Public Entity Insurance Marketplace, Trends, Industry Issues and Outlook

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Alliant Insurance Services
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

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.

Aging Infrastructure

Climate Change

Inflation

Natural Disasters

Supply Chain & Labor Shortage

Proliferation of "secondary" perils (SCS)

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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 – **2nd** 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**

Cyber

09

Cyber capacity has improved and creating stabilized terms and conditions

10

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

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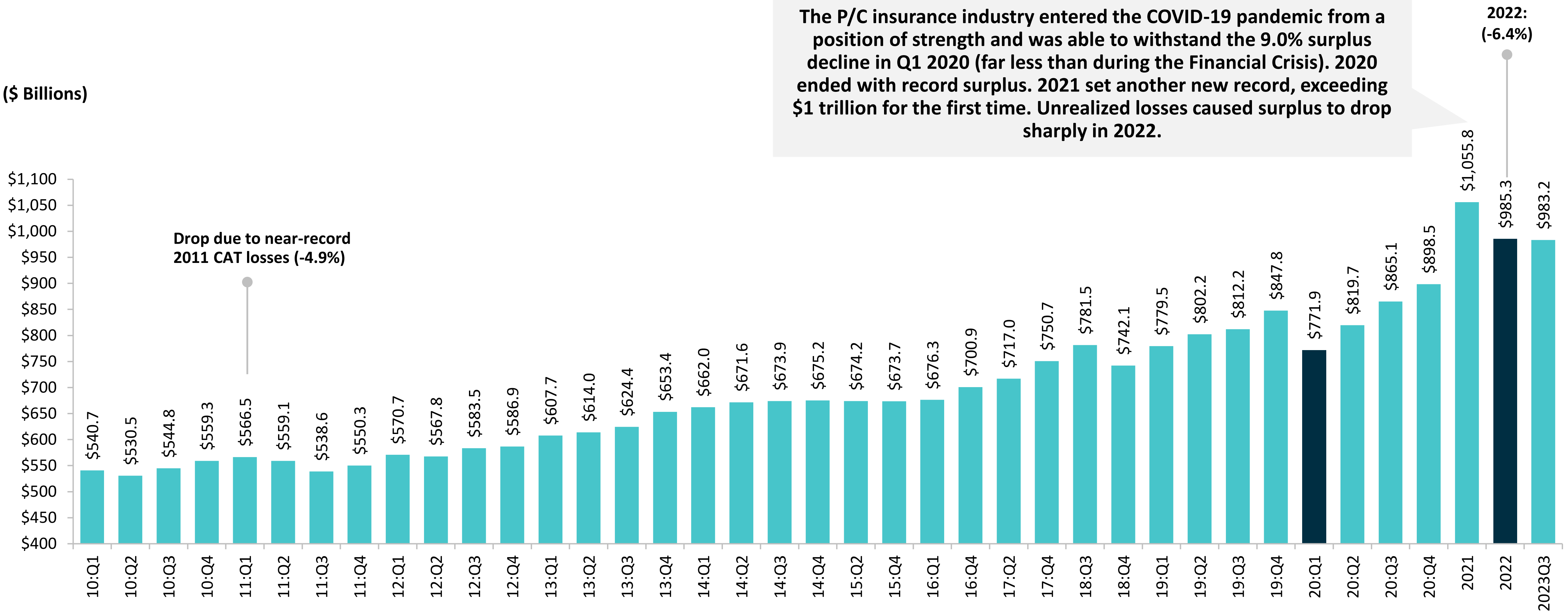
Policyholder Surplus (Capacity), 2010: Q1 – 2023: Q3

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.

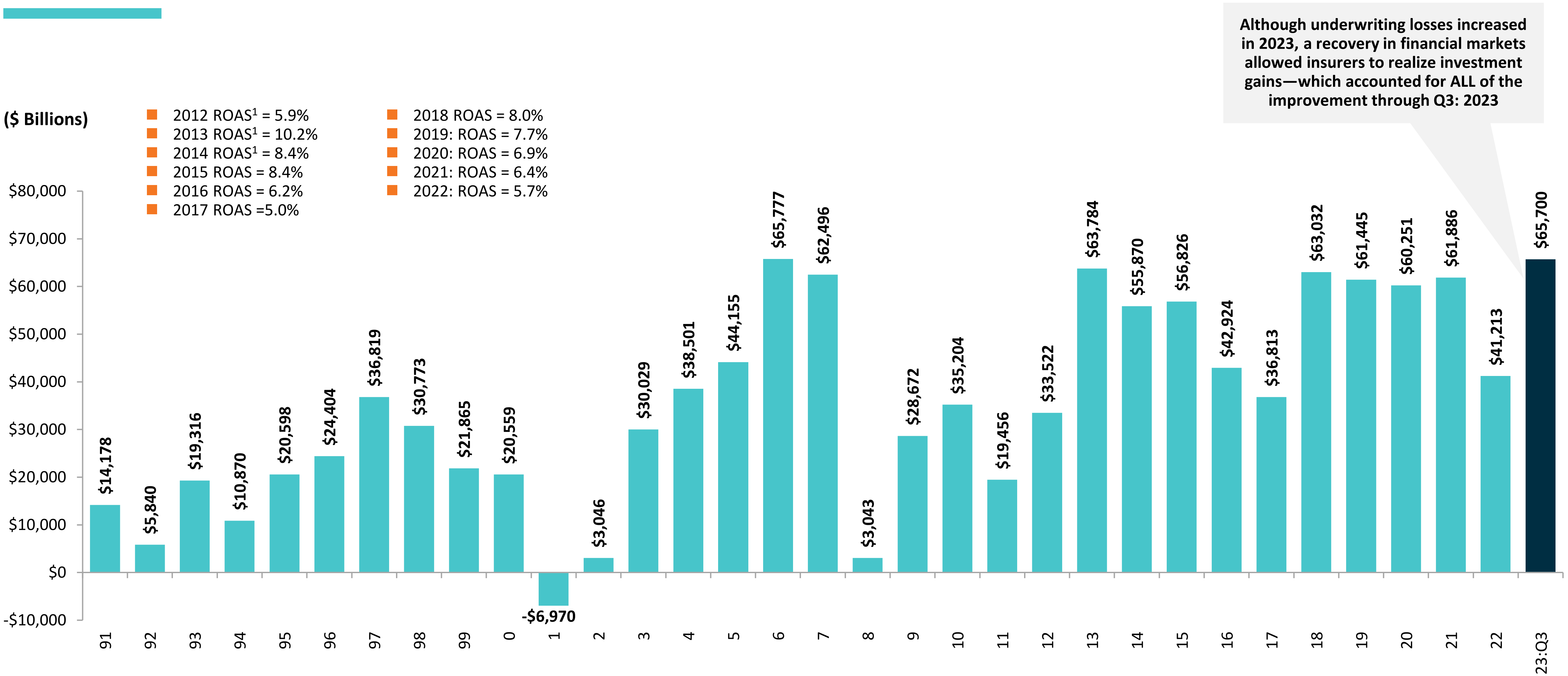
Net Investment Yield on Property/Casualty Insurance Invested Assets, 2003–2023P

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)

