



# Public Entity Insurance Marketplace, Trends, Industry Issues and Outlook

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May 2024

Alliant Insurance Services  
[www.alliant.com](http://www.alliant.com)

*(THIS INFORMATION HAS BEEN CONSOLIDATED FROM VARIOUS INDUSTRY SOURCES)*

# Market Pressures...



Great Resignation & Quiet Quitting



Geo Political



Mass Shootings



Social Inflation/  
Nuclear Verdicts & Legislation



Cyber Attacks



Ukraine & Middle East War/Conflicts



Aging Infrastructure



Climate Change



Inflation



Natural Disasters



Supply Chain & Labor Shortage



Proliferation of "secondary" perils (SCS)

## Q2 23 P/C industry combined ratio, net income at worst levels since 2011:

*"While the aggregate industry balance sheet is strong enough to meet its contractual commitments and obligations to consumers and businesses, the ever-increasing challenges from claims cost and expense increases, extreme weather events, legal system abuse, and ongoing regulatory resistance to rate adequacy in a few jurisdictions, continue to have significant negative financial consequences for insures," Robert Gordon, senior vice president of policy, research and international for APCIA.*

# Market Conditions

## Impactful issues for insureds:

### Property

01

#### Property capacity reductions:

- Further reduction in capacity from incumbents
- Coastal, Earthquake and wildfire capacity continue to be especially difficult
- Very few new entrants into the commercial property sector

02

Insurers produced negligible profit in 2022 – Nearly **\$125b in Global Insured CAT losses** in 2022 – **2<sup>nd</sup> Worst Loss Year on Record.**

- United States accounted for **75%** of global insured losses

03

Insured natural catastrophe losses exceeded **\$100bn** for 2023, with SCS the largest driver, accounting for \$70b of the total. This marks the **4th consecutive** year global losses have topped \$100b.

04

Consistent **increases in attritional property losses** (fires, water damage, tornados, hail, wildfires) – are secondary perils ‘secondary’ anymore?

05

**Inflation** continues to add to the issue of **valuation across all property classes**

### Liability

06

**Liability capacity pull back** and withdrawals have been significant over the past two years

07

**Social inflation & Litigation Financing** driving up liability verdicts and settlements

08

Excess Workers Compensation **remains stable, but retained layer may be experiencing increased claims volume**

09

**Cyber capacity has improved** and creating stabilized terms and conditions

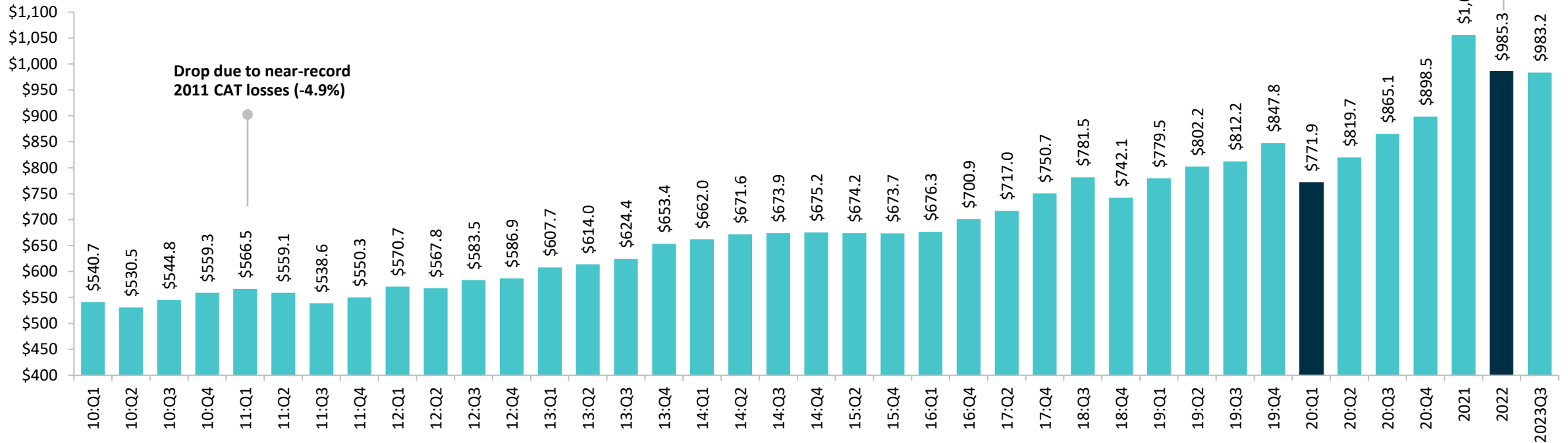
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**Ransomware cyber losses** are systemic – **Expecting \$10 Trillion by 2025**

### Cyber

# Policyholder Surplus (Capacity), 2010: Q1 – 2023: Q3

(\$ Billions)

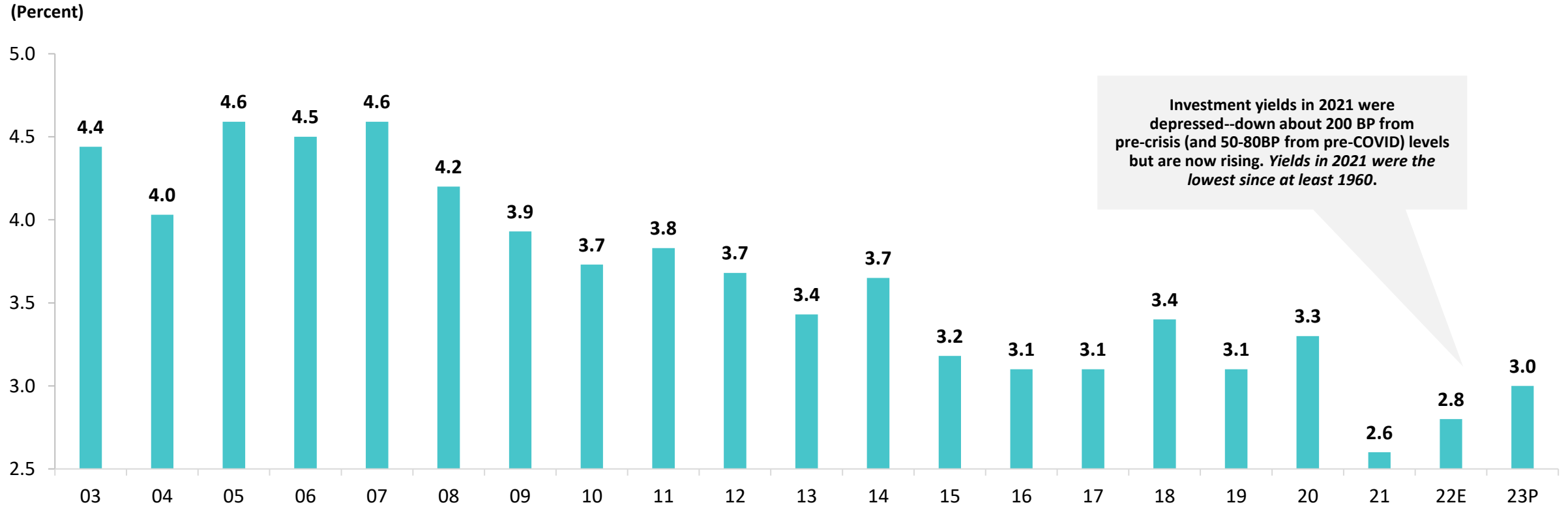


The P/C insurance industry entered the COVID-19 pandemic from a position of strength and was able to withstand the 9.0% surplus decline in Q1 2020 (far less than during the Financial Crisis). 2020 ended with record surplus. 2021 set another new record, exceeding \$1 trillion for the first time. Unrealized losses caused surplus to drop sharply in 2022.

Policyholder Surplus is the industry’s financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

.Sources: ISO, A.M .Best, NAIC. Risk and Uncertainty Management Center, University of South Carolina.

