024, the Cyber insurance market remains a crucial focus for businesses across industries. Forecasted to grow into a $90 billion market by 2033,[1] Cyber insurance continues to experience rising demand amid persistent and evolving threats. While rates have remained stable, underwriters are scrutinizing internal controls more closely, particularly in areas like single-point-of-failure (SPOF) and systemic risk involving third-party vendors and data leaking.

Global Cyber Insurance Market

Size, by insurance Type, 2023-2033 (USD Billion)



The Market will Grow at the CAGR of: **22.3%**

The Forecasted Market 22.3% Size for 2033 in USD: **$90.6B**

Third-Party Vendor Single-Point-of-Failure Risk and Systemic Events

Single-point-of-failure risk is one of the most pressing concerns in the current Cyber insurance landscape. The CrowdStrike incident in July highlighted the widespread impact that a single vendor's vulnerability can have across multiple industries. In such cases, a failure by a key provider can have ripple effects throughout the global business community, causing significant operational disruption.

In fact, the CrowdStrike software bug uploaded to Microsoft operating systems caused the largest IT outage in history. According to Microsoft, approximately 8.5 million Windows devices were directly affected by the CrowdStrike logic error flaw.

The outage grounded thousands of flights worldwide, leading to significant delays and cancellations. Public transit in multiple cities was affected, including Chicago, Cincinnati, Minneapolis, New York City, and Washington, D.C. Hospitals and healthcare clinics around the world faced significant disruptions in appointment systems, leading to delays and cancellations. The outage impacted online banking systems and financial institutions worldwide. Multiple payment platforms were affected, with individuals not receiving their paychecks when expected. Multiple media and broadcast outlets, including British broadcaster Sky News, were taken off the air by the outage.[2]

CDK Global is another example of the impact of a single-point-of-failure risk and a systemic event's impact on businesses. CDK Global provides a dealer management software system to more than 15,000 car dealerships. In June, the company was hit with two cyberattacks that resulted in an ongoing outage, forcing dealerships to conduct business with pen and paper. Dealers were not able to use the CDK software to book sales, register new cars, or perform other online tasks.

Managing Single-Point-of-Failure Risks

Businesses must take a proactive approach to managing their third-party vendors. This includes conducting thorough risk assessments of critical vendors and considering worst-case scenarios. While many companies rely on security audits or Systems and Organization Controls 2 (SOC 2) reports, robust security measures are essential.

The following are measures to help manage and mitigate security risks from third-party vendors:

- **Identify potential single points of failure by pinpointing crucial components in your system that, if they fail, could lead to significant disruptions.** Once identified, you can take steps to fix or replace these vulnerable parts.
- **Use Failure Mode and Effects Analysis (FMEA) to detect potential SPOFs.** This structured method helps identify components most likely to fail, analyze their impact, and prioritize them based on severity. Using FMEA, businesses can methodically uncover and address critical SPOFs in their systems.
- **Test all updates from vendors before deploying to production.** Automated updates are a long-standing best practice for keeping systems up to date. However, the CrowdStrike incident exposed the fundamental vulnerability with such a method. For mission-critical systems, testing updates before deployment or establishing a staging environment before releasing updates to production may help to reduce risk.
- **Use data replication strategies, which involve creating copies of your data across multiple servers and locations.** This ensures that your data remains safe and accessible even if one server fails.
- SPOFs often arise from network issues and security vulnerabilities, both of which can significantly reduce platform reliability. **Strengthen core components like your domain name, network design, and system security to eliminate many SPOFs.** For instance, using multiple DNS systems prevents domain-related failures, while redundant IP addresses minimize network disruptions. Enhanced security measures, such as firewalls and intrusion detection systems, bolster system robustness.
- **Educate your team about SPOFs and how to identify them to maintain system reliability.** Regular training programs can equip your employees with the knowledge to detect and address potential failures, improving overall risk management.

Contract Negotiations with Third-Party Vendors[3]

- **Set security standards in contracts.** Ensure that all vendor agreements reflect the security standards required by your jurisdictions. This could include specific data protection measures or protocols for breach notification.
- **Specify breach notification timelines.** Depending on your region's regulations, there may be minimum required timelines for vendor breach notifications. Ensure these are clearly stated and agreed upon in your contracts.
- **Include internal breach reporting clauses.** Contracts should mandate that vendors report internal security incidents, even if they don't qualify as public data breaches. This proactive communication can provide valuable insight into your vendor's security posture.
- **Insist upon right to audit.** Include clauses that allow you to audit vendors' internal security processes, assessments, and compliance with your company's security requirements.
- **Review service level agreements (SLAs).** Ensure that SLAs align with your organization's business and compliance needs, especially for security and performance standards.

Termination

- **Manage data access after termination.** Revoke all vendor access to your systems and data upon contract termination or off boarding. Ensure that the final audit confirms compliance with your security and regulatory policies.
- **Implement data deletion protocols.** Depending on jurisdictional requirements, ensure data deletion processes are in place. Some regulations require proof of data deletion, so obtain certificates of deletion where necessary.

Data Leakage

Data leakage involves the unauthorized or unintentional exposure of sensitive, confidential, or personal information to individuals or systems that should not have access to it. This can occur through various means, including cyberattacks and malicious insider activities. The types of data affected by data leakage include personal identifiable information (names, Social Security numbers, financial details, etc.), intellectual property (trade secrets, proprietary algorithms, designs, or research), corporate data (sensitive business plans, financial reports, contracts, etc.), and medical data (health records, treatment plans, insurance information, etc.).

Data leakage can result in penalties for non-compliance with data protection laws (HIPAA) and costs related to data recovery, legal action, or brand damage. Businesses can also suffer reputational damage among customers and partners and face potential lawsuits or fines due to the mishandling of personal data.

Preventing Data Leakage

- **Encryption:** Ensure that all sensitive data is encrypted during transmission and storage.
- **Access Controls:** Restrict access to sensitive data based on user roles.
- **Regular Audits and Monitoring:** Track and log data access to detect and mitigate risks early.
- **Data Loss Prevention (DLP) Tools:** Utilize technologies to detect and prevent data leakage incidents.

Proper security measures and employee training are essential to prevent data leakage and protect sensitive information.

Review Your Cyber Insurance Policy

While most Cyber policies cover business interruption for cyberattacks, system failure coverage is also critical. System failures resulting from unplanned outages or technology malfunctions (rather than direct cyberattacks) can cause significant downtime and financial losses. As seen in the CrowdStrike incident, these failures can paralyze operations, forcing companies to replace hardware or reconfigure software to resume business activities.

Review your Cyber policy to understand the limits of coverage for system failures and dependent business interruptions. Pay attention to changes in waiting periods, which may impact how quickly you can claim losses. Some policies impose financial deductibles for losses incurred during this waiting period, making it crucial to understand the fine print.

Going forward, insurers are closely evaluating how much coverage to offer for system failures versus cyberattacks. There is also speculation that future policies may limit dependent BI coverage for system failures, making it harder for companies to recover losses related to third-party outages. For businesses, this means more thorough vendor management is essential to mitigate these risks.

With cyber extortion, particularly ransomware attacks, remaining a significant threat, businesses should ensure they understand how their Cyber policy handles ransom payments. Some policies offer “pay-on-behalf” coverage, while others may require the company to pay the ransom and seek reimbursement, which could strain cash flow.

Looking Ahead

Although the Cyber insurance market remains competitive, underwriters are paying closer attention to overall cybersecurity hygiene and business continuity best practices. Strong internal controls, including cybersecurity measures and vendor management protocols, will continue to be essential for securing comprehensive coverage at favorable rates.

[1] market.us
[2] TechTarget
[3] Upguard

Dealer Services

The insurance landscape for Dealers continues to experience significant challenges in Commercial Auto. The CDK Global cyber incidents also revealed vulnerabilities and broader implications when an industry suffers a single point of failure.

During the early months of the pandemic, a combination of Federal financial aid and social distancing led to a sharp rise in all dealers' sales, pushing sales to multi-year highs. However, this surge in demand has since reversed, resulting in a significant market correction as demand returns to normal and economic conditions tighten. Higher interest rates typically mean sales are down, which directly correlates to Liability premiums, so finding creative ways to reduce premiums is imperative. With the rising cost of living, remote work becoming less feasible, and increasing interest rates, financing these expensive purchases has become more challenging for consumers. Dealers are also concerned about how a new administration will impact interest rates, infrastructure spending, and regulations.

Commercial Auto Insurance

Automobile accidents continue to remain a significant issue for Auto Dealers. Rates for Commercial Auto insurance continue to show an upward trend across the board. Insurance carriers are becoming more stringent in reviewing motor vehicle reports (MVRs) for all employees who drive company vehicles. In the past, insurers typically sampled only a portion of the dealership's drivers, but now they review all employees.

Auto Dealers should ensure that all employees driving company vehicles maintain clean driving records to mitigate risk and manage insurance rate hikes.

Texas is banning temporary paper license plates, the source of massive fraud across the state, as of July 2025. Although there are many logistics to sort out, because dealers will now have to house plates somewhere, these challenges are minimal compared to the fraud and "ghost cars" traveling around the state.

Increased Exposure for Loaner Inventory

Historically, dealers will have a few vehicles in their inventory designated as loaners, and chances are most of these would be valued at less than $20,000 unless an OEM covers them. This is not the case today. During the pandemic, inventory was scarce, causing used vehicles to appreciate, and new vehicles were sold over MSRP. Now we are in a situation where dealers can't find inventory less than $30,000 and as high as $40,000 in some rural areas.