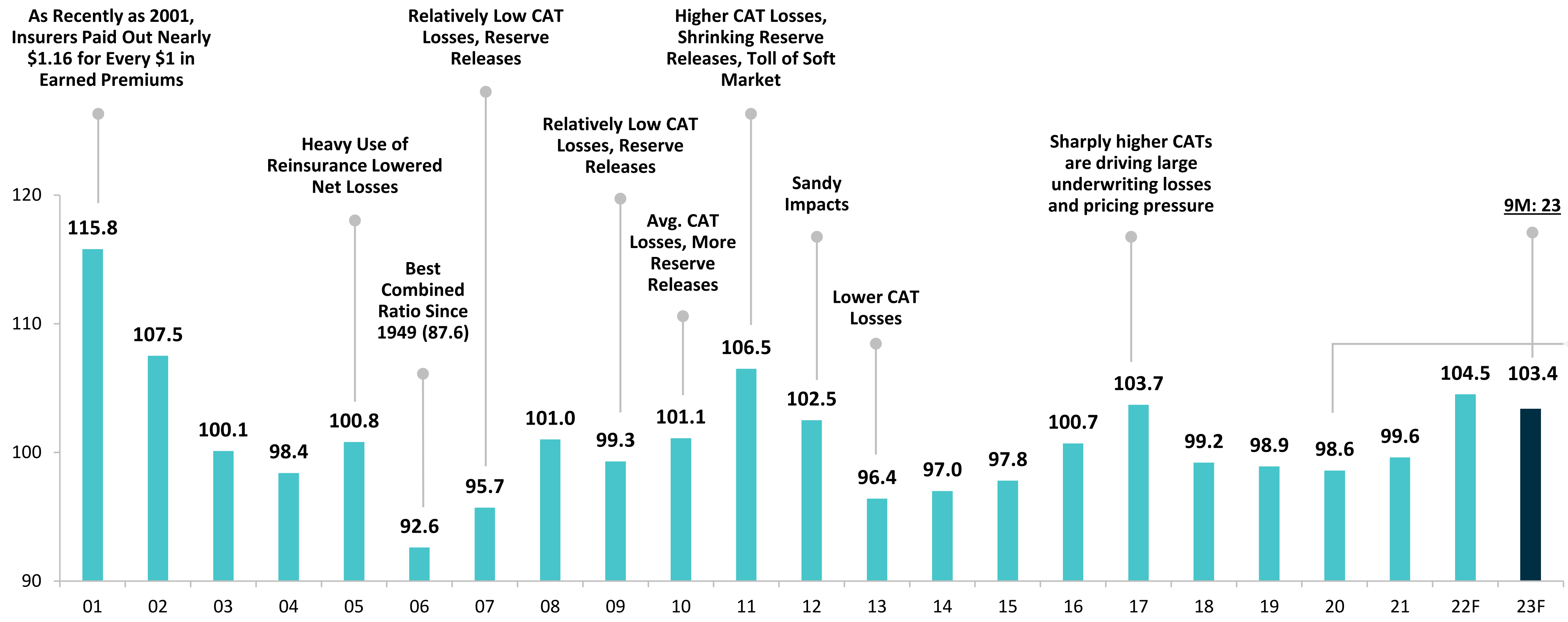
Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA.
Risk and Uncertainty Management Center, Univ. of South Carolina.

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



*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

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



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)

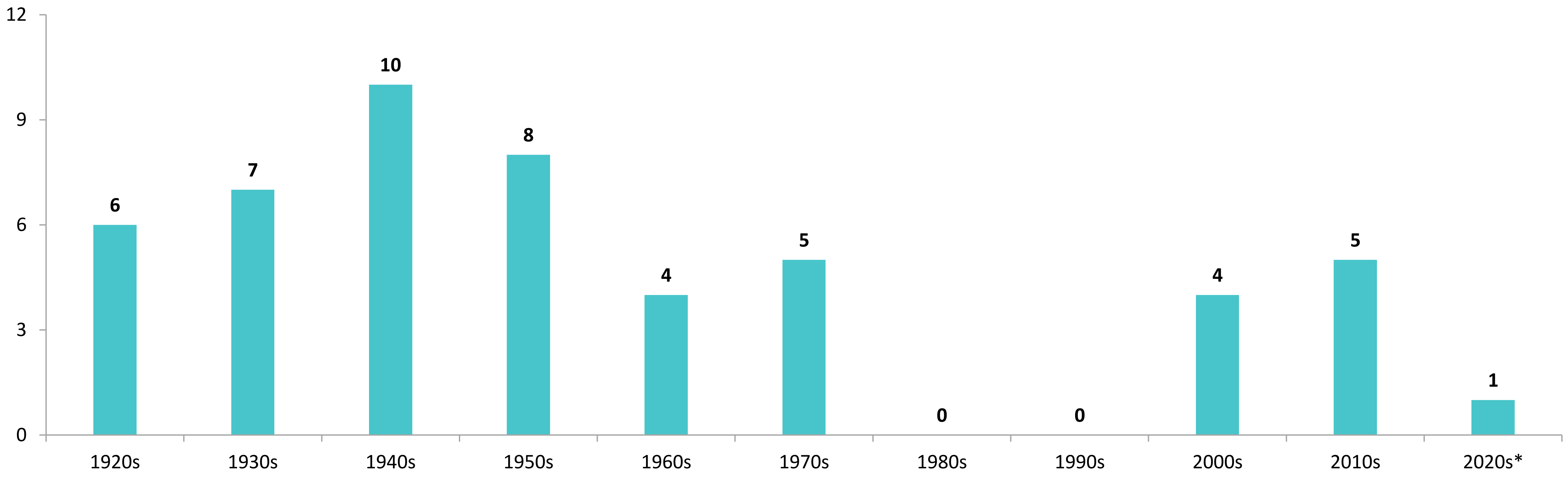
Actual = 98

**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.

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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

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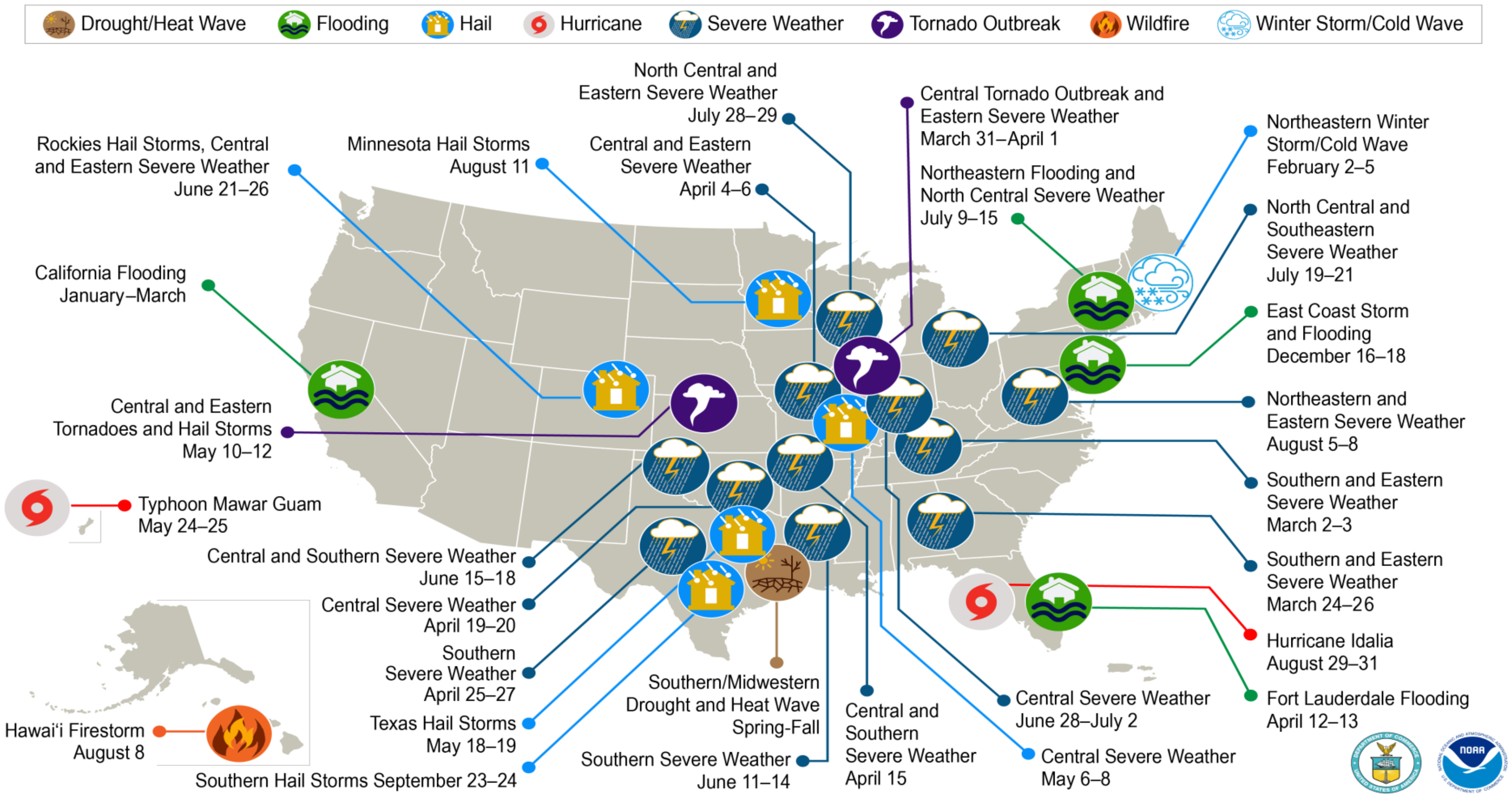
Major U.S Losses in 2023