# Net Investment Yield on Property/Casualty Insurance Invested Assets, 2003–2023P

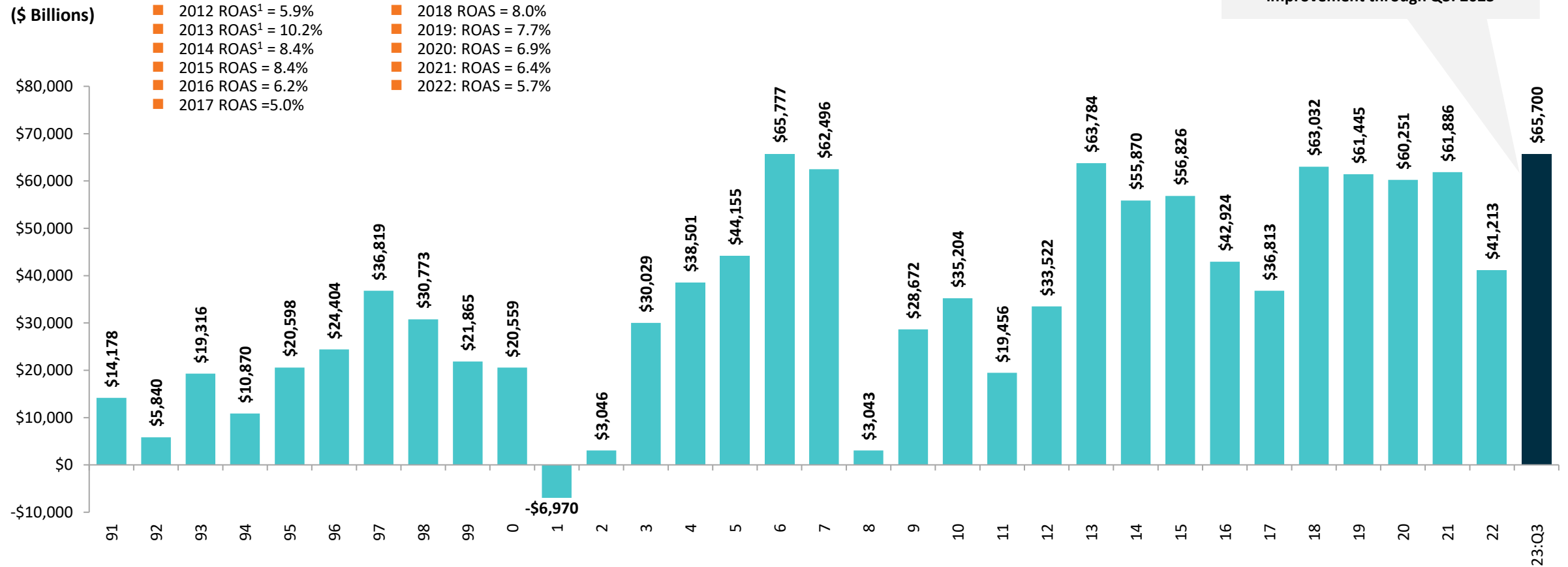


The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022 should begin to slowly lift yields.

Average: 1960-2019 = 4.9% | Low: 2.8% (1961) | High: 8.2% (1984/85)

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCA. Risk and Uncertainty Management Center, Univ. of South Carolina.

# P/C Industry Net Income After Taxes, 1991–2023: Q3

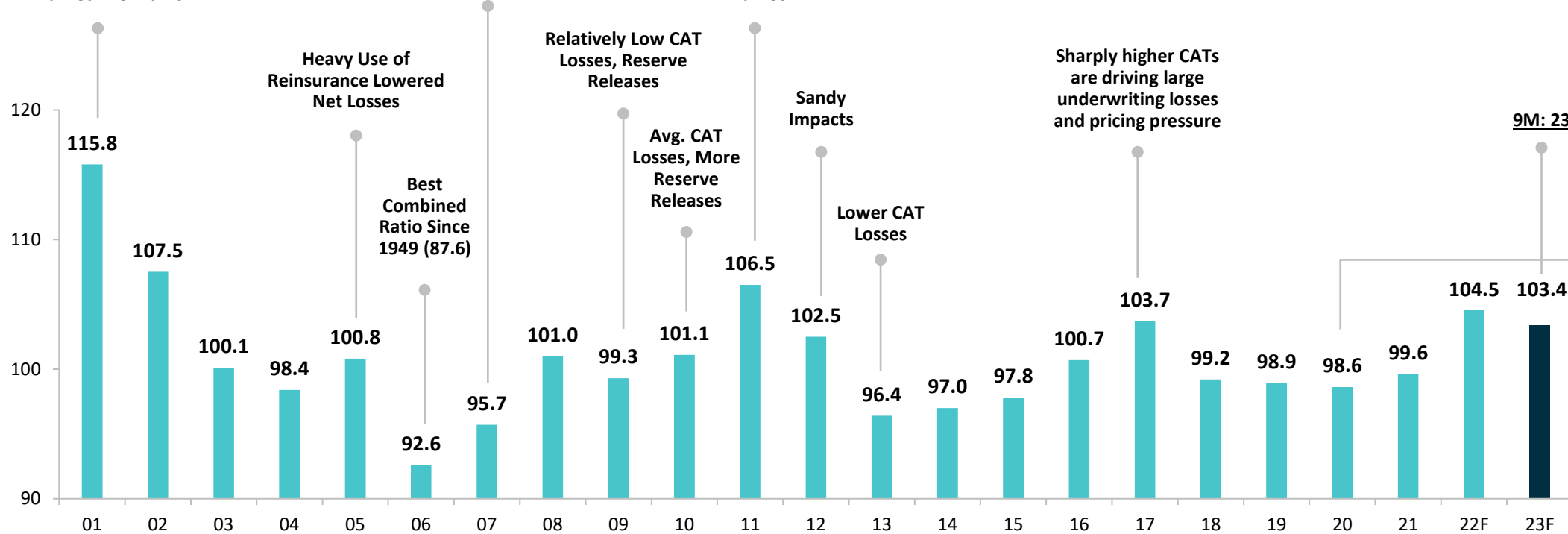


\*ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

Sources: A.M. Best, ISO, APCA.

# P/C Insurance Industry Combined Ratio, 2001–2023 F\*

As Recently as 2001, Insurers Paid Out Nearly \$1.16 for Every \$1 in Earned Premiums



COVID-19 has had no discernable *net* impact on pre-COVID expectations for the combined ratio in 2020; -7.5 pts. due to CATs vs. 4.1 in 2019 (about twice avg.)

Pre-COVID 2020 Combined Ratio Est. 99.1 (A.M. Best)

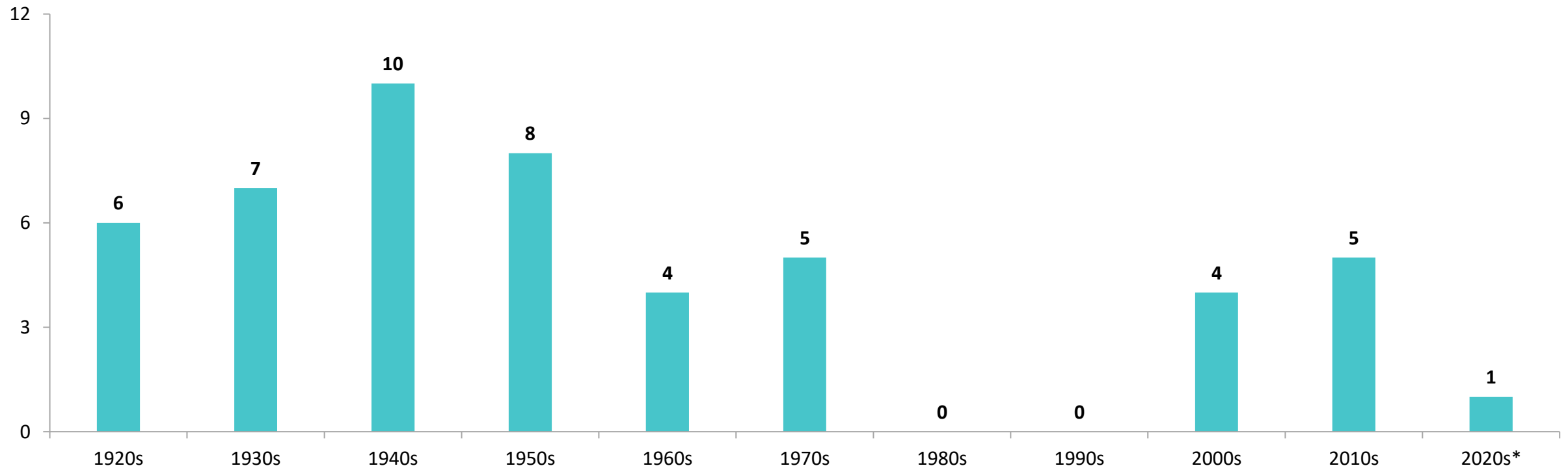
Actual = 98

\*\*Excludes Mortgage & Financial Guaranty insurers 2008–2014.

Sources: A.M. Best, ISO (2014-2024F).

# Number of Years with Underwriting Profits by Decade, 1920s–2020s

## Number of Years with Underwriting Profits



**Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) –But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003**

\* 2020 through 2023

Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.