Depending on your state minimum insurance requirements, you could have an increased exposure of which you are unaware. For example, if you have a customer in Texas who only purchases the state minimum for Property Damage Liability, there is only $25,000 of coverage. If this customer is in a $35,000 loaner and totals the vehicle, their insurance will only provide coverage up to $25,000. The customer will typically be required to sign over the title before the carrier releases the funds. In this scenario, the dealer is out $10,000 and a vehicle.

To mitigate this exposure, Dealers are encouraged to:

- Verify that customers have adequate insurance coverage before providing them with a loaner vehicle
- Designate lower-value vehicles for loaner use to reduce potential financial exposure
- Consider purchasing Excess Contingent Auto insurance, which can cover the gap between a customer's insurance payout and the actual value of the loaner vehicle

Here are Property Damage Liability Minimum Insurance Requirements by State:

State	Requirements
Alabama	$25,000*
Alaska	$25,000* (Car insurance is optional for certain remote residents)
Arizona	$15,000*
Arkansas	$25,000*
California	$5,000*
Colorado	$15,000*
Connecticut	$25,000 property damage liability
Delaware	$10,000*
Florida	$10,000*
Georgia	$25,000*
Hawaii	$10,000*
Idaho	$15,000*
Illinois	$20,000*
Indiana	$25,000*
Iowa	$15,000*
Kansas	$25,000*
Kentucky	$25,000*
Louisiana	$25,000*
Maine	$25,000*
Maryland	$15,000*
Massachusetts	$5,000*
Michigan	$10,000*
Minnesota	$10,000*
Mississippi	$25,000*
Missouri	$25,000*

State	Requirements
Montana	$20,000*
Nebraska	$25,000*
Nevada	$20,000*
New Hampshire	$25,000*
New Jersey	$5,000*
New Mexico	$10,000*
New York	$10,000*
North Carolina	$25,000*
North Dakota	$25,000*
Ohio	$25,000*
Oklahoma	$25,000*
Oregon	$20,000*
Pennsylvania	$5,000*
Rhode Island	$25,000*
South Carolina	$25,000*
South Dakota	$25,000*
Tennessee	$25,000*
Texas	$25,000*
Utah	$15,000*
Vermont	$10,000*
Virginia	$20,000*
Washington	$10,000*
West Virginia	$25,000*
Wisconsin	$10,000*
Wyoming	$20,000*

*Property damage liability per accident

Property

The Property insurance market has experienced fluctuations, with rates in the past couple of quarters showing signs of improvement before Hurricanes Helene and Milton. Before these catastrophic events, Property insurance rates had been trending downward. However, with estimates in the multi billion-dollar range for both hurricanes, there is uncertainty about future Property insurance rates. Depending on the extent of the losses, some carriers may need to adjust their rates upward.

Cyber Liability

Cyber risks have become a growing issue for all dealerships. On June 19, 2024, CDK Global, a software-as-a-service platform that offers a comprehensive suite of apps to manage auto dealership operations, including sales, CRM, back office, financing, inventory management, service, and support, was targeted by a massive cyberattack. The attack forced CDK Global to shut down its systems to avoid further damage. Just as recovery attempts were underway, a second breach occurred, exacerbating the disruption. The incidents impacted about 15,000 auto dealerships nationwide, highlighting the vulnerability of systemic attacks on the industry.

Additionally, these incidents revealed the importance of carefully reviewing Cyber insurance policies to ensure coverage extends to all critical providers and suppliers. It's also important to know whether policy sublimits exist for these types of risks and ensure all your third-party providers follow stringent cybersecurity practices. Simply purchasing a Cyber policy with a large coverage limit does not guarantee blanket protection for all cyber-related incidents.

Rising Costs and Reducing Profit Margins

Auto dealers' profit margins are being squeezed as the effects of the pandemic linger. The high value of used vehicles and increasing insurance premiums add pressure to operating costs. Dealers are encouraged to review their insurance programs, implement loss control measures, and explore risk management strategies to help reduce insurance premiums.

Looking Ahead

To manage costs, review your insurance program and consider modifications, such as deductible and retention changes. McGriff can assess your program to enhance business security and potentially reduce costs.

Energy

The Property sector in the Power and Midstream markets saw a stable, competitive environment with rate decreases, especially in London, despite anticipated wildfire and hurricane risks. ESG underwriting is stabilizing, though coal-heavy clients face capacity constraints. Liability renewals, particularly for wildfire risks, remain challenging, with high demand for careful modeling and budget management. In Renewables, severe convective storms, especially hail, impact Texas-based projects. Upstream markets anticipate stable to slightly increased reinsurance rates, with robust capacity for windstorm and well-control coverage.

Power and Midstream

Property

The Property market has continued to improve throughout 2024. Buoyed by an especially competitive market in London with an influx of new capacity, Q3 and Q4 2024 renewals are seeing stable rates and rate decreases on top-performing and/or large accounts. Property insurers had anticipated a potentially challenging year with respect to hurricanes and wildfires. While those perils have impacted the general Property market in 2024, the Power and Midstream saw significantly fewer losses than feared—a testament to deductible adequacy and properly hardened/protected assets.

Business Interruption and NAT CAT (including SOFT CAT) are still focal points for markets, and insureds should expect these exposures to be rated differently. The SOFT CAT (and severe convective storms) issue is further discussed in the “Renewables” section below; however, traditional Energy risks are also seeing changes in coverage. Program aggregates for SOFT CAT exposures remain common, though the softening market has allowed for more flexibility in negotiating limits and structure.

The U.S. market has seen a growth in capacity from both existing players and new entrants. The separation of Chubb and Starr Tech was one specific move that has opened up a prominent insurer, Chubb, to begin writing more business directly. The London market has seen a variety of dynamics that have led to a competitive atmosphere. New entrants are looking to lead business (ex. Volt), long-standing markets with reinvestment in power expertise (ex. Tokio Marine HCC), and the existing traditional markets are looking to maintain or grow their market share in the face of increased competition.

The underwriting approach to ESG has finally reached a point of stability. This does not mean more capacity is available or on the horizon for standalone coal clients or those with heavy coal exposure. However, there is more certainty around the available capacity, and insureds that can communicate clear and achievable ESG strategies/goals should have fewer obstacles to accessing said capacity in this market.

Liability

2024 renewals have been some of the most challenging in years for utilities due to the change in wildfire capacity from EIM ($25 million max for 14 western states, CA excluded, $50 million for all other states). McGriff Energy has separately released presentations on strategies/considerations for the current wildfire capacity crunch, which have been updated based on renewal experience throughout the year. At the start of the year, there was concern that a significant wildfire year could lead to greater capacity reduction – fortunately, that has not come to fruition. Unfortunately, wildfire pricing has not improved despite a relatively moderate season. As the capacity and pricing issue is not expected to improve in the near future, we recommend insureds remain prudent with the things they can control related to the wildfire situation.

- **Alignment of Internal Stakeholders:** Discussions with legal, regulatory, operations, finance, and risk management to determine the viability of self-insurance vs. traditional risk transfer vs. reinsurance or other alternative risk-financing strategies. Consider the impact of self-insurance on how debt markets and investors will view your company.
- **Third-Party Modeling:** Better understand your risk and allow for real-time monitoring and modeling of potential loss scenarios.
- **Establish a Budget:** How much can be realistically spent?
- **Confidentiality & CEII Data:** With insurers requesting more and more information to underwrite wildfire risks, understand what your organization is allowed/willing to share.
- **Activism:** With growing interest in the potential for a socialized solution, communicate your challenges with internal stakeholders, lawmakers, regulators, and peers.

Outside of wildfire, AEGIS and EIM continue to see severity outpacing their recent rate increases. Exclusive of wildfire surcharges/allocation, AEGIS is seeking 10%-12% rate increases while EIM is looking for 20%+ as it has messaged a multi-year correction aimed at pricing, attachment, and potential capacity. With the growing market concern surrounding PFAS, AEGIS now requires a $5 million sublimit; EIM excludes PFAS entirely. Even with the limited coverage, insureds can still expect questions surrounding this exposure. In addition to the change on PFAS, EIM announced in October that they would be utilizing a new form in 2025. The intent is for coverage clarification (not change), however. McGriff continues to evaluate the changes with our clients as we approach the new year.

Excess Liability capacity in Bermuda and London should continue to be viewed through two lenses: with and without wildfire. If no wildfire coverage is purchased or exposure is very minimal, capacity is healthy and rate increases have continued to soften to the mid- to high-single digits. It is a very different story for clients with wildfire exposure. Capacity is much more restricted for wildfire, and opportunistic pricing makes it challenging to estimate year-over-year increases. If insureds ask Bermuda and London markets to drop their attachment points below $100 million (to fill the gap created by EIM), expect pricing to be on a rate-on-line approach, ignoring expiring pricing and rate relativity in the tower. There will still be significant rate pressure for wildfire coverage at expiring attachments (no drop-down), but this will depend more on underwriting factors such as operational territory and exposure type.

Renewables

NAT CAT limits and deductibles continue to dictate most renewal efforts – from both the underwriting and financing perspective. Loss activity has continued for traditional NAT CAT perils and severe convective storms (SCS). Independent NAT CAT analysis remains a focal point for all utility-scale renewable renewals. No model is perfect, but culminating all available data points across multiple modeling platforms, including market/broker/independent commentary, assists all parties in selecting proper limits for projects.