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.***

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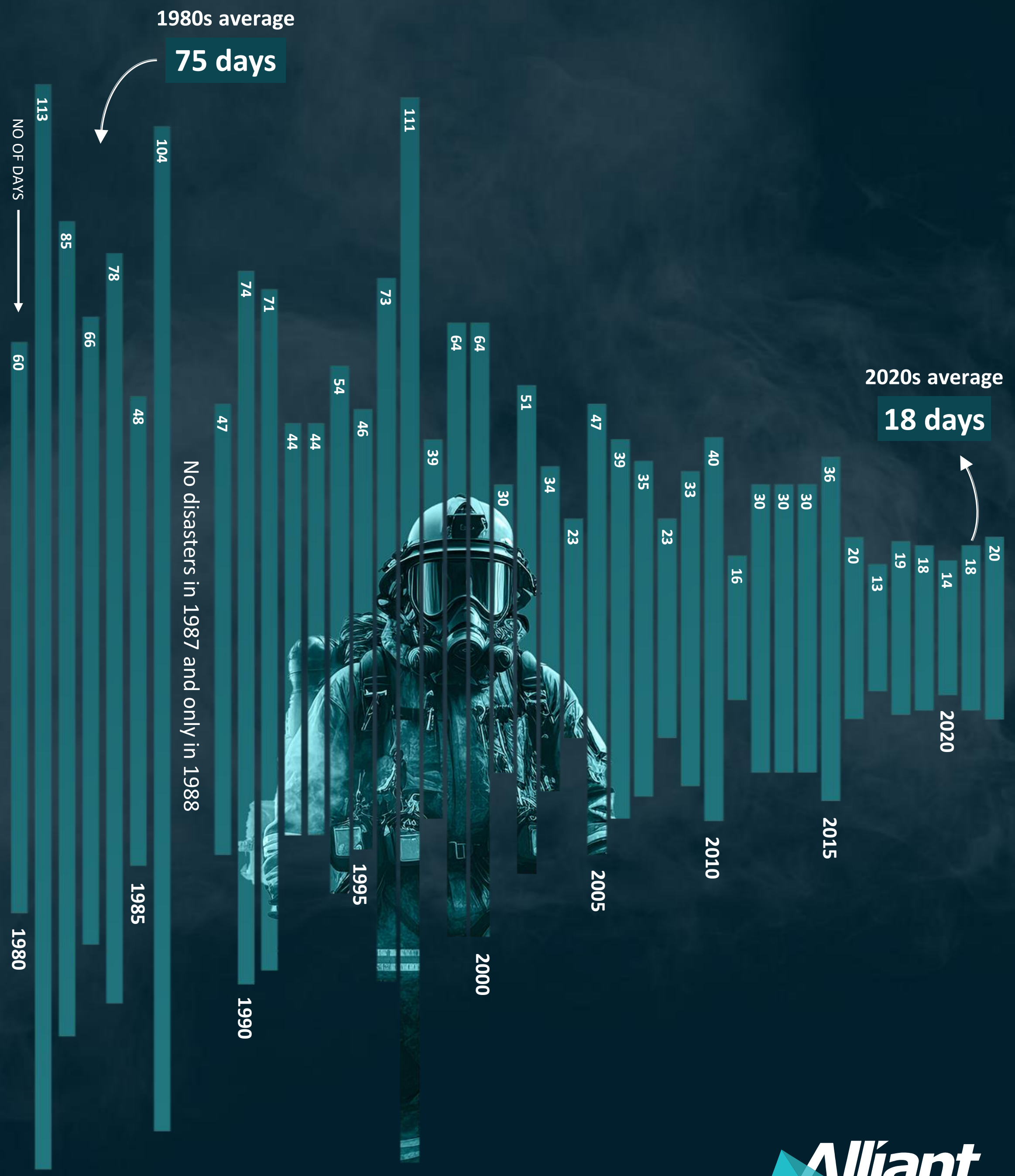
Days between billion-dollar disasters

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).



Source: NOAA | PLANET ANOMALY

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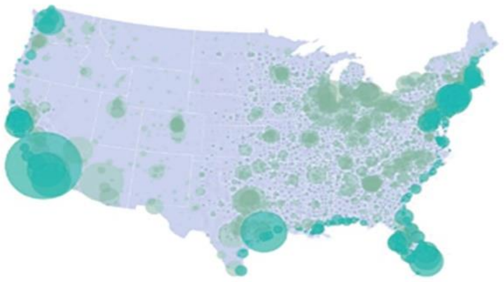
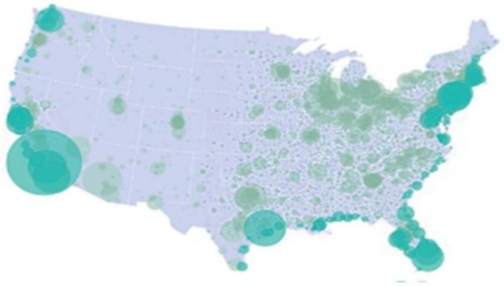
Population Growth and Bullseye Effect

1950

2000



2020

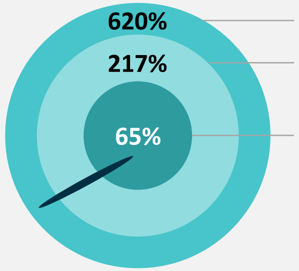


1950 **1980** **2010** **2040**

After Ashley et al. (2014)