# Recent CAT Losses



## Flooding



2018-2022 – More than **10** severe flood events



**\$70.1b** Economic Loss – only \$20b insured



## Hurricanes



2018-2022 **77** named storms



**\$470.7B+** in economic losses (US)



Hurricane Ida, Ian, Nicole & Idalia = **\$95b?**



Hilary, first CA Tropical Storm since 1939



## Wildfires



**2018-2022** 82 \$1B+ Wildfire events



2021 Burned over **7m** acres



**2022** = **7.5m** acres



**\$39B** in insured loss, \*8.68B in 2021 alone



17% increase from 2019 to 2021 in U.S. wildfires and a 223% increase since 1983



## Tornado/Convective Storm



**\$71B** in insured losses due to severe convective storm through 2023-year end (\$60B in U.S.)



Accounted for nearly **58%** of all **global** Insured losses



SCS insured losses growing at a rate of **8.9%** since 1990



10 singular **\$1B+** events



## Winter Storms



**Uri** – 2021 Over **110** deaths associated



Estimated **\$20B+** insured losses



Largest Q1 loss record



**Elliott** – 2022 Over **65** deaths associated



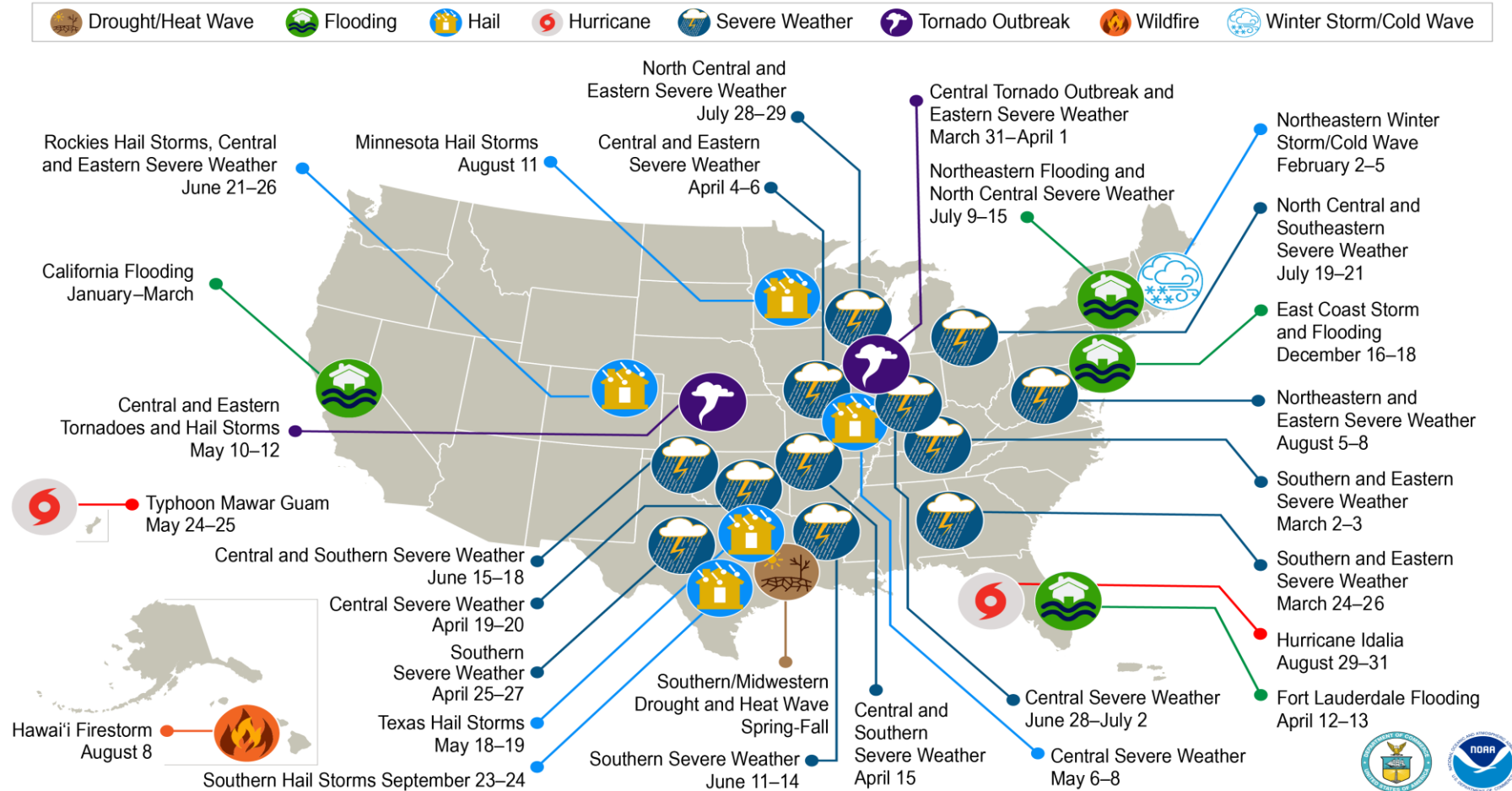
Estimated **\$5.4B+** insured losses

# Major U.S Losses in 2023

Most recent six years of CAT: 104 \$1Billion+ Events

Another Record-Breaking Year of \$1b CAT Losses

## U.S. 2023 Billion-Dollar Weather and Climate Disasters



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

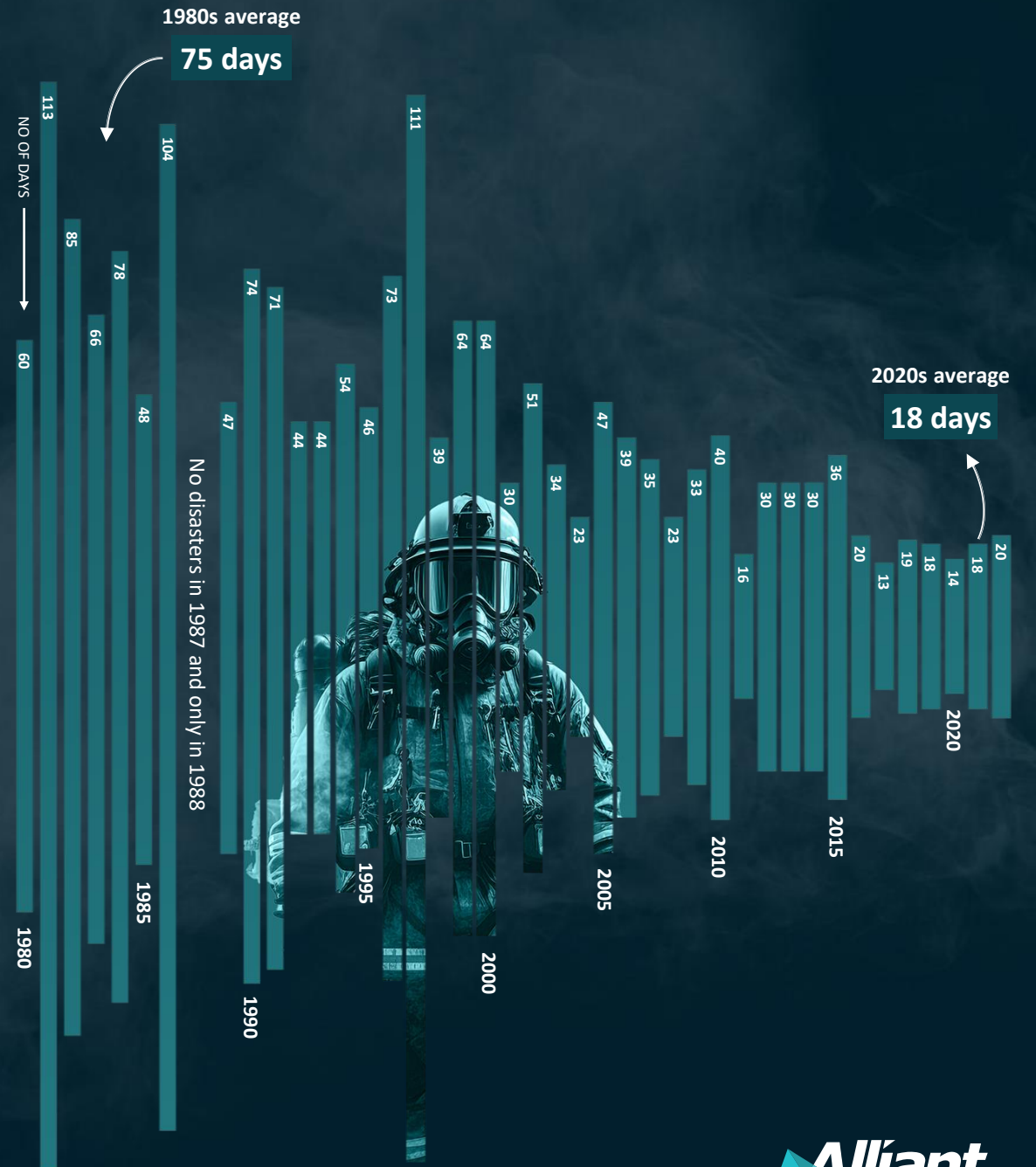


# Days between billion-dollar disasters



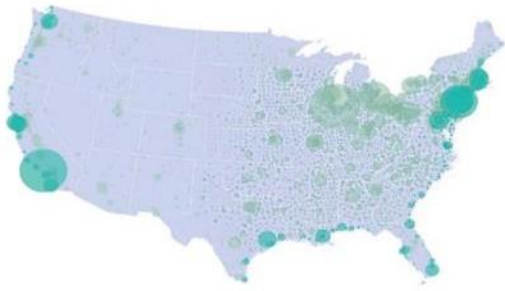
Since the 1980s, the U.S. has faced more frequent climate disasters with every passing decade. Between 2020 to 2022, the average number of days between billion-dollar disaster events within one year dropped to just 18.

Billion-dollar disasters are events where overall damages/costs reached or exceeded \$1 billion (including CPI adjustment to 2023).