Texas saw significant loss activity in early 2024 from hail and stands out as one of the most challenging locations to place coverage due to a sizeable difference between the coverage financiers require and that which is commercially available. While stow capabilities for solar projects have proven to lessen the impact of hail damage – the most significant peril facing solar – the market has seen a trend of events where the stow protocols/capabilities were incorrectly utilized, leading to high-severity claims. Insureds that have invested in (or will invest in) technologies with stow capabilities should be prepared to demonstrate how they are monitoring, testing, and adhering to the stow protocols they have in place. The good news is that capacity for renewables is continuing to grow, and insureds with a relatively low CAT/SCS profile often see oversubscribed programs, which has helped soften pricing. Long-term agreements are available demonstrating the markets' realization of the competitive environment and their desire to maintain market share on good accounts.

Tax Insurance

Tax insurance is significant in facilitating transactions in the Renewable Energy space, an area that has taken off since passage of the Inflation Reduction Act, which included new tax credit transferability options. It continues to provide credit risk protection and certainty related to qualifying for, quantifying, and recapturing renewable energy tax credits for tax equity investors, lenders, and buyers, each relying on the validity of such tax credits as a significant source of ROI.

Participants in the Renewable Energy space continue to push for expanded coverage beyond what Tax insurance traditionally provides, given some of the newer and less familiar aspects of the Inflation Reduction Act (i.e., new tax credits associated with technologies, such as carbon capture and storage (CCS), hydrogen, and nuclear; novel tax credit bonus qualification criteria, such as prevailing wage and apprenticeship (PWA), energy community, and domestic content adders; and nuanced structures, such as t-flips/hybrid tax equity arrangements). Fortunately, the Tax insurance markets have responded and continue to respond very favorably to the needs of market participants, working with insureds and their advisors to develop creative solutions and policy mechanics to address their unique needs. For example, we recently placed a Tax insurance policy to facilitate a sale of Section 45Q carbon sequestration tax credits, one of the first few such transactions to take place in the space.

New insurer participants, domestic and abroad, continue to enter the U.S. Tax insurance space, which has created a favorable market for insureds due to increased insurer demand for premium and an overall lack of material claims. It should be noted, however, that the IRS has started to more aggressively audit and challenge certain aspects of renewable energy tax credit matters (i.e., qualified basis step-ups and cost segregations), and given the size of the contemplated renewable energy transactions and incentives going forward, it is almost certain increased IRS scrutiny will continue to grow. The IRS received significant funding as part of the Inflation Reduction Act to upgrade its systems, technical capabilities, and workforce. Furthermore, the IRS has explicitly stated that large transactions/corporations and complex partnership structures will be areas of increased IRS audit scrutiny and focus going forward. What this means for policy terms and pricing is hard to say, but it will likely increase the demand for Tax insurance in the future.

Upstream

Reinsurance and Capacity Overview

As we head into the 2025 Reinsurance renewals, early indications are that reinsurers will be pushing for rate and/or structure adjustments again this year. However, there is a level of confidence that the final results will be minimal increases again this year. Other factors that will be taken into account include Hurricanes Helene and Milton and the 2024 first half Lloyd's results.

The losses from the recent storms are coming in less than anticipated, so there is no expectation that the markets will look for adjustments to named windstorm rating in the Upstream space accordingly. There is slight concern that Lloyd's will put pressure on the market, as the Energy sector loss ratio is negative in 2024. Despite these factors, there is an abundance of capacity that has created a shift in the second half of 2024 where the market is seeing single to low-double digit reductions in risk rates. We expect this to continue into 2025.

Named Windstorm (NWS) Capacity and Rating

While there was no major impact offshore in the Gulf of Mexico, there were two catastrophic named windstorms (Helene and Milton) this season. Losses to the insurance market are lower than originally anticipated, and, therefore, we do not expect to see negative rating impact from the 2024 hurricane season's activity. As of this writing, capacity is not expected to change materially going into the 2025 renewal season. This is yet another year of good news for purchasers who should expect flat rating in the coming year. However, McGriff again cautions that, as losses are paid out in the onshore catastrophe-exposed property space, underwriting managers may shift more of their named windstorm capacity to the onshore property market, since they are able to charge much higher rates for the capacity. Should this approach be taken, there may be shrinkage in capacity for the offshore space and impact rating.

Upstream Property and Well Control

For accounts that do not require over $35 million in capacity for Well Control, renewal rates have remained consistent through 2024, ranging from flat to a 10% increase for risks (non-windstorm exposed). With the exit of Travelers Oil & Gas from the Control of Well space, there may be further impact to rates in 2025. However, the good news is there are a number of alternative options, including some facilities in the U.S. and London that are keen to step up and write the market share Travelers is leaving on the table.

Upstream Casualty

"More of the same" is the message in this Market Update on the upstream casualty space. Upstream casualty continues to be challenging, especially for accounts with exposures near or on the water, in specific basins, with large auto fleets, and in jurisdictions where underwriters perceive a continued hostile litigation environment. Markets continue pushing for more restrictive terms and conditions, exclusions, increased deductibles/self-insured retentions, and even warranties containing prescriptive risk management processes. We are also seeing a continuing trend on accounts with auto fleets over 250 in which markets offer only $5 million in lead Excess capacity.

The reduction in lead Excess casualty capacity has resulted in more layering of the Excess programs and pricing increases up to double premium year-over-year for the same $10 million lead excess. Telematics are now considered "best practices," and underwriters are requiring in-person and/or phone loss-control visits prior to releasing new and/or renewal quotes. In addition, many underwriters are considering non-renewing clients with Auto premium outweighing the rest of the primary Casualty program, and many of these same markets are not looking to quote new accounts where Auto premium is in excess of 50% of the total primary casualty premium spend.

Flood

Flood insurance remains a top-of-mind issue in the insurance market, particularly as recent catastrophic weather events have caused widespread damage in coastal and inland communities. These events and the lack of Flood insurance emphasize the persistent and growing need for comprehensive coverage across various property types, including private residences, retail, office, and multi-unit residential buildings.

Beyond Coastal Areas

Hurricane Helene caused significant damage inland, highlighting the heightened risk of floods that extend beyond coastal areas. According to Karen Clark & Company (KCC), inland Georgia and North Carolina regions experienced exceptional rainfall, resulting in catastrophic flooding in several communities. These areas, not usually considered high-risk flood zones, struggled to manage the excess water, resulting in substantial property damage, infrastructure failures, and loss of life.

Due to overflowing rivers and creeks, severe flooding occurred in central and northern Georgia, including in Macon and Augusta. In inland North Carolina, Fayetteville and Raleigh saw rivers like the Cape Fear and Neuse overflow far beyond their banks, damaging homes, businesses, and farmland.

The One-Two Punch of Hurricanes Helene and Milton Refocus Attention on Flood Insurance

Hurricane Helene, followed by Milton, devastated the Southeast. Many impacted by the storms – inside and outside of flood areas – are without Flood insurance. According to an NBC News analysis of data by PowerOutage.us, the U.S. Census Bureau, and the National Flood Insurance Program (NFIP), within the 100 counties most affected by power outages related to Hurricane Helene, approximately 2% of residences had Flood insurance. Only 12% of the 8.97 million properties in Florida have Flood insurance. In Georgia, only 1.6% of the 4.2 million properties in the state are insured against floods. In North Carolina, only 2.6% of the 4.3 million properties have Flood insurance. In Buncombe County in North Carolina, home to Asheville, only 0.9% of homes had Flood insurance, according to data from the Insurance Information Institute.

The number of homeowners with Flood insurance in Florida, which was hit by Hurricane Milton two weeks after areas of the state were hit by Helene, is higher than in other parts of the country. Yet it's still low. In Sarasota County, for example, which took a direct hit from Milton, just 23% of residents have Flood insurance.

FEMA estimates that just 4% of homeowners nationwide have Flood insurance.

Many businesses also forgo Flood insurance. According to FEMA, at least 25% of small businesses never reopen following a disaster.

Behind the Lack of Flood Insurance

There are several reasons why residents and business owners either don't purchase Flood insurance or do not have enough coverage:

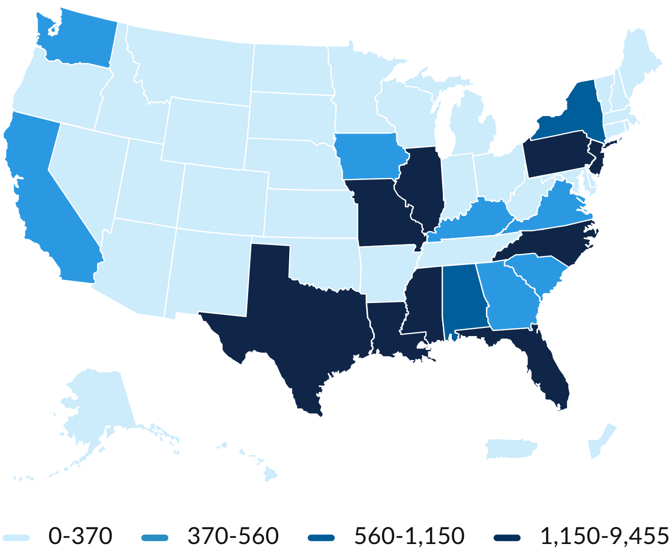
- Many believe their Homeowners or Commercial Property insurance covers flood events; however, these policies typically do not provide coverage.
- Owners with properties outside FEMA-designated flood zones don't believe they need coverage. First, it floods anywhere it rains (coastal, inland, mountains, urban, or rural), as underscored by recent events. Moreover, floods are the most common natural disaster in the U.S., and 90% of natural disasters in the U.S. involve flooding, according to FEMA. Additionally, FEMA's flood maps are often outdated or incomplete. According to a 2020 report from the Association of State Floodplain Managers, only one-third of the nation's floodplains have been mapped out by FEMA. Also, a low-risk flood zone five or 10 years ago can now be high-risk due to new construction, climate change, and changing topography.
- While the NFIP provides Flood insurance, coverage is limited. Commercial property is restricted to \$500,000 in building coverage and \$500,000 in contents coverage. Personal property is limited to \$250,000 in building coverage and \$250,000 in contents coverage. Excess Flood insurance can provide additional limits.
- Some may also believe they will get the assistance needed from the federal government. While help is available when an area is declared a disaster, it is not a substitute for insurance. Federal disaster assistance is typically paid out as a FEMA disaster grant or a Small Business Administration (SBA) loan. The grants paid are usually between \$2,000 and \$7,000, while the average NFIP claim is over \$66,000, according to FEMA. If you receive an SBA loan, you can pay it back with interest.