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

Population growth comparison 1970-2021



Population growth within Hurricane lan landfall area

Florida population growth

US Population growth

Source: Swiss Re

Rural   Exurban   Suburban   Urban   Tornado Scenario

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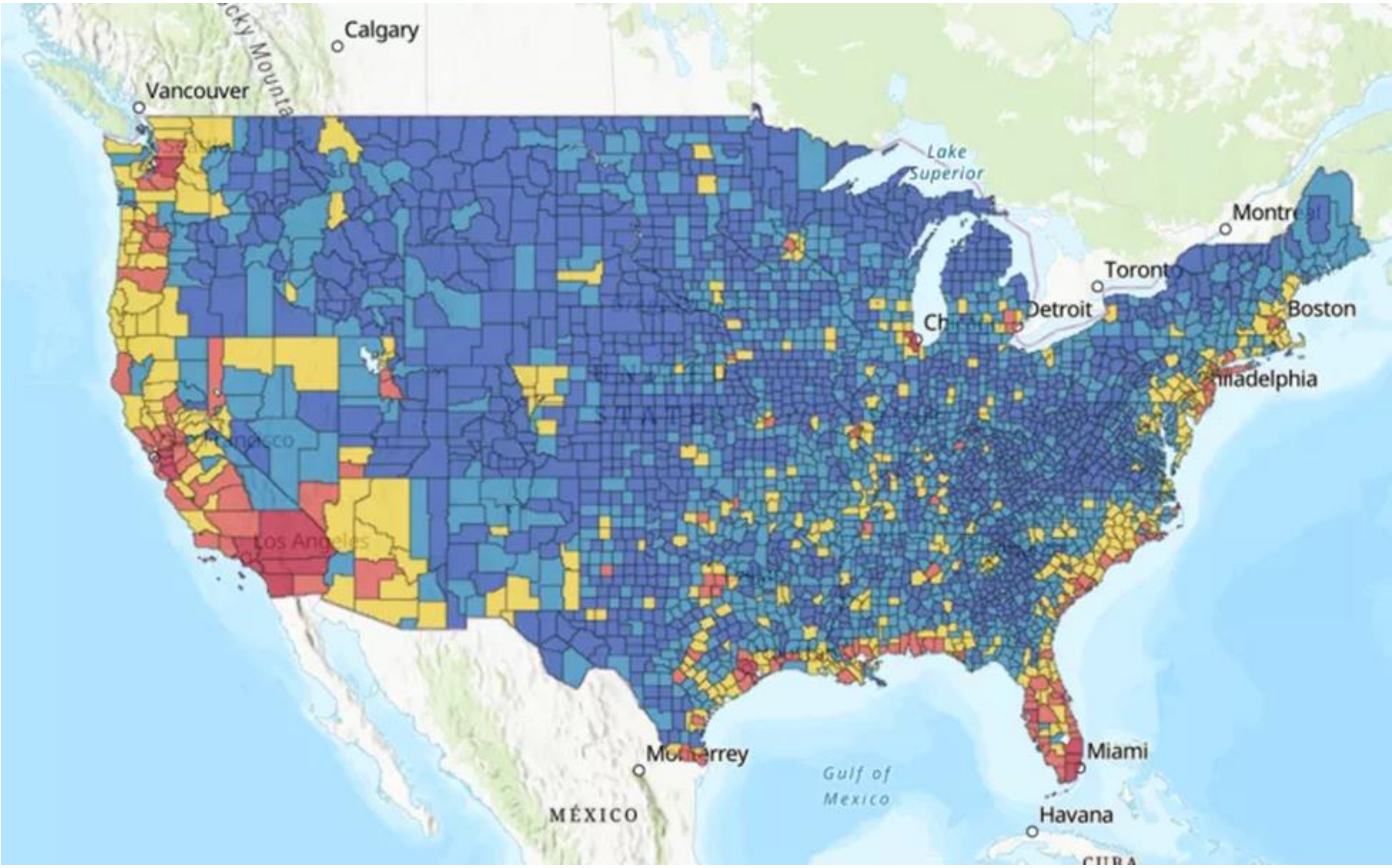
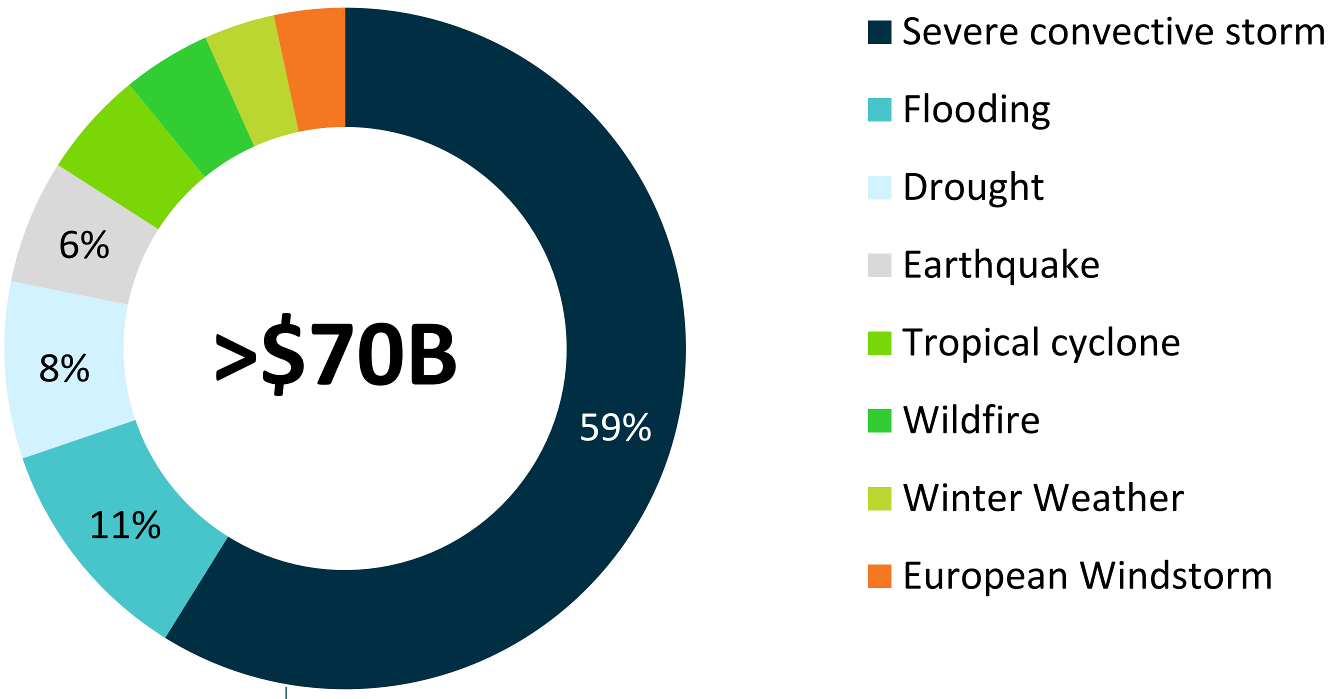
FEMA National Risk Index Counties Map



- **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

Source: FEMA map of National Risk Index Counties.
Deep red means an area is most at risk from natural hazards.