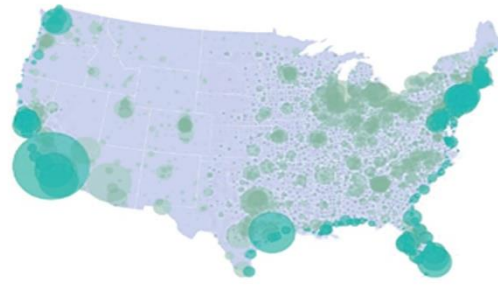


# Population Growth and Bullseye Effect

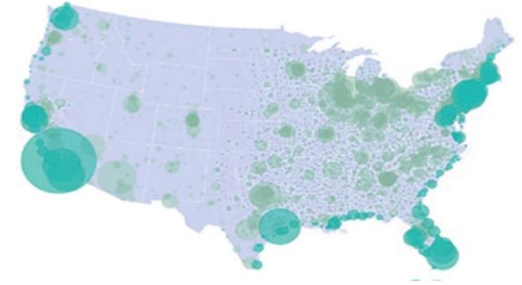
1950



2000



2020



1950



1980



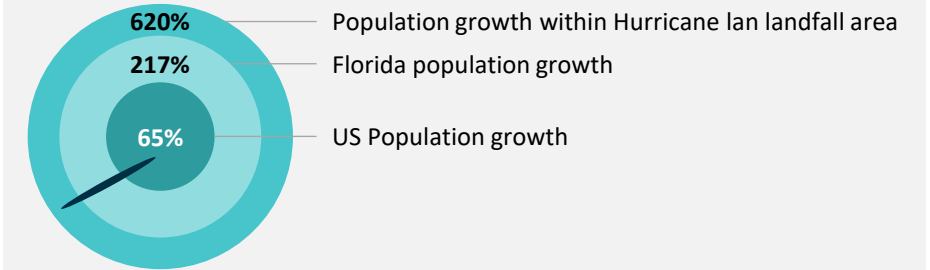
2010



2040



There is an increase in population in regions susceptible to natural hazards

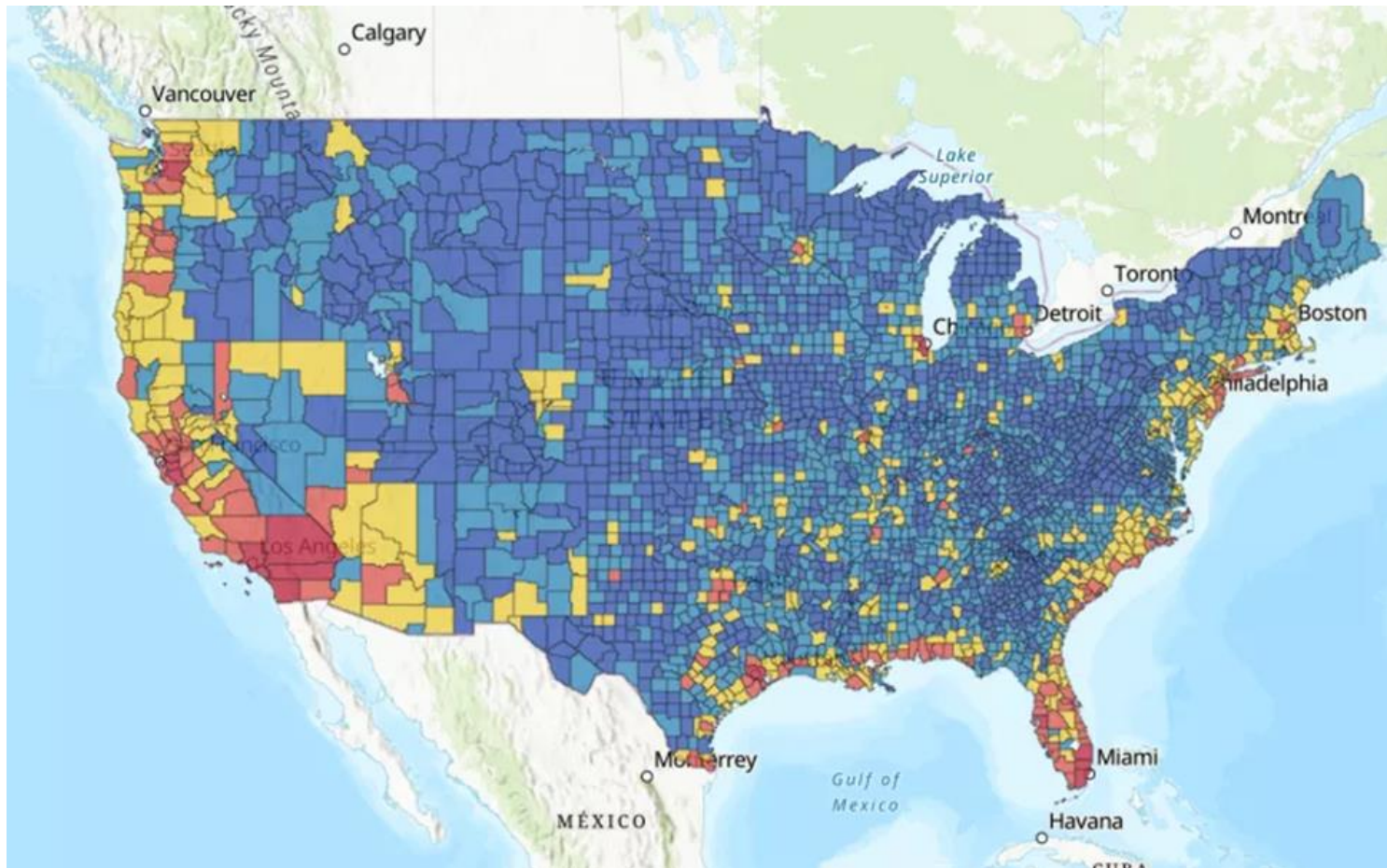


After Ashley et al. (2014)

Source: Swiss Re

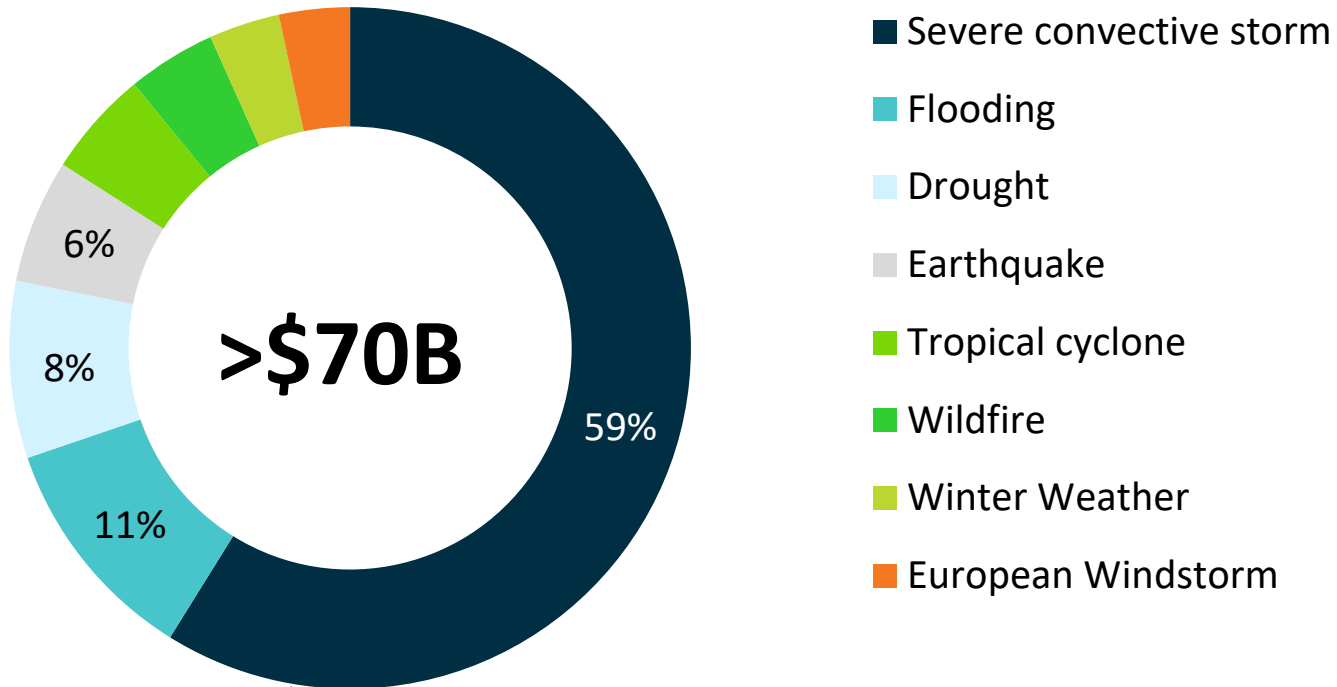
Rural
  Exurban
  Suburban
  Urban
  Tornado Scenario

# FEMA National Risk Index Counties Map



- **California**  
8 high-risk category (largest for a single state)  
18 relatively high risk
- **Florida**  
4 high-risk areas  
19 relatively high-risk areas
- **Texas**  
Houston high risk  
16 other relatively high-risk areas
- **East Coast**  
Miami only 'red' category  
NY, NJ and PA 13 relatively high-risk areas  
between them
- **Non-Coastal**  
Utah County & Salt Lake County, UT  
Lubbock County, TX  
Douglas County, NE

# Global Insured Losses by Peril in 2023



*Severe convective storm (SCS) events accounted for nearly 60% of global insured natural CAT losses during 2023*