Repeated Flooding Across the U.S.

According to the Natural Resources Defense Council (NRDC), hundreds of thousands of households have faced multiple damaging floods. Repetitive loss properties (RLPs), according to the NRDC, are those damaged in at least two floods, which resulted in at least two claims to FEMA's NFIP, contributing to the strain on the program. Of these repeatedly flooded properties, only 16% have had their risk reduced by taking actions such as elevating or floodproofing a property and implementing community flood protection (improving drainage infrastructure), etc.

How Many Repeatedly Flooded Properties Have Had Their Risk Reduced?

Total # of Properties by State



Source: NRDC

Changes in Flood Insurance Market Dynamics

As mentioned above, private insurers also offer Flood policies, creating additional options for property owners, depending on the location. Private Flood insurance providers provide higher limits, shorter waiting periods, and customizable deductibles compared to NFIP policies. Additionally, private markets offer primary limits in increased amounts and Excess coverage limits when the NFIP is the best first-tier coverage.

Parametric Insurance

Parametric Flood insurance is gaining traction as an alternative risk solution to help close the Flood insurance gap. These policies offer predetermined payouts based on specific triggers, such as a certain level of rainfall or river height, rather than requiring a damage assessment. While still emerging, parametric products offer efficiency in providing rapid payouts and coverage customization.

Looking Ahead

Flood insurance must be a critical component of any Property insurance strategy for residential and commercial properties and businesses. As the climate patterns change and storms become increasingly frequent and severe, property owners must ensure they are adequately insured against flood risks. Work with McGriff to review and update your Flood coverage and risk-mitigation measures to protect your home and business from future disasters.

Marine

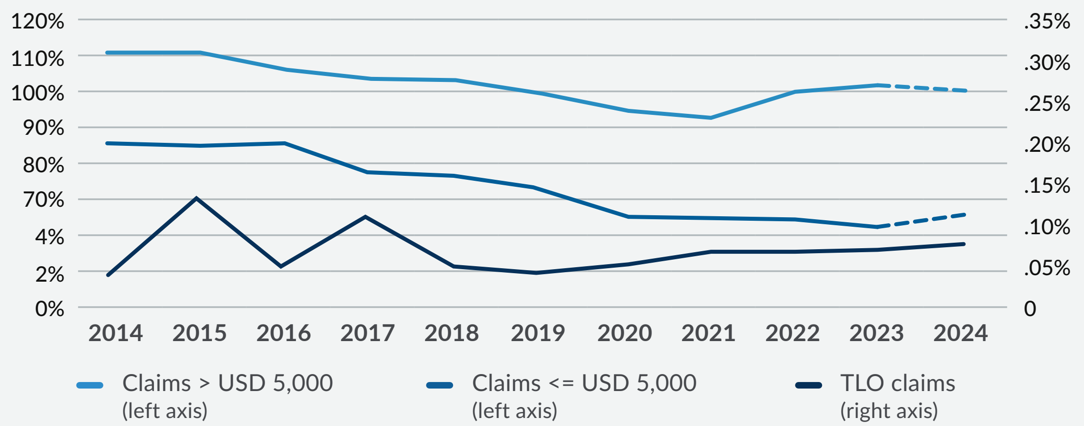
Most Marine insurance market segments have continued to moderate since our Spring 2024 Market Update. While the *Dali* collision with Baltimore's Key Bridge remains a hot topic, initial overreactions have given way to more moderate expectations despite most believing that the loss will set a new record. Often cited in discussions with underwriters, the event has had limited impact on the present rate environment. The upcoming reinsurance renewals and P&I Club renewal guidance in early 2025 will provide greater details on how the loss will impact the market. Other global issues such as the Middle East and Ukraine conflicts remain largely unchanged from an insurance perspective as there has been no recent modifications to the JWLA listed areas.

Thus far, losses in the Marine industry from the hurricane season, including Beryl, Helene, and Milton, have been relatively benign. There were some cargo losses from Beryl, but Helene seems to have had little impact on the Maritime industry as of this publication.

Hull & Machinery

The Hull & Machinery insurance market has continued to moderate, with renewals ranging from low single-digit increases to reductions, depending on loss history. Industry loss trends remain favorable, aided partly by a lack of weather events so far (see IUMI chart).

Hull Claims Frequency: Post-Pandemic Increase But Still Moderate



Overall Claims Frequency

Long-term downward trend. Post-pandemic increase but not exceeding pre-pandemic levels.

Total Loss Frequency

Long-term downward trend. Some increase but still very low level.

Source: International Union of Marine Insurance (IUMI)

Competition remains strong throughout the sector, especially in the London market. The development of London Hull insurers with the capability and preference to write 100% instead of the traditional slip approach, where risks are placed with multiple insurers, has also aided market moderation.

We continue working with our clients to review hull values. As prices have continued to rise and shipyard availability has declined, maintaining adequate limits is critical. Hull coverage is generally provided on an agreed-value basis, and we encourage a review of the values based on current market conditions and need.

Marine Liabilities

The primary Marine Liability (terminal operators, ship repairers, landing owners) space, especially without a P&I exposure, continues to be a favorable class of business for U.S. underwriters. Single-digit price increases at renewal can often be negotiated, and reductions can be achieved for insureds willing to change markets.

Mutual P&I

The mutual P&I market remains a viable alternative, particularly for operators who need the high limits offered. Of the 12 members of the International Group of P&I Clubs, most are in a strong financial position, and a number have provided premium returns in recent years with indications they will consider such returns for the 2023/2024 policy year. As noted above, renewal of the reinsurance treaty will be closely watched. It was recently reported that one of the insurers on the placement has decided not to renew its share of the program and others are seeking “updated terms.”

Fixed P&I/Excess Liability

Rates in the Fixed P&I market, comprising commercial insurers, MGAs, and mutuals, have continued to stabilize for the primary layers (first $1 million), with 5% to 7.5% increases. However, we still see pressure on the Excess Liability placements due to litigation and resulting nuclear verdicts. Despite pricing pressures, the fixed P&I market is a good alternative for operators with limit needs more modest than those offered by the P&I Clubs.

Excess Marine Liability continues to buck the trend of moderating markets. The minimum premium for upper-layer limits has stuck rather stubbornly in the $1,750 - $2,000 per million range. Growing concerns with nuclear verdicts, bad jurisdictions, and high medical expenses frequently push routine primary losses into excess layers. Underwriters continue to reduce line sizes on lower layers. Non-marine exposures associated with Bumbershoot Liability placements are scrutinized much more closely than in prior years. This is particularly true with automobile exposures, as underwriters are requiring higher attachment points and digging deep into a company's automobile risk management plans.

Marine Cargo

The Cargo market has generally performed well, encouraging continued entrants and competition. Long considered a better-priced alternative to the Property market for storage and certain other static risks, the sector has benefited from the benign hurricane season. Coverage terms have become more negotiable. Particularly for non-U.S. insurers, scrutiny of transported products conforming to ESG policies can limit markets for certain commodities.

Looking Ahead

McGriff is working with clients to capitalize on current market conditions. This includes developing a narrative highlighting risk management practices and presenting loss information in the best possible light. Due to domestic capacity restraints, our presence in the London market has continued to grow. We encourage clients to interact with their underwriters in the process.

We will continue to monitor potential headwinds, including any NAT CAT impact and event losses, that could impact the market and will keep clients up to date.

Public Company Directors and Officers Liability

The D&O market remains soft, with commercial rates approaching pre-2019 levels. Capacity also remains abundant, creating more competition among carriers, which continues to drive rates down.

The soft market for Public Directors and Officers (D&O) insurance continues, with flat to mid-single-digit decreases on renewals. This softening follows a significant firming from the end of 2018 through 2021, when rates increased by as much as 200%. Many accounts that received the largest increases have seen substantial reductions in premiums and retentions over past few years, while those that did not see oversized increases have experienced flat to slight decreases. In addition, companies with few options to find a quality carrier from 2019 to 2022 are now looking to do so. Broad terms are also available from more markets.