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

Source: https://www.theinsurer.com/news/aon-estimates-2023-insured-nat-cats-at-118bn-as-protection-gap-rises-to-69/

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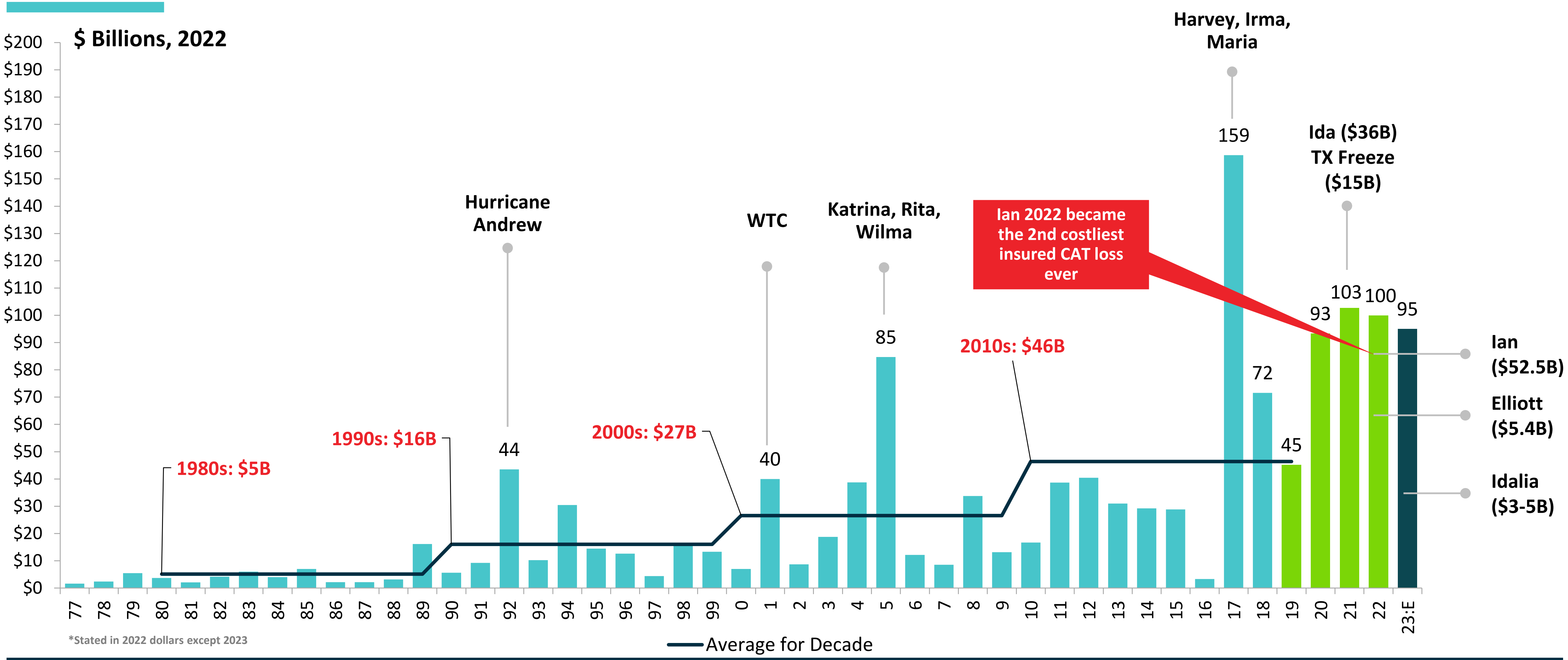
U.S. Inflation-Adjusted Insured CAT Losses: 1977 – 2023

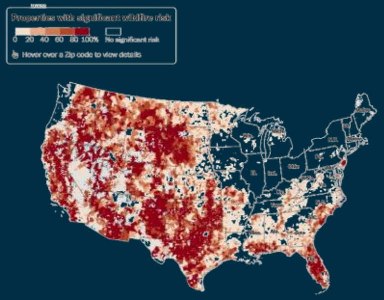


Insured Cat Losses Are Increasing At An Alarming Rate – Nearly 300% Since 80's
Average Insured Loss per Year | 1980-2021: $27.1 Billion | 2012-2021: $60.4 Billion

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.

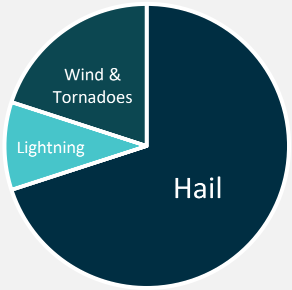
Severe convective Storm Hazards and Loss

Loss by SCS Hazard from Risk Management Solutions

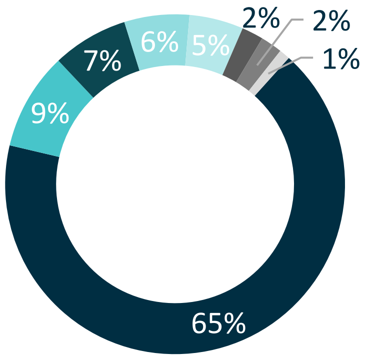
Hail
Hail accounts for 70% of annual average loss. In any given year hail is 60-80% of the damage produced by severe convective storms

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



- SCS: Serve Confection Strom
- FL: Flooding
- EQ: Earthquake
- TC: Tropical Cyclone
- WF: Wildfire
- DR: Drought
- WW: Winter Weather
- EW: European Windstrom

Source: Gallagher Re

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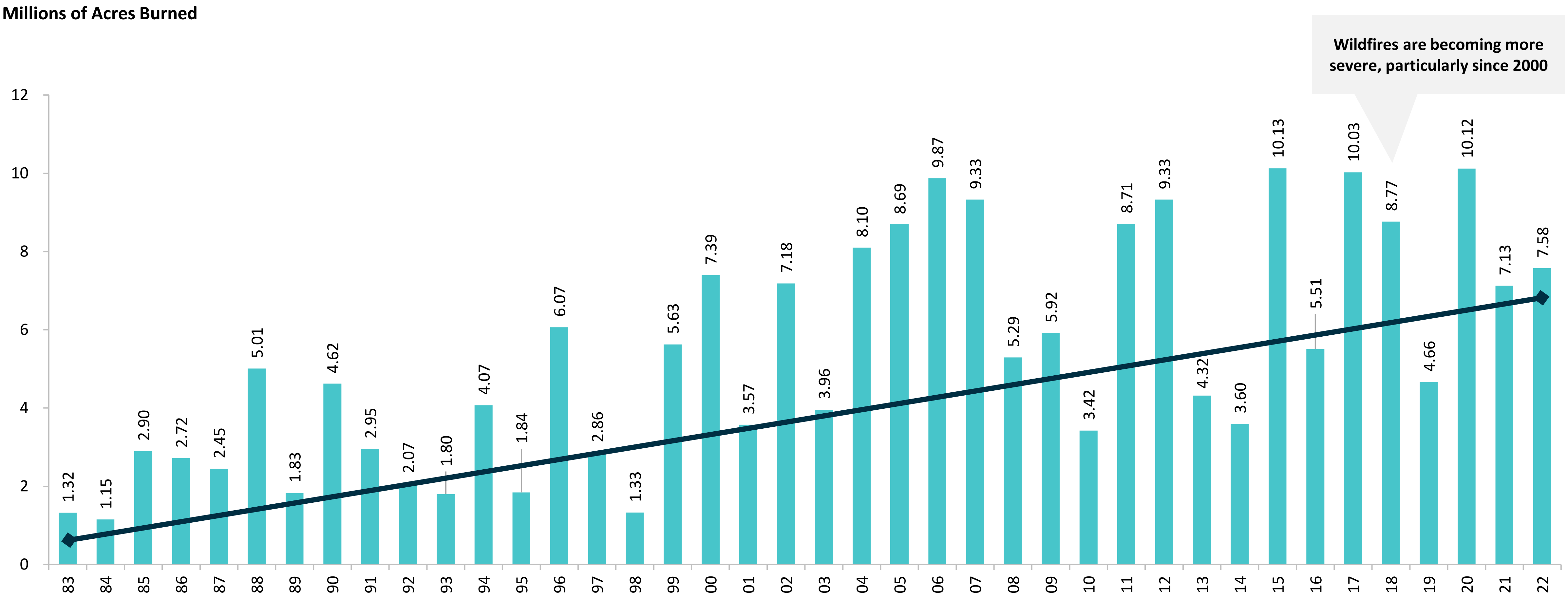
U.S. Total Wildland Acres Burned, 1983–2022