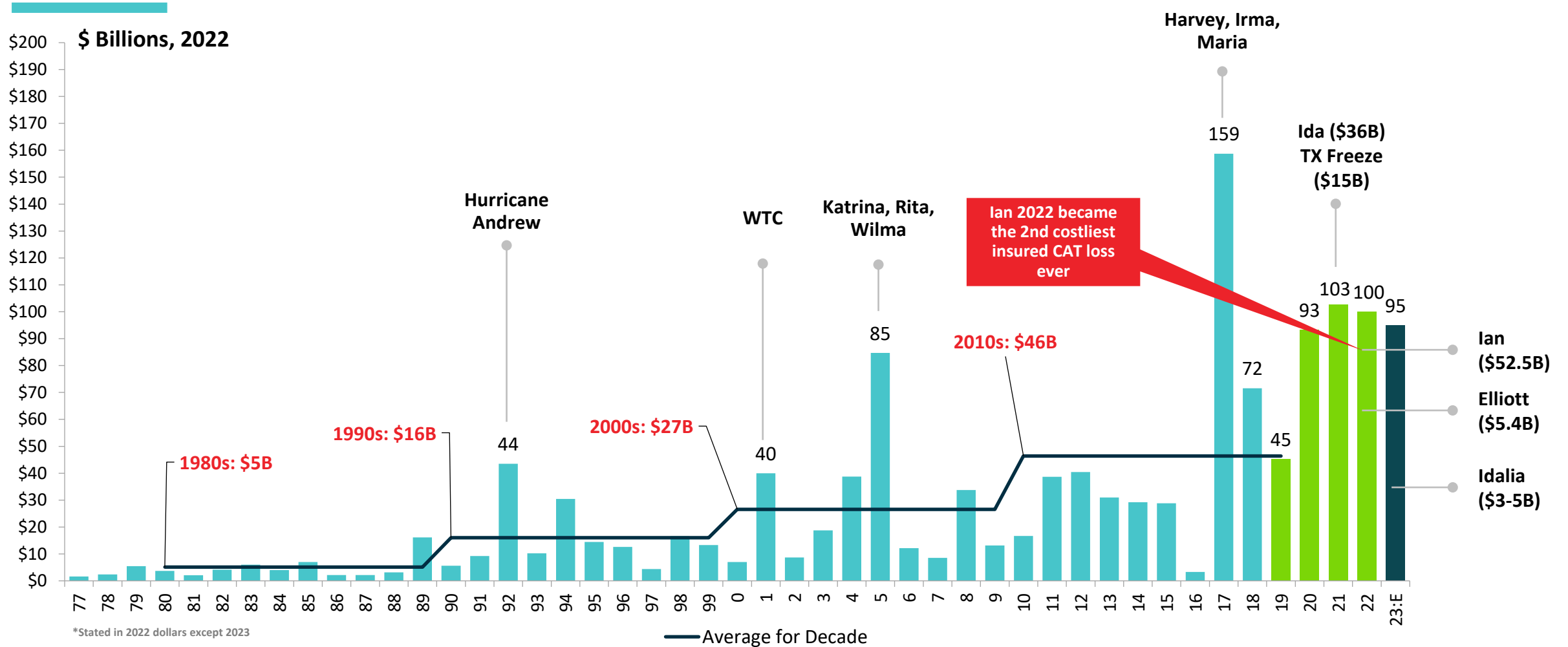


**Secondary perils (including SCS) are of increasing concern to insurers and reinsurers**  
2023: > \$50B in SCS losses in U.S.



**There have only been 3 years on record where US hurricane losses resulted in \$50B+ insured losses**

# U.S. Inflation-Adjusted Insured CAT Losses: 1977 – 2023



**Insured Cat Losses Are Increasing At An Alarming Rate – Nearly 300% Since 80's**  
 Average Insured Loss per Year | 1980-2021: \$27.1 Billion | 2012-2021: \$60.4 Billion

Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-21 figures from Munich Re; 2023 YTD data from Munich Re, Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

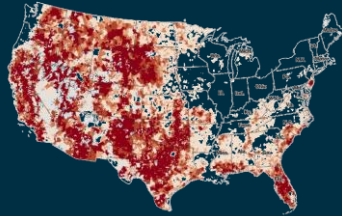
Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.;

<https://www.iii.org/fact-statistic/facts-statistics-us-catastrophes>

# Ascending CAT Perils: Wildfire and SCS



## Wildfire



- 01 Climatic changes are resulting in larger and hotter wildfires occurring each summer and later into fall.
- 02 Beyond the physical damage and destruction of wildfires, intense smoke significantly impacts the health and economy of communities:
  - Reduced travel and tourism leading to loss of sales and occupancy taxes.
  - Reduced school attendance and outdoor activities.
  - Smoke can hurt your eyes, irritate your respiratory system, and worsen chronic heart and lung diseases.
- 03 Worsening conditions, from the future “warming world”, that ultimately lead to wildfires strike concern for many insureds
- 04 Peril-specific retentions and sublimits are being pushed in at risk areas
- 05 Valuation in high density areas are particularly challenging (Coastal, West Los Angeles, Bay Area, etc.)



## Severe Convective Storm (SCS)

- SCS insured losses have continued to increase their frequency at nearly 9% since 1990.
  - This is showcased by the fact that nearly 60% (\$71B) of all global Insured losses in 2023 were from SCS
  - According to Gallagher Re, six of the top 10 most expensive insured events of the year were SCS events in the U.S.
- SCS events are common, destructive, and largely unique to the United States due to its geography. Air masses in the U.S. have free rein to collide over the Midwest and Great Plains, generating destructive tornadoes and thunderstorms. Continued population growth in areas susceptible to hail and thunderstorms poses a growing challenge for the insurance industry.
- Due to the combination of event frequency not being well captured in statistical data as well as the continued volatility of SCS annual losses, insureds are continuing to develop new solutions to limit their exposure and ultimately their loss expectancy.

### Severe convective Storm Hazards and Loss

Loss by SCS Hazard from Risk Management Solutions

#### Hail

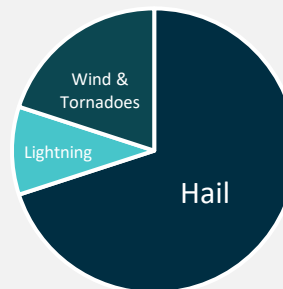
Hail accounts for 70% of annual average loss. In any given year hail is 60-80% of the damage produced by severe convective storms

#### Wind & Tornadoes

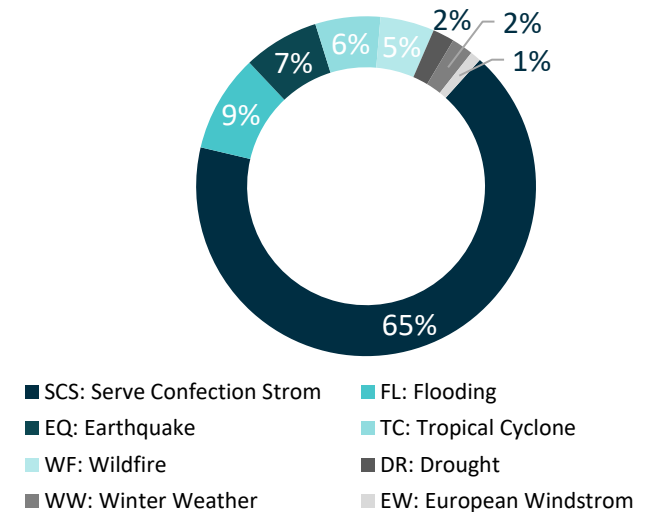
Severe winds both from straight-line wind events and tornadoes account for about 20% of average annual loss.

#### Lightning

Lightning, including fires started by lightning accounts for about 10%



### Insured loss by peril



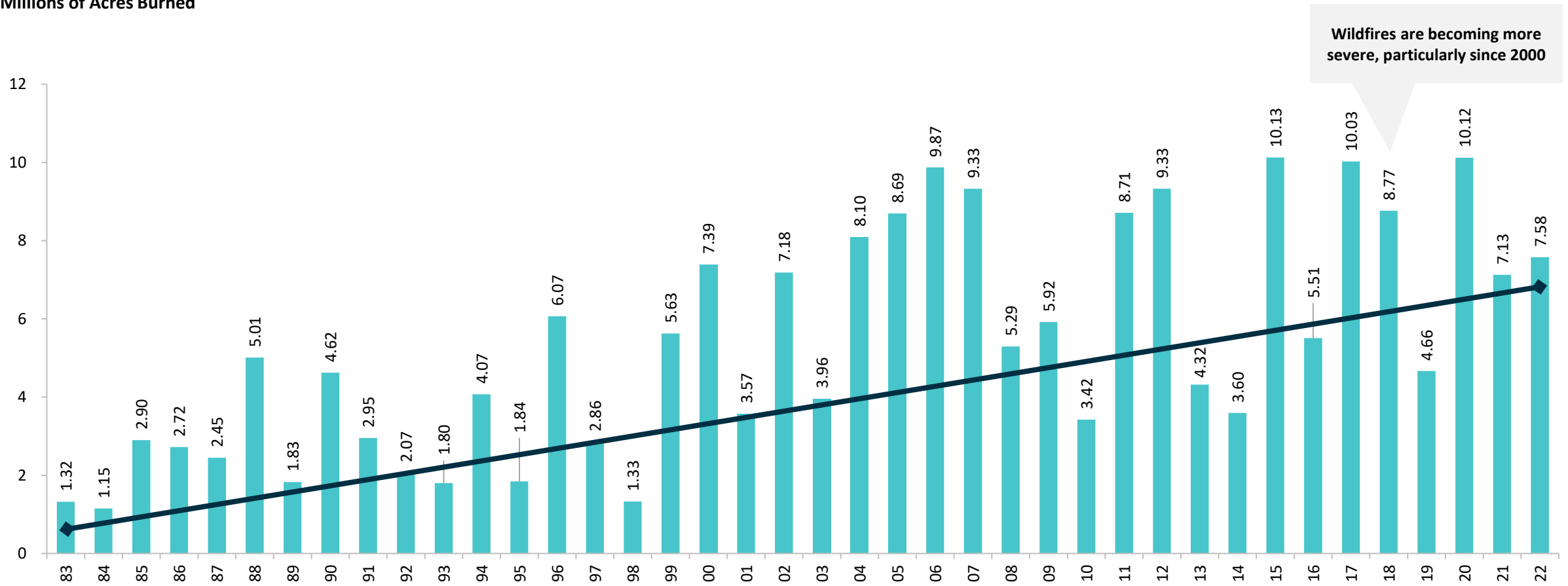
Source: Gallagher Re





# U.S. Total Wildland Acres Burned, 1983–2022

Millions of Acres Burned



\*2004 figures do not include data for North Carolina

Sources: National Interagency Fire Center at: <https://www.nifc.gov/fire-information/statistics/wildfires>