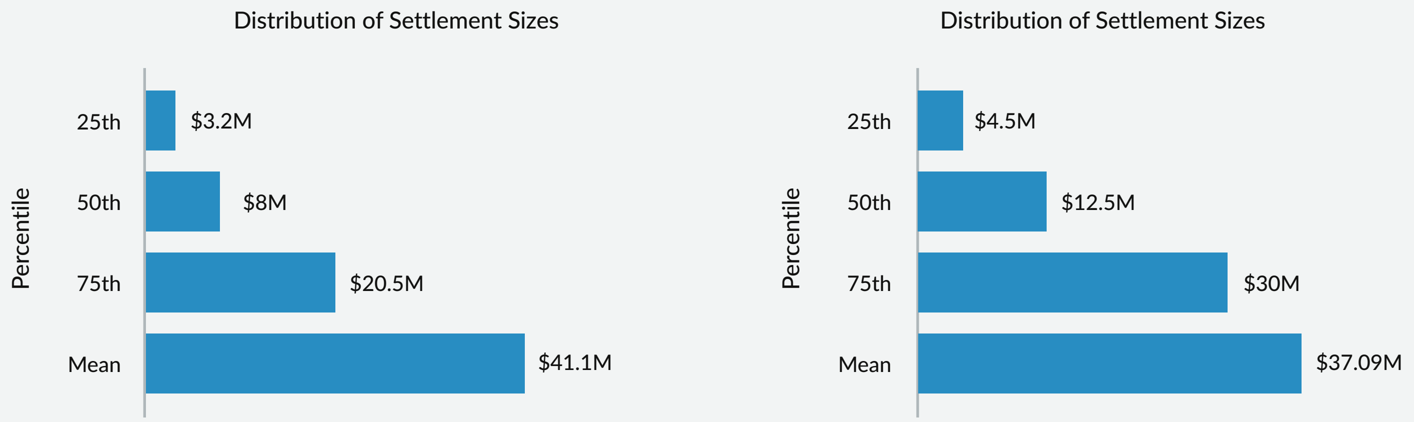
Key Trends in D&O SEC Filings

Decline in Frequency, Increase in Severity

There has been a decline in the frequency of securities class action filings, although severity remains high, and there is a growing focus on event-driven cases (e.g., cyber, environmental issues).

After elevated filings from 2016 to 2020, the frequency of securities class actions has returned to traditional levels of approximately 200 annually (106 in 1H24). Concerning claims severity, since 2019, there have been four settlements in excess of $1 billion and 38 settlements of at least $100 million, with an average of 7.6 settlements per year greater than $100 million. Event-driven litigation—such as cases arising from environmental, cyber, and social issues—accounts for approximately 25% of all class actions.

Settlements from 2014 -2019



Source: Stanford Securities Litigation Analysis

Another trend involves mega derivative settlements, which often accompany event-driven cases such as corporate scandals, environmental breaches, or governance failures and can lead to oversized settlements. These mega settlements are becoming more common, particularly in situations involving egregious dereliction of duty and lack of oversight involving mission-critical corporate functions.

SEC Is Focused on Holding Directors & Officers Accountable

Regulatory pressure from the Securities Exchange Commission (SEC) is intensifying, with personal accountability and whistleblower cases rising. Two-thirds of the cases in 2023 involved charges against individuals, with the SEC obtaining 133 orders barring individuals from serving as directors or officers of a public company. This is the highest number in a decade.

The SEC received more than 18,000 whistleblower reports in 2023 and issued a record $600 million in whistleblower bounty awards that year. One bounty award was $279 million, and other large awards came in at $28 million, $18 million, and $12 million.

Other evolving D&O issues include compensation claw-back rules, cybersecurity disclosure rules and cyber claims, criminal proceedings, climate change disclosure rules, executive compensation, board diversity, and ESG claims.

For example, decisions made by senior leaders are frequently evaluated in the aftermath of cyberattacks. D&O losses may result from charges that top management failed to take reasonable precautions to protect stakeholders' personal or financial information, adopt procedures to detect and prevent cyberattacks, and report occurrences or alert the proper parties. Most recently, the SEC charged four current and former public companies – Unisys Corp., Avaya Holdings Corp., Check Point Software Technologies Ltd, and Mimecast Limited – with making materially misleading disclosures regarding cybersecurity risks and intrusions. The SEC also charged Unisys with disclosure controls and procedures violations. The companies agreed to pay the following civil penalties to settle the SEC's charges:

- Unisys: $4 million civil penalty
- Avaya: $1 million civil penalty
- Check Point: $995,000 civil penalty
- Mimecast: $990,000 civil penalty

The charges against the four companies result from an investigation involving public companies potentially impacted by the compromise of SolarWinds' Orion software and by other related activity.

Additionally, with increased ransomware attacks and digital warfare exposures, cybersecurity has become a global D&O problem.

Looking Ahead

Market participants anticipate flattening rates through 2025, with a stable but competitive environment where incumbent carriers may resist further price reductions. Incumbent carriers will work hard to avoid underpricing and returning to the hard market of years past. Insurers are also cautious as claims trends show higher settlements and regulatory activity.

Public Entity

While there are pockets of insurance rate relief, Public Entities face a complex landscape with rising exposures, changing public opinion, and stretched budgets. Careful attention to coverage adequacy and risk management will be critical in managing future insurance costs.

Property

The insurance market for Public Entities has faced considerable shifts, primarily driven by natural disasters and evolving risk exposures. Property insurance had shown signs of stabilization, with some rate decreases prior to the recent hurricanes. In Q2 2024, the Property market began to normalize. By Q3 2024, clients saw additional price reset due to increased capacity and competitive pricing as new entrants and capital returned to the market.[1]

However, catastrophic events in September and October will likely reverse those trends, especially in high-risk areas like Florida. Damage from Hurricane Helene is projected to cost up to $30 billion in insured losses, while insured losses from Hurricane Milton are estimated to reach up to $36 billion.

Property Valuations

Key concerns include maintaining accurate property valuations, especially as construction costs and labor expenses rise. Public Entities are urged to focus on ensuring appropriate total insured value (TIV) to avoid underinsurance in the event of loss. Retaining good maintenance records and asset schedules is critical in communicating risk controls to underwriters.

Business interruption remains a crucial focus for public entities, particularly in the wake of the infrastructure damage caused by hurricanes and other natural disasters. Ensuring adequate limits for business interruption coverage is vital, especially for entities involved in essential services like wastewater treatment facilities, often located in flood-prone areas.

Lastly, Flood insurance is becoming increasingly crucial for Public Entities, particularly as regions previously thought to be less vulnerable, like parts of North Carolina, are now experiencing flood risks due to aging infrastructure and more extreme weather patterns.

School Shootings

Shootings continue to plague school districts. According to CNN, by September, the Georgia school shooting at Apalachee High School was the 45th incident (and deadliest) in 2024. Two 14-year-old students and two teachers were killed, and nine other people were wounded and hospitalized. As we mentioned in our Spring 2024 Market Update, school districts are increasingly seeking to purchase additional Active Assailant limits to cover the extra expenses (biohazard cleanup, rental of a temporary facility, reputation management) involved in the aftermath of a shooting.

Liability

The Casualty market, particularly for Law Enforcement Liability, remains an area of concern for Public Entities. High-profile claims and nuclear verdicts have kept rates high, and carriers continue scrutinizing contractual risk transfer and liability loss controls. Emerging liabilities such as perfluoroalkyl and polyfluoroalkyl substances (PFAS) remain a concern, as does the impact of litigation on Liability rates.

Employment Practices Liability

The Employment Practices Liability (EPL) market has seen some price stabilization or slight decreases, with rates dropping modestly over the past year.

Commercial Auto

Challenging market conditions in Commercial Auto have remained throughout 2024, primarily fueled by nuclear verdict concerns, inflation issues, distracted driving losses, and rising repair costs. Most policyholders continue to see persistent rate hikes. Entities with sizeable fleets or poor loss history could likely face double-digit premium increases and possible coverage restrictions.

Trends to Watch

Nuclear Verdicts: Jury awards exceeding $10 million have contributed to the rising cost of claims. According to Marathon Strategies, the median nuclear verdict reached $44 million in 2023, more than doubling since 2020. As a result, some Commercial Auto insurance carriers have restricted coverage or exited the market, leaving insureds vulnerable. In the first half of 2024, some states introduced new legislation to address this concern. These laws include limits on non-monetary damages and the ability to submit a plaintiff's seat belt use as evidence amid vehicle accident lawsuits.

Inflation: Social and general inflation has impacted the Commercial Auto market. Inflation has increased auto part and labor costs, increasing vehicle maintenance expenses. According to the American Property Casualty Insurance Association, vehicle parts and equipment costs have increased 24% since 2019. Advancements in car technology have led to a 20% increase in auto repair costs in the last year due to the additional time, effort, and resources required to maintain these systems, according to the U.S. Bureau of Labor Statistics. The Insurance Information Institute found that inflation has increased Commercial Auto insurance claim expenses by up to $106 billion over the past decade.

Distracted Driving: According to the National Highway Traffic Safety Administration, more than 2,800 people are killed and 400,000 are injured in crashes involving a distracted driver each year, with distracted driving playing a role in 80% of all accidents on the road.

Public Entities are encouraged to provide regular training and resources to help educate drivers on safe driving techniques. In addition, auto schedules should be reviewed to determine whether higher deductibles or self-insurance options may be a more cost-effective approach.

Cyber Liability

Cyber insurance rates for Public Entities have also slightly declined due to increased market competition. However, carriers continue to employ underwriting discipline as the frequency and severity of losses continue to rise. Due to the CrowdStrike and CDK Global cyber incidents, vulnerability to single-point-of-failure risks entered the spotlight.