*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 **<u>and</u>** 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

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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)

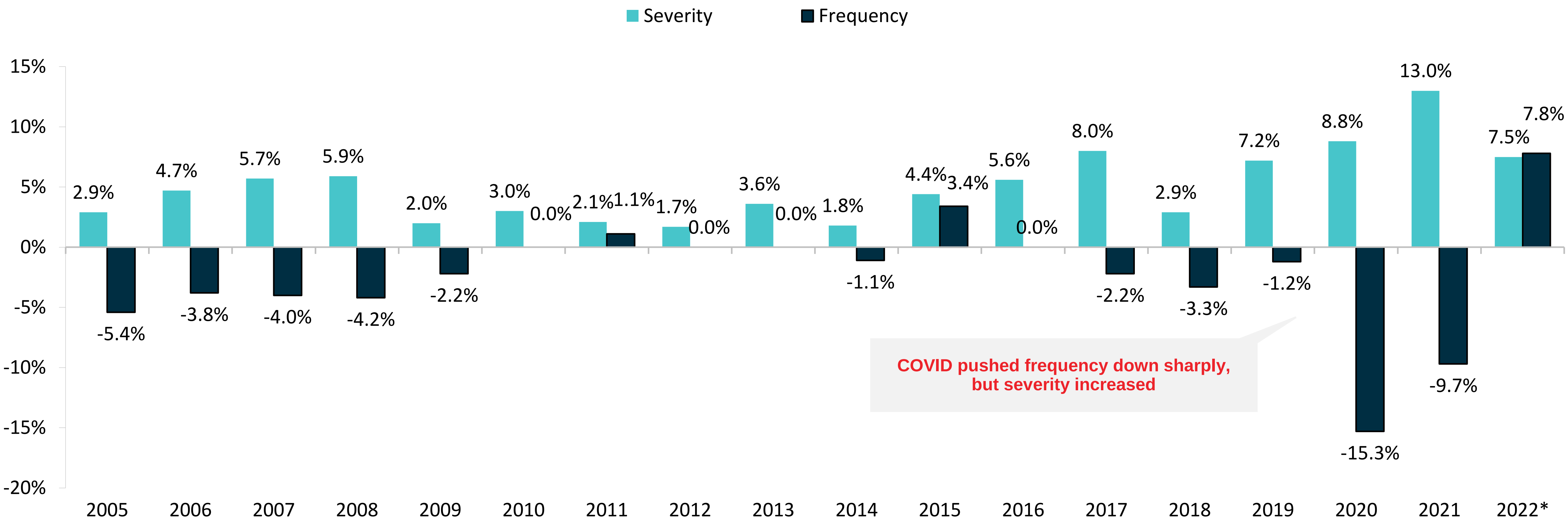
Emerging Risk
New Technologies such as AI, Telematics, Biometrics and machine learning systems risks are not fully understood given historical information

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*

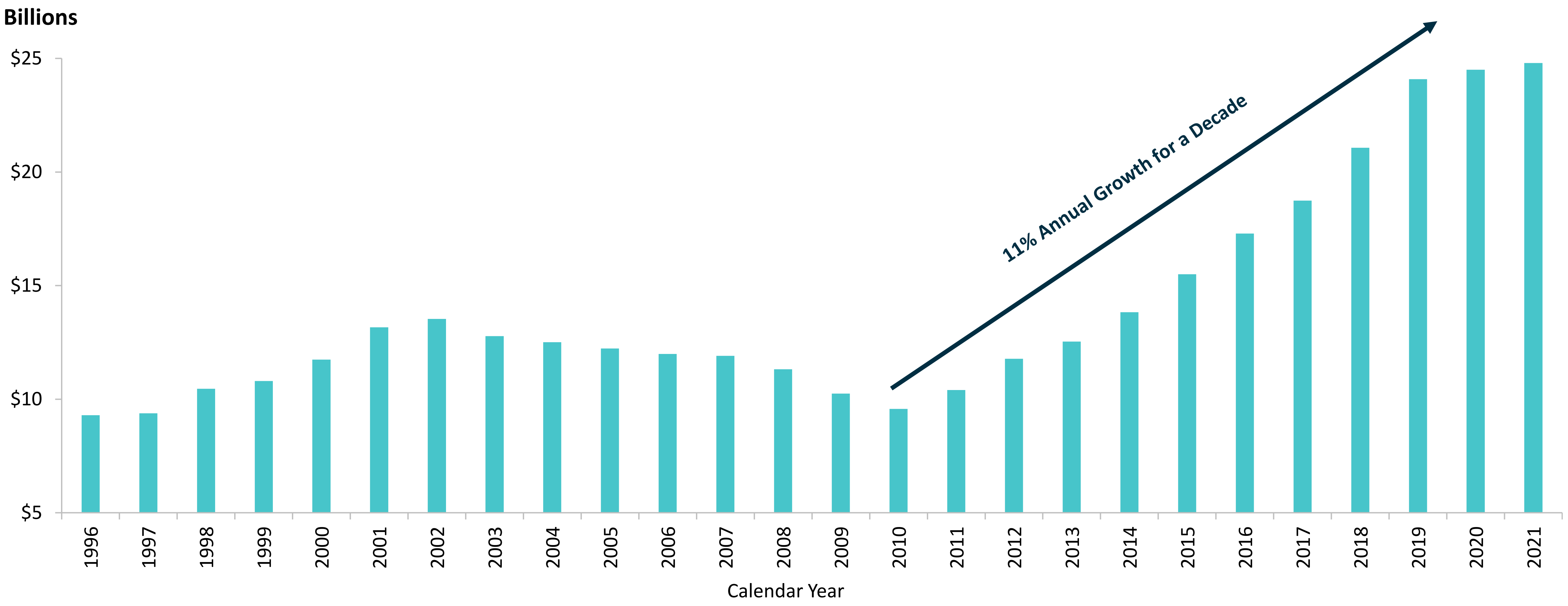


Frequency decline has ended. Q1 2022 BI frequency was +9.5% and Q4 2021 was +3.5%

*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.

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		

Source: Risk and Uncertainty Management Center, Univ. of South Carolina, adapted from Verisk "Social Inflation" presentation (2020); VerdictSearch. Figures are rounded to the nearest $1 million.

