Risk & Insurance | Employee Benefits | Retirement & Private Wealth

Economy & Insurance

Current Trends & Outlook

Agenda

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Introduction

Types of Risks in Enterprise Risk Management

Our focus today

All segments are interrelated and impact each other

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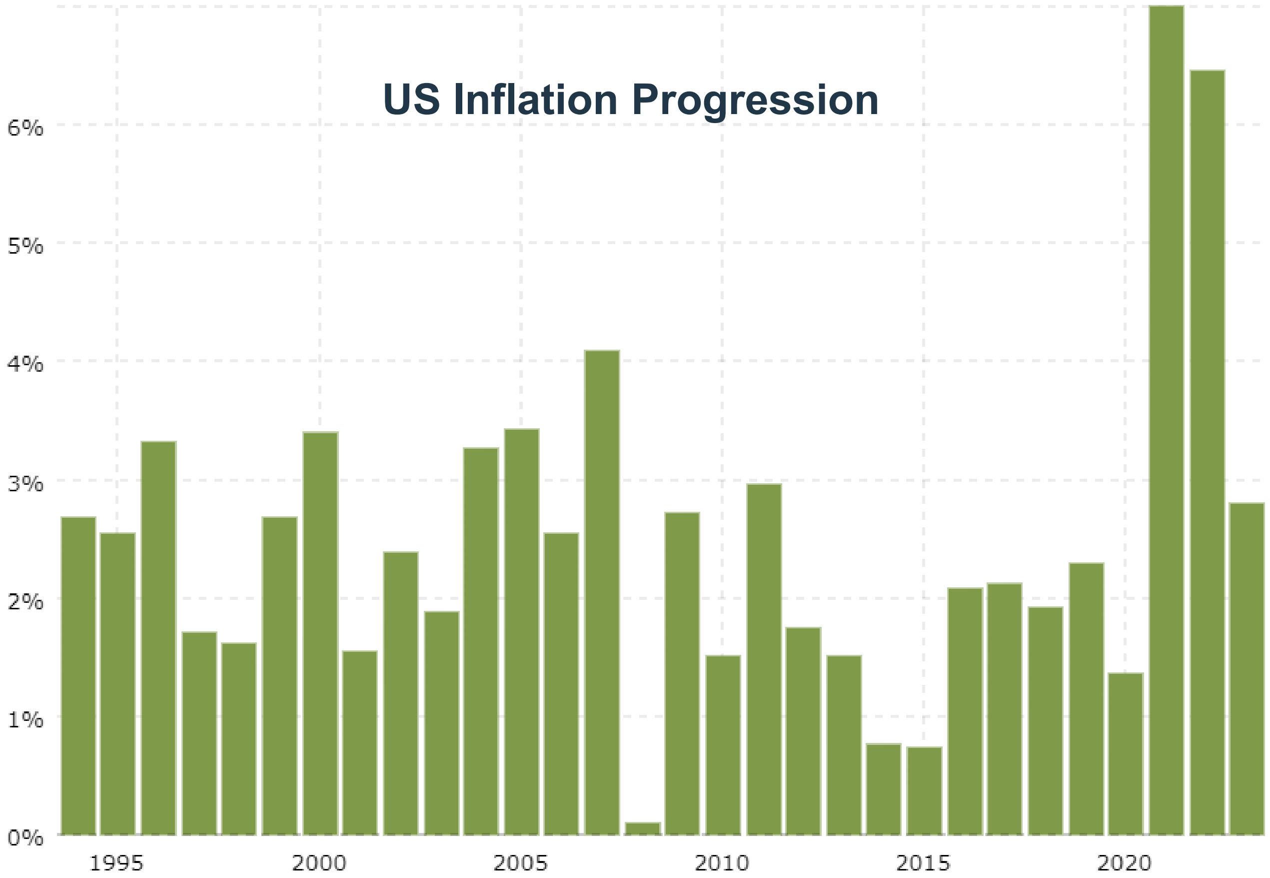
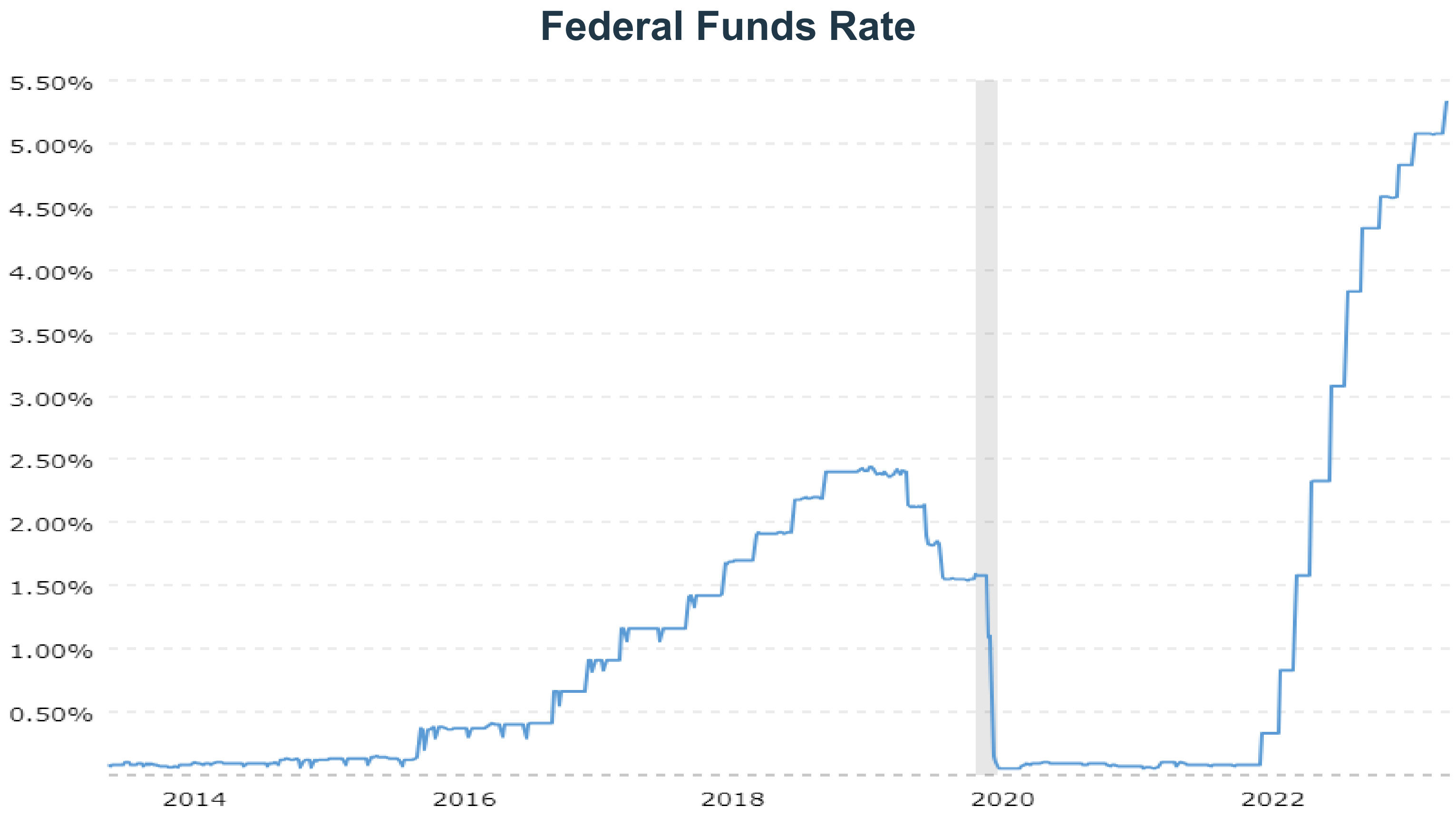
Current Trends In Economy

Economic Factors - Inflation



Global inflation is expected to fall from 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic (2017–19) levels of about 3.5 percent