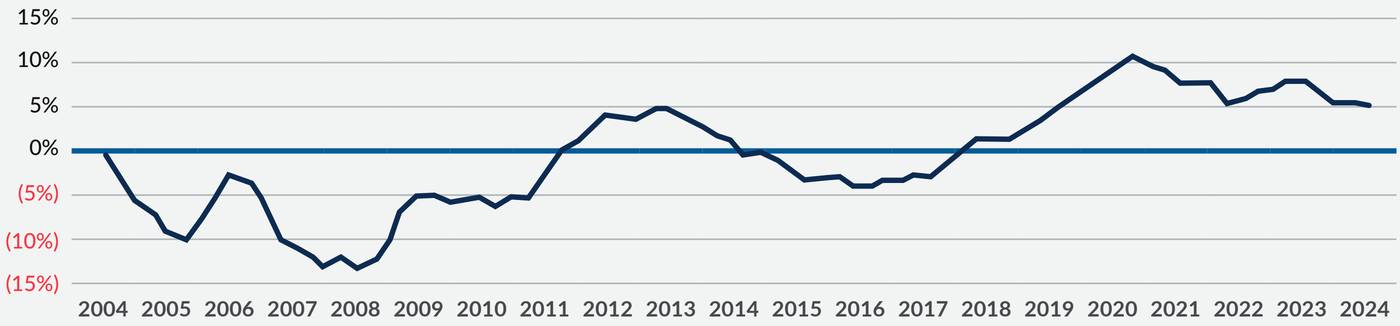
A software update on security vendor CrowdStrike's Falcon platform triggered a global outage. The Falcon platform sensor is a security agent installed on devices such as laptops and desktops, protecting them from threats. The outage occurred because the platform contained a default that forced computers running Microsoft's Windows operating system to crash and show the so-called blue screen of death.

The outage affected about 8.5 million Windows devices, including state and local government agencies, schools, libraries, 911 call centers, and election offices. The incident highlights the critical need for thorough testing, robust crisis management, and effective communication to maintain trust and continuity in essential services.

Looking Ahead

The market appears to be softening but with the large losses of Hurricane Helene and Milton in October we will have to wait and see how the market is impacted.

Average Commercial Premium Pricing by Quarter (All Lines)



Source: NAIC Mid-Year Report

Although AI is an emerging opportunity for Public Entities to improve service deliveries and data-driven decision-making, it also comes with some risks, notably additional cyber threats. The first two are risks caused by actors' use of AI: AI-enabled social engineering and AI-enhanced cybersecurity attacks. The latter two are risks caused by a covered entity's use or reliance upon AI. As AI continues to evolve, so too will AI-related cybersecurity risks. Detection of and response to AI threats will require equally sophisticated countermeasures, which is why covered entities must review and reevaluate their cybersecurity programs and controls regularly.

[1]CRC REDY Index Q3

Real Estate & Hospitality

After several years of significant rate increases, Property insurance for the real estate and hospitality industry experienced some rate relief for insurance buyers. On the Casualty side, we continue to see rate increases due to mounting risks and increased claims costs.

Property

While the full scope of damages from Hurricanes Helene and Milton is still being assessed, early projections estimate insured losses from Helene to be between $10 billion and $17.5 billion, with total economic losses potentially between $30.5 billion and $47.5 billion, according to catastrophe modeling company CoreLogic Inc.

Hurricane Helene Insured and Uninsured Wind and Flood Losses

Peril	Industry Loss (in billions)
Wind	$4.5 - $6.5
Flood[1]	$6.0 - $11.0
Private Insured	$1.5 - $4.5
NFIP	$4.5 - $6.5
Total Insured Wind and Flood	**$10.5 - $17.5**
Uninsured Flood	$20.0 - $30.0
Total Wind and Flood (insured + uninsured):	**$30.5 - $47.5**

[1]Losses paid by private insurers and the NFIP for recovery. Includes both inland flood and storm surge.
Source: CoreLogic, 2024

A Category 4 hurricane, Helene primarily affected single-family homes and multifamily residences, especially in areas like Tampa and Asheville, N.C., where storm surges and inland wind damage caused significant losses. Although Florida has seen improved resilience due to stricter building codes, inland regions such as the Carolinas and Tennessee, which have not updated their codes as rigorously, are expected to face higher claims.

According to CoreLogic, estimated insured losses from Hurricane Milton are likely to be between $17 billion and $28 billion, while Moody's RMS estimates insured losses to run between $22 billion and $36 billion.

Hurricane Milton Estimated Insured and Uninsured Wind and Flood Losses

Peril	Industry Loss (in billions)
Wind	$13-$22
Flood*	$4 - $6
Insured Wind and Flood Subtotal	**$17-$28**
Uninsured Flood (Storm Surge and Inland Flood)	$4 - $6
Total Wind and Flood Loss	**$21 - $34**

*Includes losses from storm surge and inland flooding. Flood values include payments for recovery from the National Flood Insurance Program (NFIP) and private insurers.
Source: CoreLogic, 2024

When it plowed through Florida, Hurricane Milton flooded neighborhoods, flattened homes, and knocked out power to millions of customers. Areas near the Gulf of Mexico and farther inland were inundated, although not to the degree that officials had feared.

Before these storms, the Property insurance market saw some rate reductions, particularly in renewals, with a softening market through the first 10 months of the year. However, the aftermath of these large-scale events is still unknown if it will shift market dynamics. The question now is whether insurers will hold rates steady or adjust them upward in 2025 as the full financial impact of the storms becomes clearer. Reinsurance treaty renewals on Jan. 1 will be the first indicator of how 2025 Property rates will look.

Water Damage Claims

Beyond hurricane damage, the Hospitality sector continues to experience rising water damage claims, even outside of catastrophic events, which is driving changes in carrier appetite for certain property types. This trend could potentially lead to more stringent underwriting criteria for hotels in the long run if there is existing capacity that decides to leave the space.

On a positive note, office occupancies are still viewed as a more profitable and lower-risk segment within the Real Estate and Hospitality industries. However, they are not immune to water damage claims, particularly in high-rise buildings. The focus for insurers will remain on monitoring loss trends and adjusting coverage options and rates accordingly. Insureds' corporate risk-control measures will continue to be important.

As the market adapts to these evolving risks, insurers and businesses alike will need to prepare for potential rate stabilization, driven by both catastrophic and non-catastrophic losses. The next several months will provide a clearer picture as reinsurance treaties react to these developments and the insurance industry continues to navigate through a challenging period of time.

Casualty

The Casualty insurance market for Real Estate and Hospitality continues to tighten, with increased scrutiny due to increasing claim costs across the Real Estate and Hospitality asset classes. Primary General Liability, Automobile, and lead Umbrella coverages are all experiencing rising rates, while Workers' Compensation rates continue to provide favorable renewal results.

In the second quarter of 2024, the market experienced significant pressure from rising nuclear verdicts and a legal environment increasingly characterized by higher awards for claims.

Underwriters continue their increased focus on contractual risk transfer to ensure proper accountability while closely reviewing policyholders' loss mitigation efforts.

Real Estate sectors, such as Office, Industrial, and Retail, have seen relatively moderate renewal rate increases, typically ranging from 5% to 8% for accounts with a clean loss history. However, Hospitality and Multifamily assets face much higher renewal rate increases, with some accounts seeing rate hikes between 20% and 40% when claims histories are poor. Maintaining strong client and carrier relationships throughout the renewal lifecycle is key to achieving the best results when approaching alternatives.

One area of particular focus is the lead Umbrella/Excess markets, where capacity is shrinking, and rates are increasing. Insurers are compressing layers and reducing coverage while pushing for 12% to 15% renewal rate increases. Risk Purchasing Groups are becoming more selective, with coverage more restrictive along with increased premiums and membership fees. Human element exclusions such as Trafficking and Assault/Battery exclusions are becoming more common, particularly for Hospitality accounts, and are being applied lower down in coverage towers.

The Habitational sector is experiencing an additional challenge with rising deductibles and retentions across both Admitted and Excess & Surplus markets. Carriers increasingly require minimum retention levels, with some accounts seeing retention thresholds starting as high as $100,000. This shift is creating particular challenges for policyholders.

Looking Ahead

On the Property side, building resiliency and climate-smart development are encouraged to mitigate losses. We will monitor the impacts of the 2024 hurricane season on Property rates with the upcoming January and April 2025 renewals.

Casualty rates are expected to continue rising as the legal environment becomes more unpredictable. Policyholders should also anticipate further tightening in terms and conditions as carriers balance the need to remain profitable with growing claims costs.

Restaurants

The Restaurant industry continues to face unique insurance challenges, including liquor liability exposures, employment-related risks, and delivery-service related automobile accidents.

Property

The Property insurance market is showing signs of stabilization, with both pricing and capacity gradually improving. Markets are more willing to offer higher coverage limits (e.g., moving from $5 million to $10 million) at slightly improved rates. This marks a significant shift from recent years when carriers were concerned that property valuations were inadequate. Many restaurant owners have adjusted their insurance-to-value ratios, which has reduced pushback from carriers on valuation issues.

However, the impact of natural disasters, such as Hurricanes Helene and Milton, and the frequency and severity of severe convective storms remain a concern, particularly for restaurants in affected areas. Restaurants see increased risks from physical damage caused by floods, wind, and power outages, leading to business interruption losses. Although the full effects of recent weather events on the market are still uncertain, Property insurance rates are expected to be affected in regions prone to these disasters. For example, Moody's RMS estimates that insured losses from Hurricane Helene will be between $8 billion and $14 billion, which includes insured wind, storm surge, and inland flood impacts. Moody's also estimates that National Flood Insurance Program losses could exceed $2 billion. Moody's pegs insured losses for Hurricane Milton at $35 billion to $55 billion.

General Liability, Excess Liability, and Liquor Liability

General Liability and Excess Liability insurance for restaurants is gradually improving, with rate hikes moderating compared to previous years. However, Liquor Liability remains challenging, especially in states with stricter regulations. Restaurants that serve alcohol must be aware of the ongoing challenges in securing affordable liquor liability coverage in certain jurisdictions.