Source: VerdictSearch. Figures are rounded to the nearest $1 million

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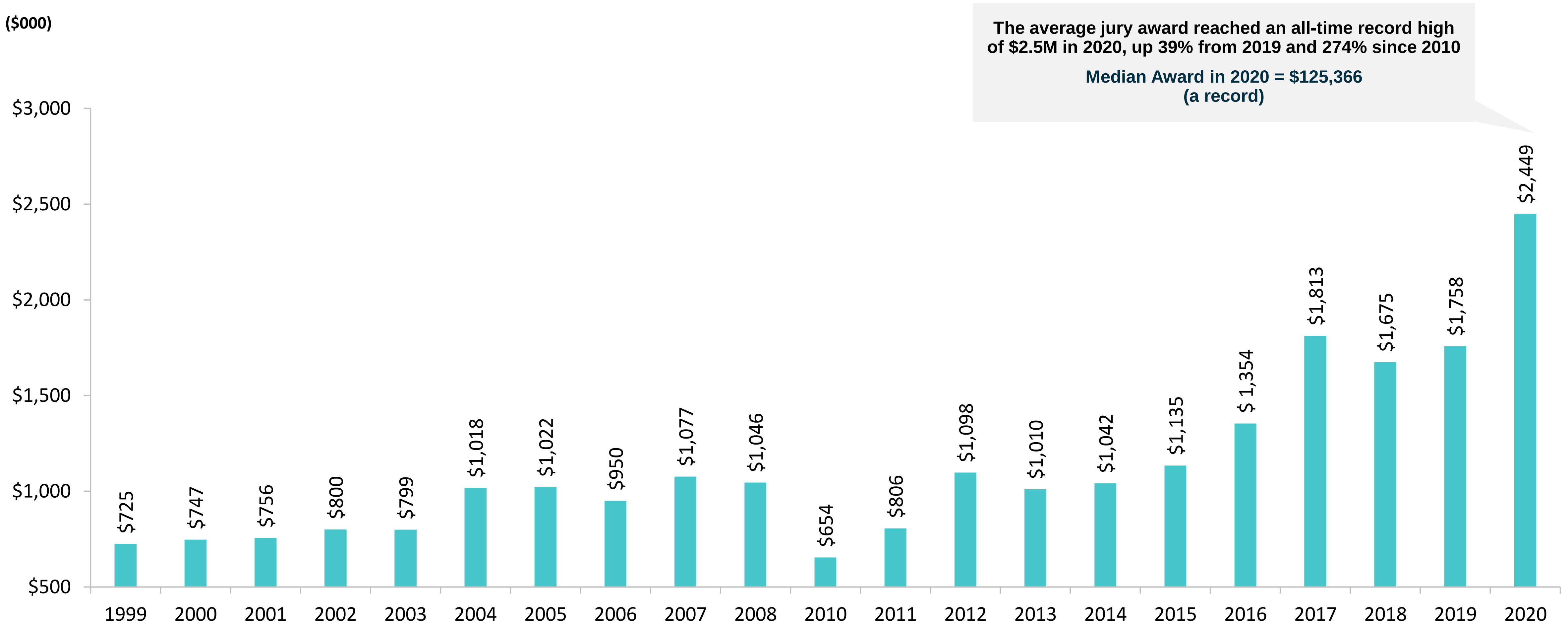
Average Jury Awards, 1999 – 2020 (latest available)



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

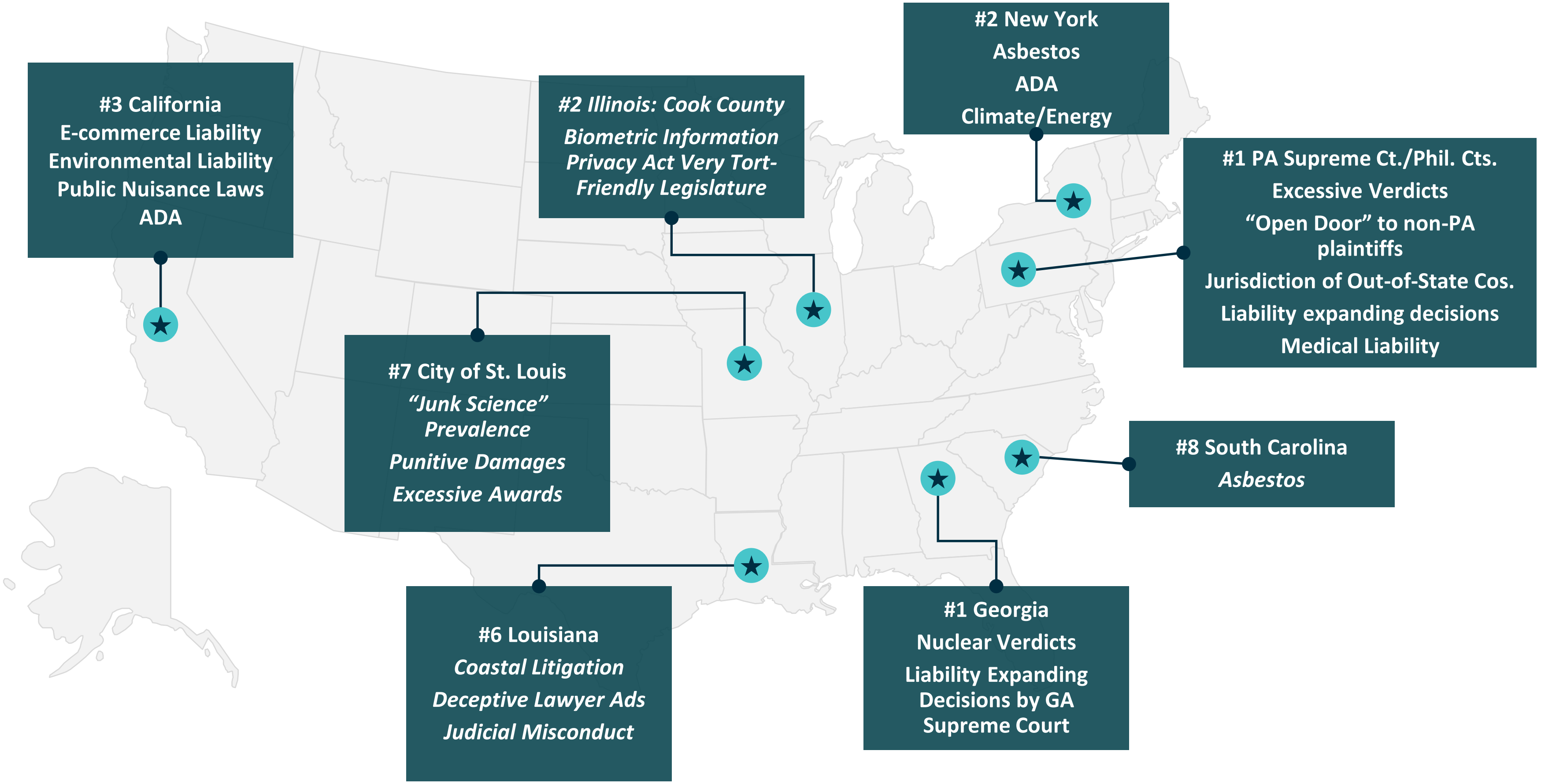
The Nation’s Judicial Hellholes: 2023/2024

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.