# Casualty Market Major Disruptors



## Auto Liability

- Cost of vehicles(inflation)
- Cost to repair (technology)
- Fatality Trends
- Distractive Driving – Cell Phones
- Claims Frequency **and** Severity Trajectory
- Social Inflation



## Workers Compensation

- Opioids
- Mental Health
- Aging Workforce
- Medical Cost Inflation
- Cancer & PTSD Presumptions
- Workplace Violence
- Medical Service Delays
- Out of State Exposure



## General Liability & Excess Liability

- Increase in Catastrophic Losses
- Punitive Damage Awards
- Organized Plaintiff Bar
- Personal Injury Trends
- Litigation Financing
- Aging Infrastructure
- Sexual Misconduct
- Law Enforcement Liability

# Increasing Impact on Liability Market



**Reduced Capacity**  
reinsurer withdrawals have been significant over the past two years



**Litigation Financing**  
continues to drive large claims. Funding increased \$3.5B in 2022.



**Plaintiff Attorney Strategies**  
specialization and strategies have evolved to get larger verdicts and settlements.



**Hyper Social Inflation**  
1.7b award given in Missouri on October 31, 2023 for conspiring to inflate real estate commissions and will triple to 5.3b under US antitrust law.



**Labor Shortage**  
everyone is doing more with less



**Reviver Legislation Amendments**  
A rise in Sexual Abuse and Molestation claims and settlements



**Law Enforcement**  
Increased focus on policing policy and procedures as well as pressure on Qualified Immunity



**Auto Liability**  
Frequency & Severity of losses has returned to pre COVID figures



**Underwriter Scrutiny**  
reinsurers are seeking to grow prudently and are maintaining a disciplined, conservative underwriter approach.



**Inflation**  
Rising cost are increasing the size of claims



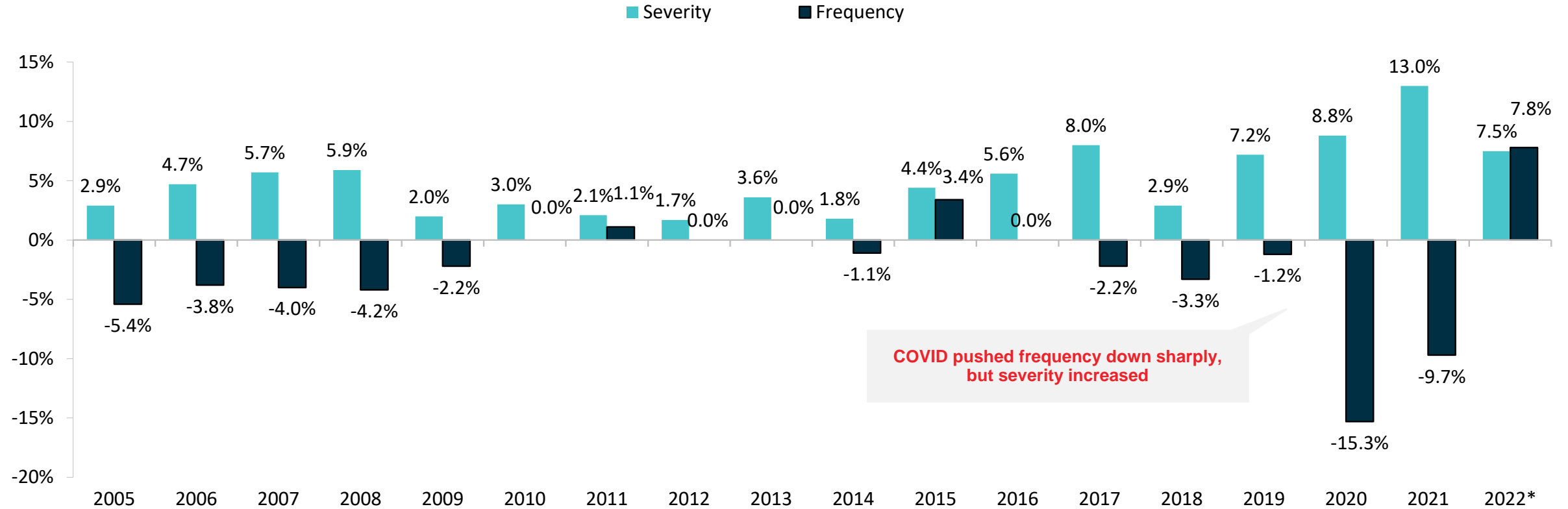
**Exclusions**  
continued restrictions surrounding sexual abuse, Wildfire Exclusions, COVID, cyber, opioids, man made chemicals (PFAS) and Biometric Identifiers (new focus)



**Emerging Risk**  
New Technologies such as AI, Telematics, Biometrics and machine learning systems risks are not fully understood given historical information  
Environmental risks relative to climate change are substantial  
Growing concerns around mental health impacts including impact on productivity, access to care, medical inflation and the steady rise of healthcare costs

# Auto Liability Bodily Injury Severity Trend Is Up, Frequency Plunge in 2020/21 Due to COVID Has Ended and Is Reversing

Annual Change, 2005 through 2022\*



COVID pushed frequency down sharply, but severity increased

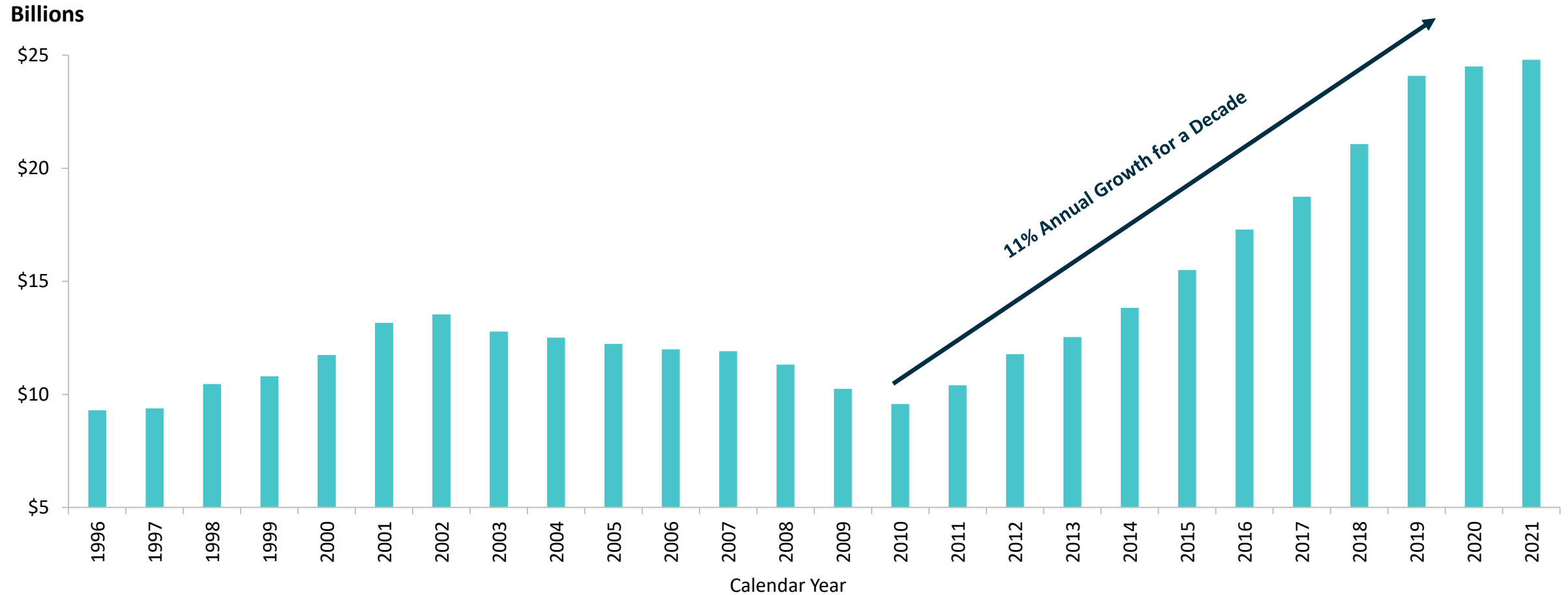
Frequency decline has ended. Q1 2022 BI frequency was +9.5% and Q4 2021 was +3.5%

\*2022 figure is for the 4 quarters ending 2022:Q1.