Auto Liability and Delivery-Related Risks

Auto Liability is one of the most problematic areas for restaurants, particularly those offering delivery services. Quick-service restaurants such as pizza chains, where employees use their personal vehicles for deliveries, face high accident rates and significant claims. These claims are exacerbated by distracted driving (use of smartphones and navigation apps while driving), the use of older vehicles, and concerns over employee behavior during deliveries. The risks associated with delivery operations remain some of the most difficult challenges for restaurants, with the insurance market experiencing multi-million-dollar claims, or what are known as "nuclear verdicts," stemming from delivery-related automobile accidents. Continued rate pressure and limited appetite and capacity for the Non-Owned & Hired delivery sector continue, with very few markets available.

Strategies for Mitigating Accidents

Implement driver safety programs to reduce accident rates. These programs should include regular training sessions and incentives for safe driving behaviors. By fostering a safety culture, companies can demonstrate to insurers that they are actively mitigating risks. Also, rigorous driver screening and onboarding processes should be implemented. Thorough background checks, driving record reviews, and comprehensive onboarding procedures can help ensure that only qualified drivers are hired.

Employment Practices Liability

Employment Practices Liability insurance continues to be a concern for restaurants, particularly regarding issues of sexual harassment, both among employees and between managers and subordinates.

Additionally, conflicts between employees and customers, as well as between customers themselves, are increasing. Disputes over food orders or service quality can escalate into physical altercations and, in some cases, even violence (such as shootings in extreme cases), resulting in Employment Practices Liability, General Liability claims, or Workers' Compensation claims. The rise in such conflicts underscores the need for restaurants to be vigilant in addressing employment-related issues.

For example, in July, a female a fast-food employee in Memphis was shot by a customer after a reported argument. In June, a McDonald's employee in Florida started shooting at customers following a dispute at the drive-through window.

Restaurants must remain vigilant in managing employee behavior and mitigating risks associated with customer interactions.

Increasing Labor Costs and Wage Issues

The rise in minimum wage in various jurisdictions has driven up restaurant labor costs, though this has yet to translate into a significant increase in Employment Practices Liability claims. While wage disputes may eventually surface as claims, so far, the initial impact has been on the increased cost of running restaurant operations.

The View Ahead

The Restaurant industry's insurance market is stabilizing in some areas, but challenges remain. On the Property side, we will better understand how recent weather events will impact the market. Other issues we are closely monitoring include delivery-related auto risks and escalating employee-customer conflicts. Restaurants must manage these risks proactively to ensure adequate coverage and minimize potential financial losses.

Senior Care

As we enter into the fourth quarter of 2024, the Senior Living industry continues to face adversity on many fronts: economic inflation continues to drive sharp increases in operating expenses; staffing shortages continue to plague the entire industry; interest rates continue to push the cost of capital beyond the point of discomfort; and social inflation continues to drive the cost of claims higher and higher as unfavorable litigation trends and negative public perceptions manipulated by unsavory portrayals in the media continue to be projected upon providers. Unfortunately, the list of challenges is long. However, despite these headwinds, long-term care providers continue demonstrating remarkable resolve as the industry strives to innovate and evolve to meet ever-growing demand. As we look forward to 2025, a sense of optimism has set in, and our team sees tremendous opportunity for our partners and clients. We are excited to support them and their strategic plans for the remainder of this year and beyond.

General Liability/Professional Liability

General Liability and Professional Liability rates have stabilized considerably since the height of the COVID-19 pandemic. While insurers have not experienced the increased claims frequency that many expected following COVID, severity has been an issue for the industry as the average cost per claim has risen noticeably during the last several years – especially for claims involving Assisted Living providers – driven largely by nuclear verdicts across a variety of venues. These outcomes are seemingly no longer limited to previously identified "judicial hellholes" and are seen to be a byproduct of social inflation and litigation trends playing out across the country. As a result, underwriting appetite across the marketplace has adjusted in correlation to the increased acuity levels within many senior living communities. As the average age of many assisted living residents nears the mid-eighties, rates for these communities have adjusted to match the exposure of an increasingly frail resident population. Similar adjustments have been made for Memory Care settings as well. This development has led insurers to tighten their underwriting controls as they evaluate insureds, while others have opted to exit the space altogether.

Characteristics such as ownership structure, level of care and services (IL/AL/PC/MC/SNF), and for-profit vs. non-profit status are now being evaluated as part of the underwriting process, as well as loss history and risk controls. Staffing levels and employee information also continue to factor in underwriting as the Senior Care labor crisis persists. The dynamic of fewer people doing more work and an undertrained staff responsible for providing care for such a vulnerable population continues to be scrutinized as potentially driving claims frequency and severity. According to the Bureau of Labor Statistics, the Senior Care sector has lost nearly 229,000 caregivers (or more than 14% of its workforce) since February 2020, the worst job loss among all healthcare sectors.

Despite all this, the marketplace continues to provide insureds with a strong lineup of dedicated insurers who have consistently supported the industry throughout some of the most turbulent years, along with some more recent entrants, thus presenting various competitive options for providers seeking coverage. Operators with minimal claims activity and a strong risk profile will continue to see favorable rates and renewal results. Feedback from our partners indicates that we will see incremental rate increases throughout the remainder of 2024 into 2025. Considering all of this, we remain optimistic in our outlook on the marketplace going forward.

Excess Liability

There is healthy competition in the Excess market, with many insurers who offer primary limits also providing Excess coverage on a follow-form basis. Coverage remains robust for insureds with a clean loss history who can demonstrate operational excellence and sound risk control. However, pricing can be erratic, and when staffing challenges and operating expenses are nearing all-time highs, many insureds weigh the decision to reduce overall costs by carrying lower limits or opting for cheaper premiums in exchange for less comprehensive coverage.

As with the primary Liability insurance market, we are closely monitoring nuclear verdicts and operational trends, such as the current staffing crisis, to assess their impact on the market and underwriting going forward.

Property Insurance

As previously mentioned, in late 2022 and throughout 2023, businesses had to revisit their property portfolio valuations as insurers looked for rate adequacy after years of obsolete valuations coupled with a 10-year-plus stretch of significant claims costs. Thus far in 2024, we've seen the Property insurance market leveling year over year.

Following a benign 2023 storm season, the Property market entered 2024 much healthier than previous years. With both insurers and reinsurers previously adjusting rates to help replenish reserves, many feel that there is enough capacity available to withstand more than several catastrophic losses this year. In addition to many insureds having taken on increased deductible arrangements, insurers are further protected from paying smaller, more frequent claims, ultimately allowing them to protect and grow their reserves. That said, with the recent passing of both Hurricanes Helene and Milton, 2024 has already proven to be more costly than 2023, with several weeks left to go during this year's storm season. It is still far too early to determine the effect of these events on the market going forward, but many remain optimistic that the impact will be nominal.

In 2024, reinsurers with January and April renewals took on more catastrophic risk and increased their capacity. The valuation reset, including many older properties having undergone renovations to improve their risk profile, a mild 2023 hurricane season, and new capacity entering the market, have all allowed insurers to grow more comfortable extending coverage, thus enabling McGriff to leverage market competition. Driving such competition on desirable coastal insureds has allowed McGriff to offer clients a double-digit percentage of annual premium decreases and often lower deductibles for named storms.

For non-coastal properties, insurers are placing a high level of emphasis on construction type, property age, and risk-mitigating characteristics of the building, such as sprinkler types and age of roof. While named storm and catastrophic claims have not been a headline, there has been an increase in claims related to convective storms in non-cat regions across the country. Habitational construction continues to be a challenging placement for insurers across all industries due to a large amount of frame-build construction and the uncontrolled occupancy from which many claims stem (i.e., water damage and fires started within condominiums and independent living units). Senior Housing is considered among this classification and, as a result, underwriters are paying very close attention to specific qualities of the building, including the nature and breakdown of services provided by Independent Living, Assisted Living, Memory Care, and Skilled Nursing.

While the McGriff team has deep and extensive relationships throughout the Property insurance market and is driving successful renewals year to date, we are waiting to see how volatile the upcoming hurricane season will be and its impact on rates and capacity in the future. In the near term, our outlook has improved considerably compared to last year, however we continue to monitor the Property market to keep our clients updated on potential changes.

Commercial Automobile

The Senior Care industry faces the same challenges as other business classes regarding the Commercial Automobile insurance market, particularly those organizations with a fleet of vehicles that transport a frail and vulnerable population. When losses occur, claims tend to be more expensive.

Distracted driving and other factors are major areas of concern and underwriting scrutiny. Insurance rates reflect the potential risk for insurers.

Safety guidelines are critical, including the procedures for determining who in the community is responsible for transporting residents, evaluating the type of lifts used and safety restraints in the vehicle, and vetting and training drivers.

Workers' Compensation

There is plenty of capacity in the Workers' Compensation market, with strong competition in the space. Insureds should continue to be aware of their impact on their premiums by controlling claims and maintaining a safe environment for their employees.

Employment Practices Liability

Employment Practices Liability is an area of continued focus. Driven by the labor crisis and long working hours, we have seen a spike in employment-related litigation. Rates and pricing reflect these trends. We work closely with clients to help them implement robust employment practices and avoid being targeted in litigation.

Cyber Liability

Cyber Liability has stabilized over the last two years, following a big push in 2022 for organizations to strengthen their cybersecurity. Multi-factor authorization, increased security around corporate IT infrastructure, and domain and data integrity pushed the need for cybersecurity. Senior Care organizations were required to revisit and bolster their cyber practices to make insurance markets more comfortable underwriting the risk.