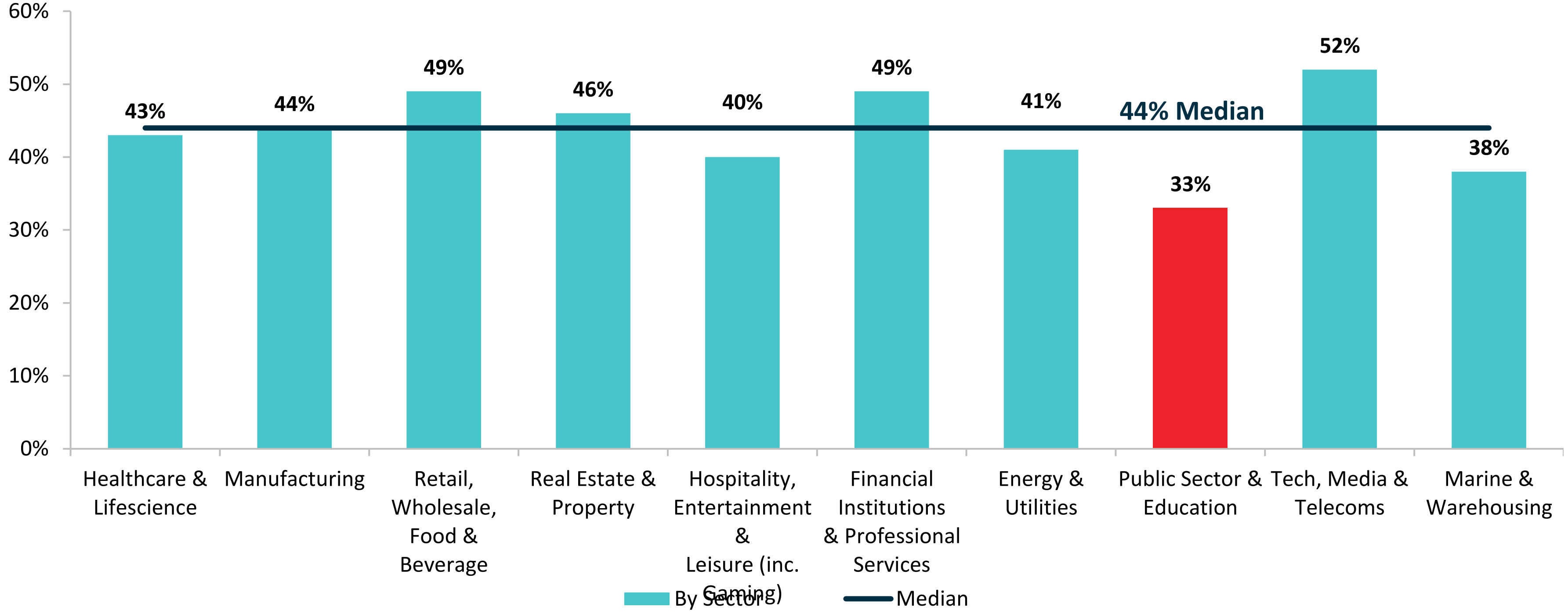
Source: American Tort Reform Association; Risk & Uncertainty Management Center, University of South Carolina.

Cyber - Targeting Public Entities

Security standards across the marketplace:

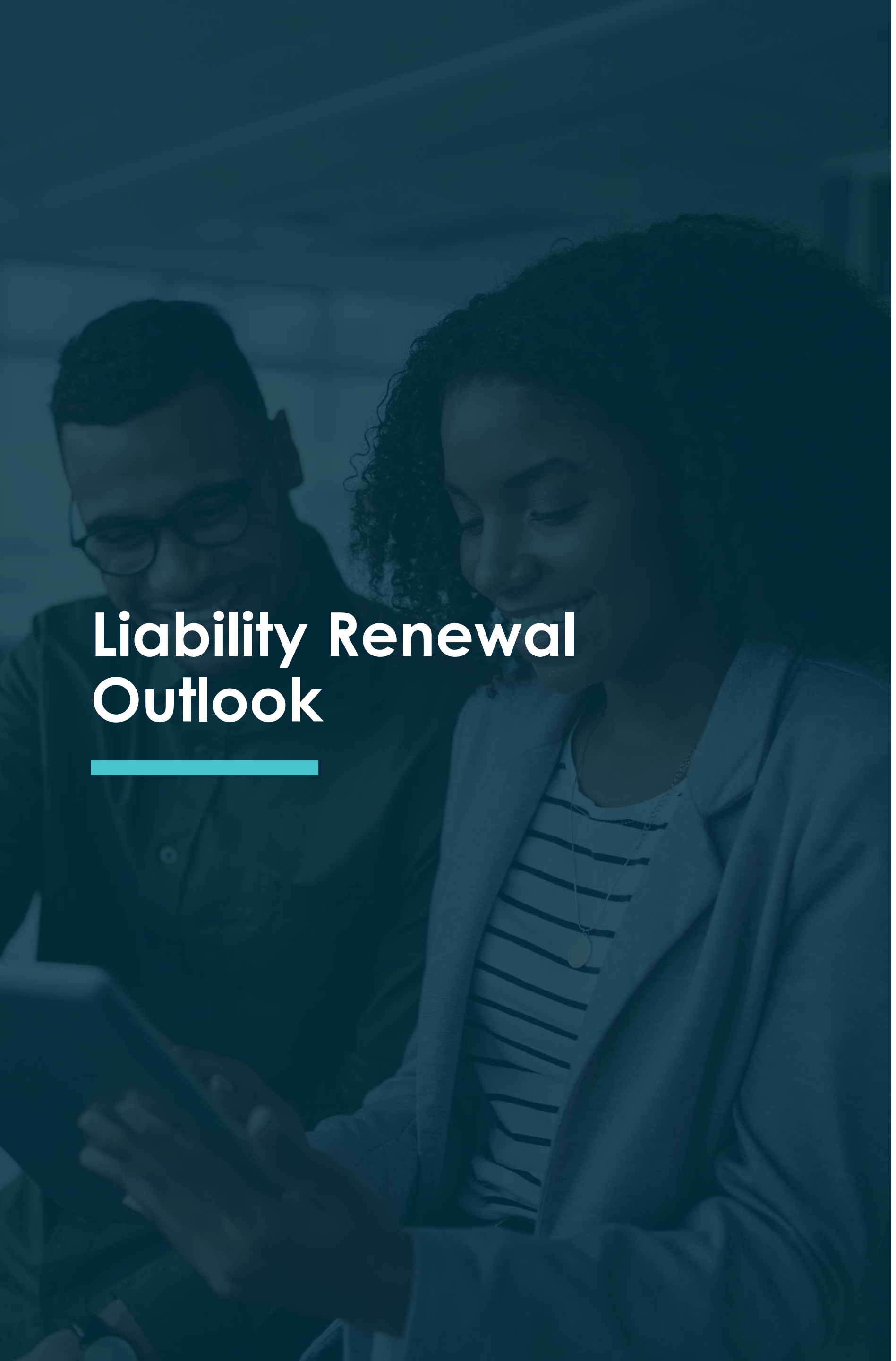
- **Multi-factor authentication**
- **Well managed end point detection**
- **Well managed RDP connections – VPN, MFA, etc.**
- **Data Back Ups**
- **Planning and Training (and Frequency)**
- **Reasonable patching schedule/plan**
- **Plan or adequate measures in place to protect end of life software**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

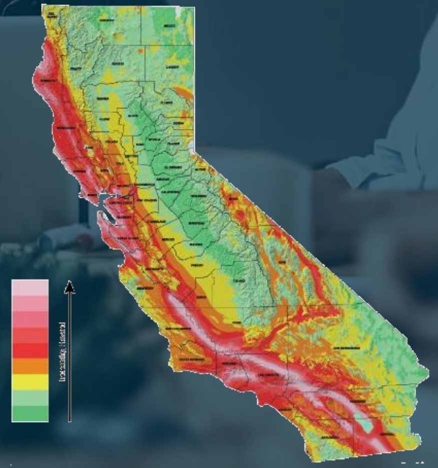
- *e.g., West: Wildfire/Earthquake, East: Hurricanes, Midwest: SCS, etc.*

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%
Total Cost		**1,217,288**	**1,704,203**	**486,915**	**40%**

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%
Total Cost	**338,977**	**437,293**	**98,316**	**29%**

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%
Total Cost (Including Comm Rebate)	**2,578,426**	**2,906,254**	**327,828**	**13%**

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%
Total Cost	**198,192**	**222,583**	**24,390**	**12%**