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

eSlide – P6466 – The Financial Crisis and the Future of the P/C

# Upward Trend in Value of Liability Claims



Sources: NAIC data sourced from S&P Market Intelligence; Insurance Information Institute.

# Social Inflation: Many Interrelated Causes, Difficult to Manage



## INSURANCE CLAIM COSTS



Increasing Propensity to Sue



Size of Jury Awards



Courts/Juries Favoring Plaintiffs



Growing Distrust of Large Corps.



Litigation Financing



Aggressive Plaintiff Bar Ads



Changes in Regulatory and Legal Environment

## TOP VERDICT CATEGORIES

Dollar Value of Top 100 verdicts by cause of action, *in millions.*

2022

**\$30,844**

Worker/workplace Negligence

**\$18,726**

Intellectual property

**\$13,131**

Products Liability

**\$5,710**

Intentional Torts

**\$2,417**

Motor Vehicle

**\$2,404**

Employment

**\$2,255**

Professional Negligence

**\$1,553**

Medical Malpractice

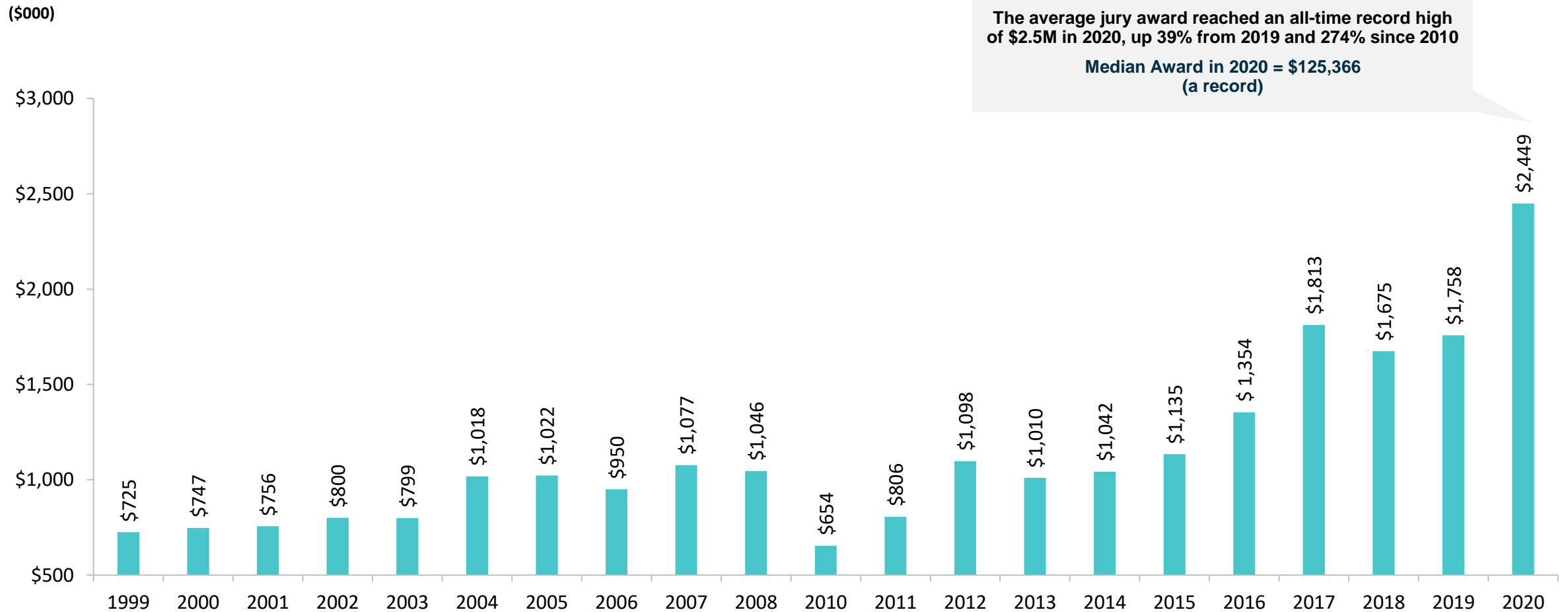
**\$1,332**

Business Law

**\$1,160**

Toxic Torts

# Average Jury Awards, 1999 – 2020 (latest available)



Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (61<sup>st</sup> Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

# The Nation's Judicial Hellholes: 2023/2024



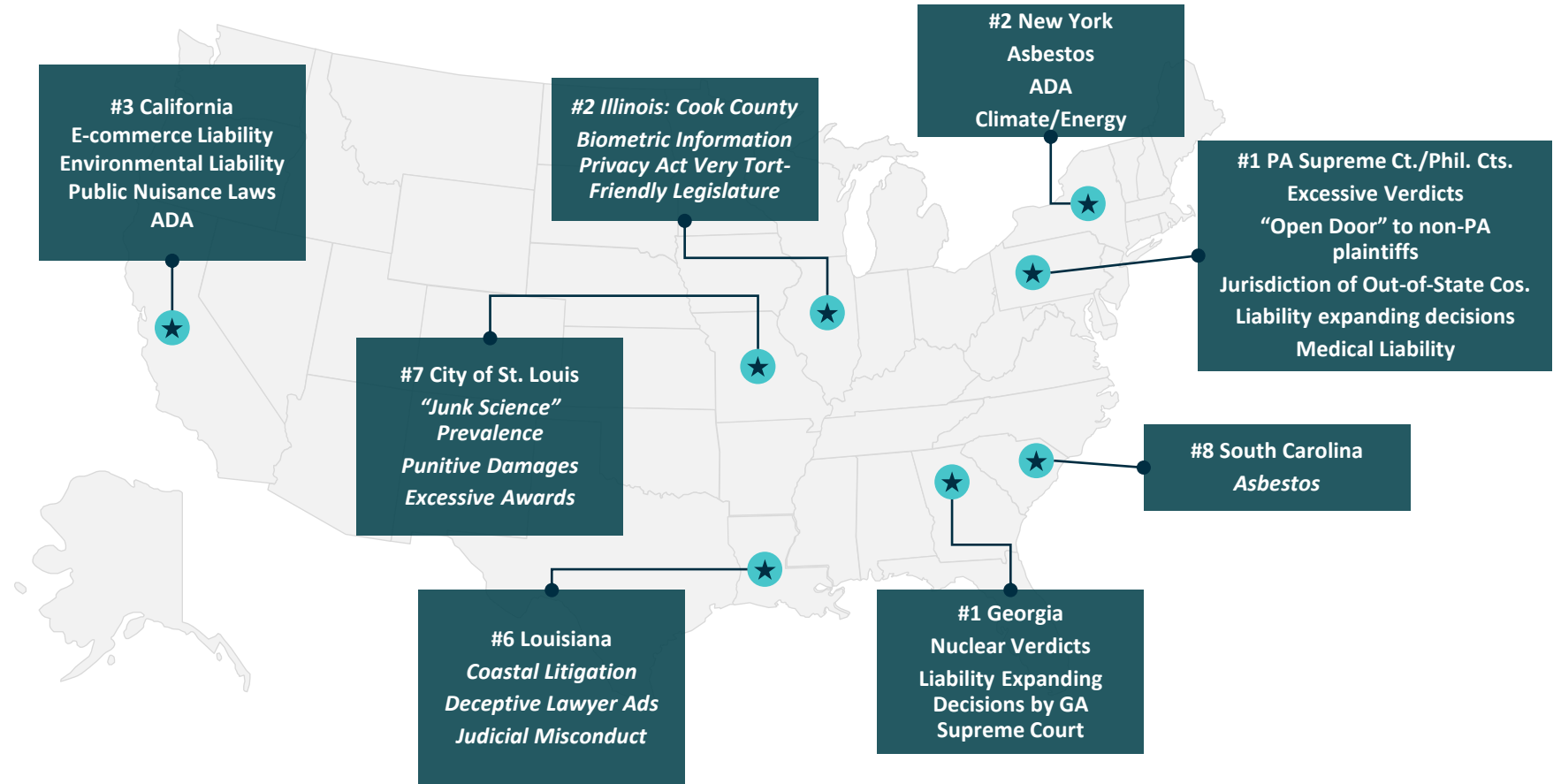
## Watch List

- Florida Legislature
- Colorado
- TX Ct. of Appeals
- Minnesota
- Maryland



## Dishonorable Mention

- American Law Inst.
- FL Appellate Ct.
- KY Atty. General
- Ohio
- Utah Supreme Ct.