The confluence of financial and personal records continues to make Senior Care facilities vulnerable; therefore, it's critical to maintain strong data integrity and stay ahead of the curve. Many Senior Living providers have embraced this approach and as a result the market has responded very favorably. Those demonstrating strong cyber controls are met with ample capacity and favorable rates across a competitive marketplace.

Transportation

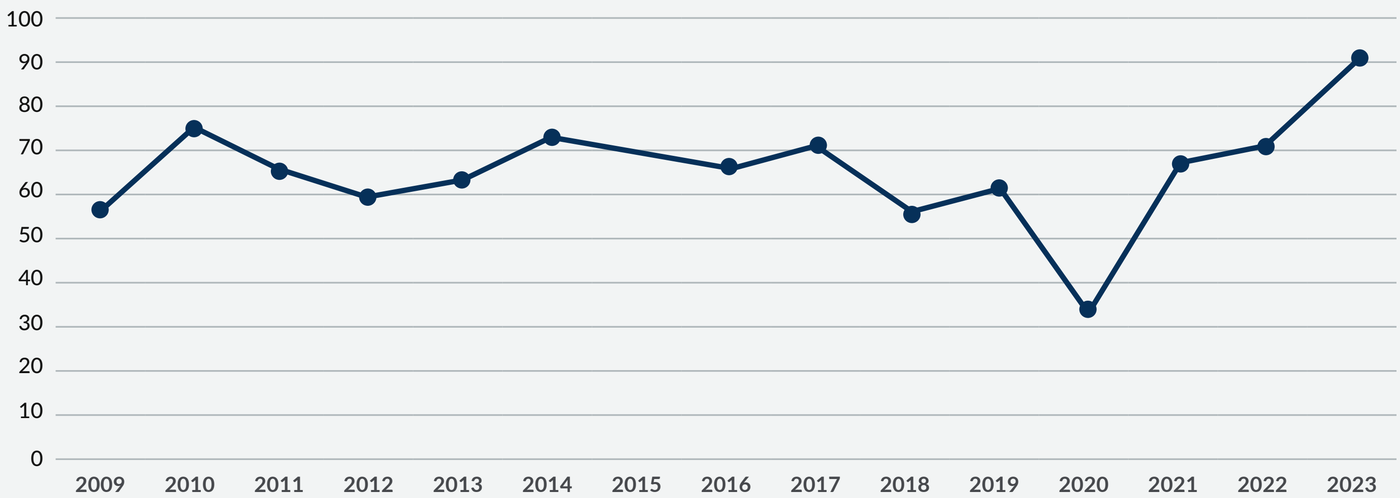
The Transportation insurance market continues to be challenging as we near the end of 2024, with persistent rate increases and rising claims costs. General inflation and social inflation characterized by a litigious climate, third-party litigation funding, anti-corporate bias, and nuclear verdicts are exacerbating claims severity in the industry.

Additionally, distracted driving and driver fatigue continue to increase claim frequency and severity despite motor carriers' efforts to mitigate these risks using technology.

Primary Auto Liability

According to Marathon Strategies, nuclear jury verdicts – those that surpass $10 million – have increased in size and number since 2009. In 2023, the number of these cases increased by 27%.

Number of Corporate Nuclear Verdicts: 2009-2023



Source: Marathon Strategies

Also, in 2023, the median nuclear verdict rose to $44 million, up from a low of $21 million in 2020 and returning to pre-pandemic levels. While many factors have influenced the rise of nuclear verdicts, Marathon's analysis of case data from 2009 to 2022 identified corporate mistrust, social pessimism, erosion of tort reform, and public desensitization to large numbers as among the most important.

Awards, Settlements Specific to Trucking

The U.S. Chamber of Commerce, after a review of 154 litigation verdicts that involved trucking companies, compiled the following information in its study:

- From June 2020 to April 2023, the mean plaintiffs' award combined with settlements was $27,507,334, and the median award was $759,875.
- For plaintiffs' verdicts, the mean award was $31,862,776, and the median was $314,217.
- For settlements, the mean award was $10,608,219, and the median award was $210,000.

According to the Chamber of Commerce study, Texas led with a mean award of $114,617,913 (median award of $4,500,000), followed by Florida with a mean award of $96,572,173 (median award of $1,263,124), California with a mean award of $13,509,410 (median award of $7,938,343), New Jersey with a mean award of $11,348,897 (median award of $20,000), Georgia with a mean award of $2,700,942 (median award of $1,151,742), and Pennsylvania with a mean award of $2,675,990 (median award of $910,000).

Distracted Driving

According to a survey conducted by Nationwide, 34% of commercial drivers admitted they sometimes or often feel distracted behind the wheel. The primary causes of distractions for commercial drivers:

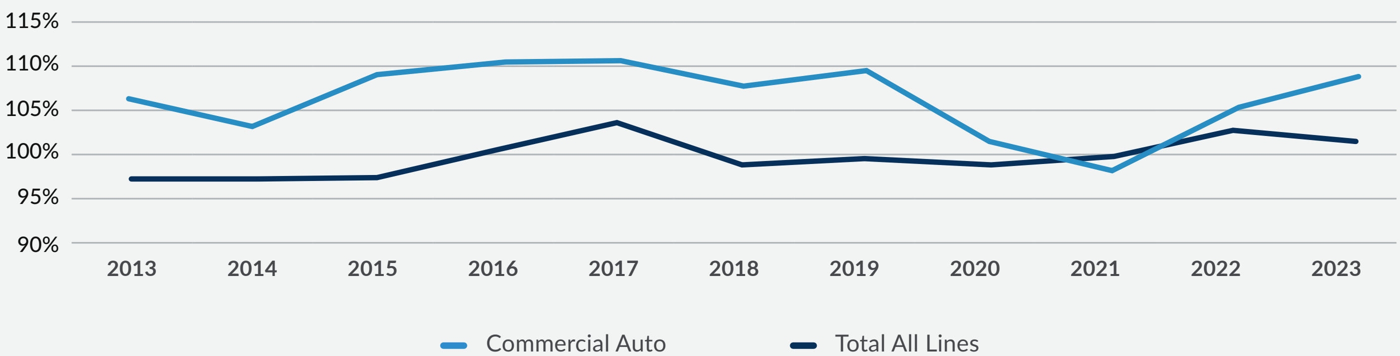
- 55% using GPS navigation systems
- 36% responding to work text messages
- 27% texting/talking on mobile phones
- 13% checking social media apps

Additionally, staff shortages have led to drivers' taking on more shifts, working long hours, and looking for distractions to fend off fatigue.

An Unprofitable Line for Insurers

Due to ballooning litigation losses and rising claims costs, Commercial Auto Liability has been an unprofitable line for insurers for the last seven of eight years (2021 was an outlier because of pandemic-related data distortions), according to Conning Research. Moreover, in 2023, the industry experienced $3 billion of adverse development for Commercial Auto/Truck Liability/Medical. This is compared to $2.1 billion in adverse development in 2022.

Combined Ratio



Source: Conning

Conning forecasts further deterioration in 2024, with a combined ratio of 109.1. Insurer unprofitability has meant consistent rate pressure. Premium rates are increasing this year anywhere from 5% to 10%, with higher increases for loss-challenged accounts. According to IVANS, the average 2024 third-quarter premium renewal rate increase for Commercial Auto was 9.71%, compared with 9.27% in the second quarter. Retention levels are also increasing. New entrants have come into the market, but others have left, leaving capacity overall flat.

Excess Liability

Capacity in the Excess Liability & Umbrella market remains constrained with fewer carriers offering large limits. In addition, the frequency of severity continues to create pressure on rate and program structure for clients.

Workers' Compensation

The Workers' Compensation market remains stable, with renewals averaging flat to +3%. There have been some reductions depending on loss experience and expiring pricing. As loss activity has been more favorable than Commercial Auto, Workers' Compensation is an attractive line of business for insurers.

Logistics

Cargo theft, mainly through identity falsification, remains a persistent issue, creating challenges for freight brokers. According to CargoNet, there were 771 theft incidents in the second quarter of 2024, representing a 33% increase compared to the second quarter of 2023.

To counteract cargo theft, a formal company supply chain security program is required. The program should be company- and location-specific, with guidelines addressing storage facilities, trucking, transportation, and parking requirements.

Mergers & Acquisitions

Mergers and acquisitions (M&A) activity in the Transportation industry is robust and driven by larger players seeking growth and market share consolidation. Companies are focused on strategic acquisitions to enhance service offerings, expand geographic presence, and streamline operations in an increasingly competitive market.

As a result, smaller carriers face increasing pressure as larger competitors grow through acquisition, affecting miles, revenue, and operational leverage. This trend may also indirectly impact insurance exposures, as M&A can shift the landscape of fleet sizes and risk profiles.

As the industry continues to consolidate, transportation companies must consider how these shifts affect their operations, insurance costs, and overall market position.

CargoNet's Q2 2024 Supply Chain Risk Trends

771

Theft Incidents Reports

$34,315,491

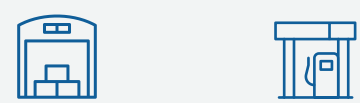
Total Loss Value

Top 3 Targeted States

Represent 57% of all theft in Q2 2024

California | Texas | Illinois

Top Targeted Location Type



Warehouse/ Distribution Centers | Truck Stop

Top Targeted Commodity Type

Food and Beverage | Household Goods

Source: CargoNet, a Verisk Company

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Special thanks to our McGriff Market Update contributors:

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