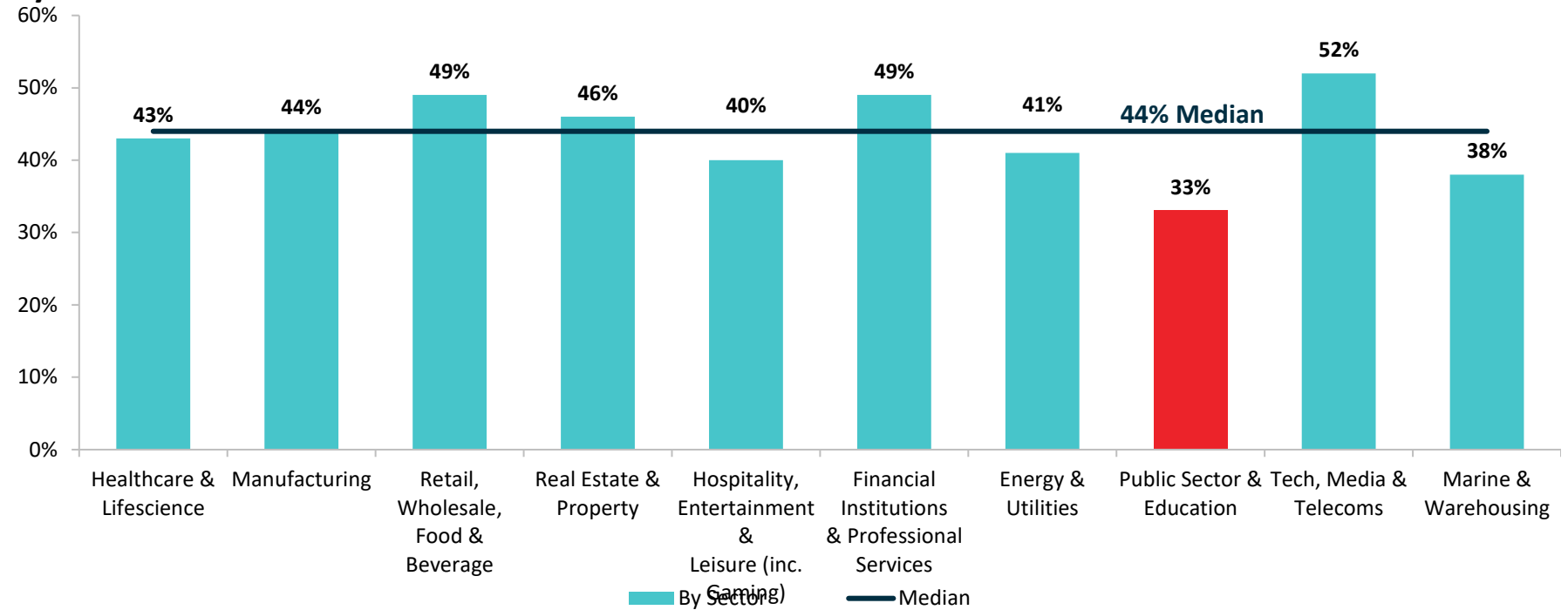


# Cyber - Targeting Public Entities

## Security standards across the marketplace:

- Multi-factor authentication
- Well managed end point detection
- Well managed RDP connections – VPN, MFA, etc.
- Data Back Ups
- Planning and Training (and Frequency)
- Reasonable patching schedule/plan
- Plan or adequate measures in place to protect end of life software
- IT Security Budgets
- Email Security
- Identity Access Management
- Service Account Management

## Sector view on resilience to cyber risk



Percentage of US and UK companies feeling 'very prepared' to anticipate and respond to cyber risk in 2021. Median line indicates the mid-point of the data set across all industries surveyed.

**As a result, many markets are revisiting their appetite for new Public Entity cyber**

## Liability Renewal Outlook

### Excess liability continues to be a challenge



#### Specific Problem areas:

- Aggregate limits – Many carriers are looking to cap their exposure on pool programs
- Attachment point/Retentions are being closely examined
- Underwriter scrutiny on Law Enforcement and Sexual Abuse/Misconduct coverages
- Emerging Exclusions: PFAS, Biometric Identifiers, Legislative



Insurers reporting loss cost increases in the 10-15% rate. Pricing will be based on losses and jurisdiction



Engage incumbent carriers early to gain commitment on renewal. Seeking face time with underwriters for complex risks.

# Property Renewal Outlook



## Continued scrutiny of data (SOV, COPE, ITV with Increased Construction Cost)

- *Must go to market with a compelling narrative*



## Increased retentions and caps on certain types of exposure

- *Windstorm & Severe Convective Storm*



## Rate increases expected and highly dependent on Wind Season, Reinsurance Market and individual client losses



## Underwriter submission activity remains high – imperative to engage early and access global market

- *For the first time in a number of renewal cycles, there are a few new markets writing in the property sector*
- *Many London markets are targeting premium growth in the 20-30% range, including increased rate on renewal business and inflation*



## Regional Underwriting: Property markets are affected differently across the nation.

- *e.g., West: Wildfire/Earthquake, East: Hurricanes, Midwest: SCS, etc.*



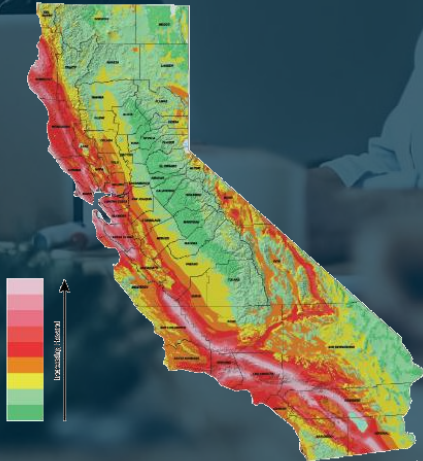
## Unknown impact of RMS v23

- *Atlantic wind model expected to show an average 5%-10% uplift to aggregate industry modelled losses – for some areas, could be as much as 20-30%*
- *The most significant changes are to the Florida/Gulf/Southeast areas and commercial exposures*
- *Most carriers, however, are still testing/trialling this version*
- *Anticipated influence on insurer aggregates and pricing likely not fully realized until early 2024*



## Public Entity Space dislocation – leaving buyers underinsured

# Earthquake/ DIC Renewal Outlook



Earthquake is catastrophic in nature, it is priced and underwritten separately from Property risks.



Over the previous 10 years, the earthquake market has remained stable, and pricing has remained relatively flat compared to other major lines of CAT coverage. That is now changing.



## Current Market Conditions:

- Major underwriters are re-evaluating the most profitable way to deploy capital:
  - CA EQ vs. Other CAT/ Florida Wind



- Capacity is generally declining:
  - Current markets are shrinking appetites – the push for smaller limits continues
  - No new significant injection of capital for EQ markets



- Market conditions pushed many placements into non-admitted markets, and a backlog developed creating service delays

# Workers Compensation Leading Concerns



## Rate Expectations: Account Specific

### Trends to Watch:

- Increase in state legislative bills filed for Presumptive and PTSD benefits
- Opioid Epidemic
- Data analytics and AI emerging in claims handling
- Increased severity of workplace injuries
- Mental health exposures
- Medical marijuana
- Increasing Payroll's impact on premium



## Wage Inflation's impact on premiums & Medical Expense Inflation



## Underwriter Concerns: Per Occurrence exposure to CAT loss; rate adequacy; changes in the labor market



## Remote Work: Out of State employees & impact on productivity and compliance



## Investment Yield on Long Tail Coverage

# Renewal Cost Projections

at May 5 –  
(Conservative)

Excess Liability	2023	Est. 2024	Change	
			Dollars	Percent
Limit	40,000,000	40,000,000	-	0%
Self-Insured Retention	750,000	750,000	-	0%
\$10MM - Great American	616,965	863,752	246,786	40%
\$20MM - Berkley National	413,081	578,314	165,232	40%
Arch \$5MM Part of \$20MM	72,241	101,137	28,896	40%
\$10MM - Great American Custom	115,000	161,000	46,000	40%
<b>Total Cost</b>	<b>1,217,288</b>	<b>1,704,203</b>	<b>486,915</b>	<b>40%</b>

Excess Workers' Comp	2023	Est. 2024	Change	
Payroll	83,569,000	86,592,000	3,023,000	4%
Limit	Statutory	Statutory	-	0%
Rate Per \$100	0.41	0.51	0.10	25%
Self-Insured Retention	1,000,000	1,000,000	-	0%
<b>Total Cost</b>	<b>338,977</b>	<b>437,293</b>	<b>98,316</b>	<b>29%</b>

Property (incl. B&M & Cyber)	2023	Est. 2024	Change	
Values	2,555,157,434	2,679,094,423	123,936,989	5%
"All Risk" Limit	1,000,000,000	1,000,000,000	-	0%
Cyber Limit	2,000,000	2,000,000	-	0%
Flood Limits	25M/25M	25M/25M	-	0%
"All Risk" Deductible	500,000	500,000	-	0%
Flood Deductible	1,000,000	1,000,000	-	0%
Boiler Limit/Deductibles	100M/25k/Vrs	100M/25k/Vrs	-	0%
Cyber Deductible	250,000	250,000	-	0%
Rate Per \$100	0.10	0.108	0.008	7%
<b>Total Cost (Including Comm Rebate)</b>	<b>2,578,426</b>	<b>2,906,254</b>	<b>327,828</b>	<b>13%</b>

Earthquake	2023	Est. 2024	Change	
Values	125,589,206	128,329,638	2,740,432	2%
Limits	25,000,000	25,000,000	-	0%
Rate Per \$100	0.16	0.17	0.02	10%
Deductibles	5% \$5MM Min	5% \$5MM Min	-	0%
<b>Total Cost</b>	<b>198,192</b>	<b>222,583</b>	<b>24,390</b>	<b>12%</b>