Economic Factors – Prime Rate Fluctuation

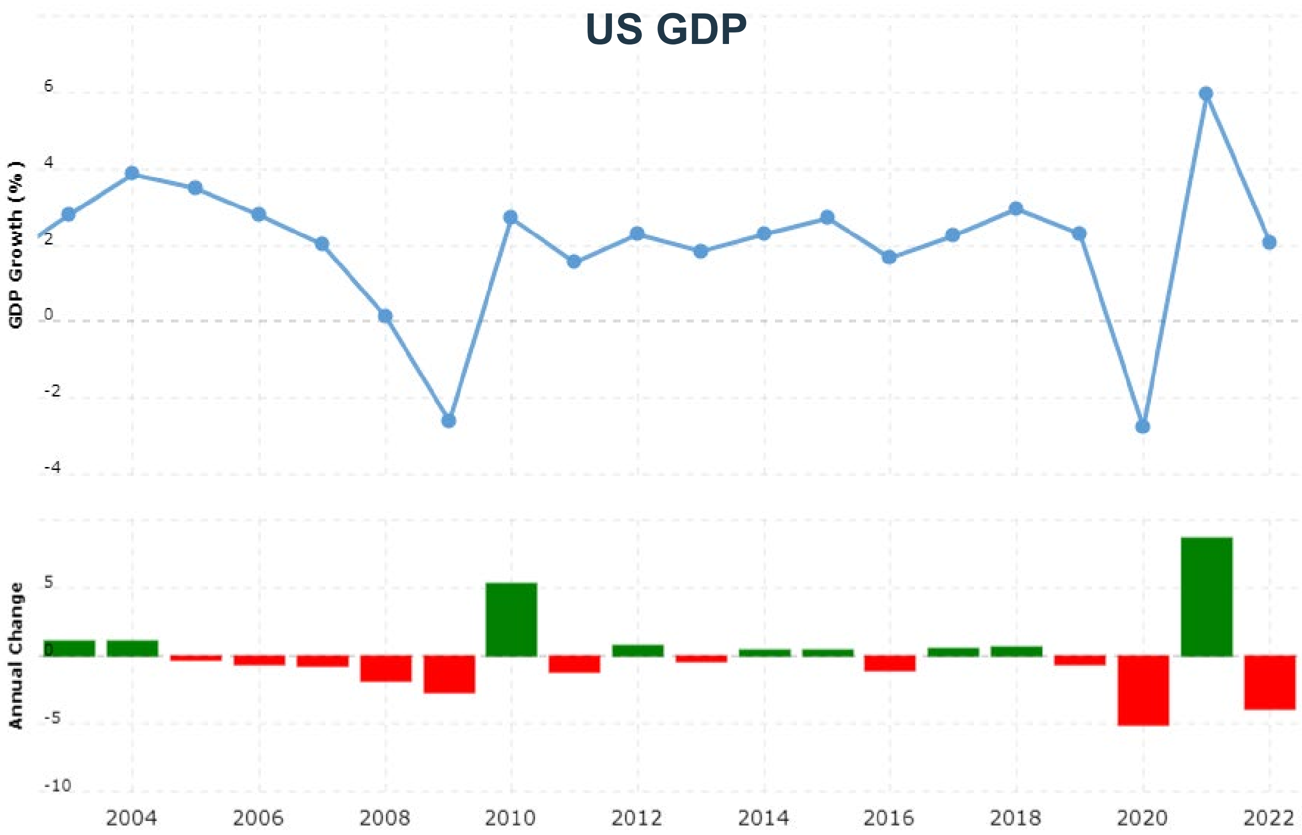


The outlook from U.S. Federal Reserve suggests interest rate cuts beginning next year, however, coupled with the anticipated path of inflation, those projections actually indicate monetary policy will grow more restrictive through 2024 on a "real" or inflation-adjusted basis. Mortgage and credit card rates come down at the margin, but not by as much as inflation

Economic Factors – Unemployment Rate

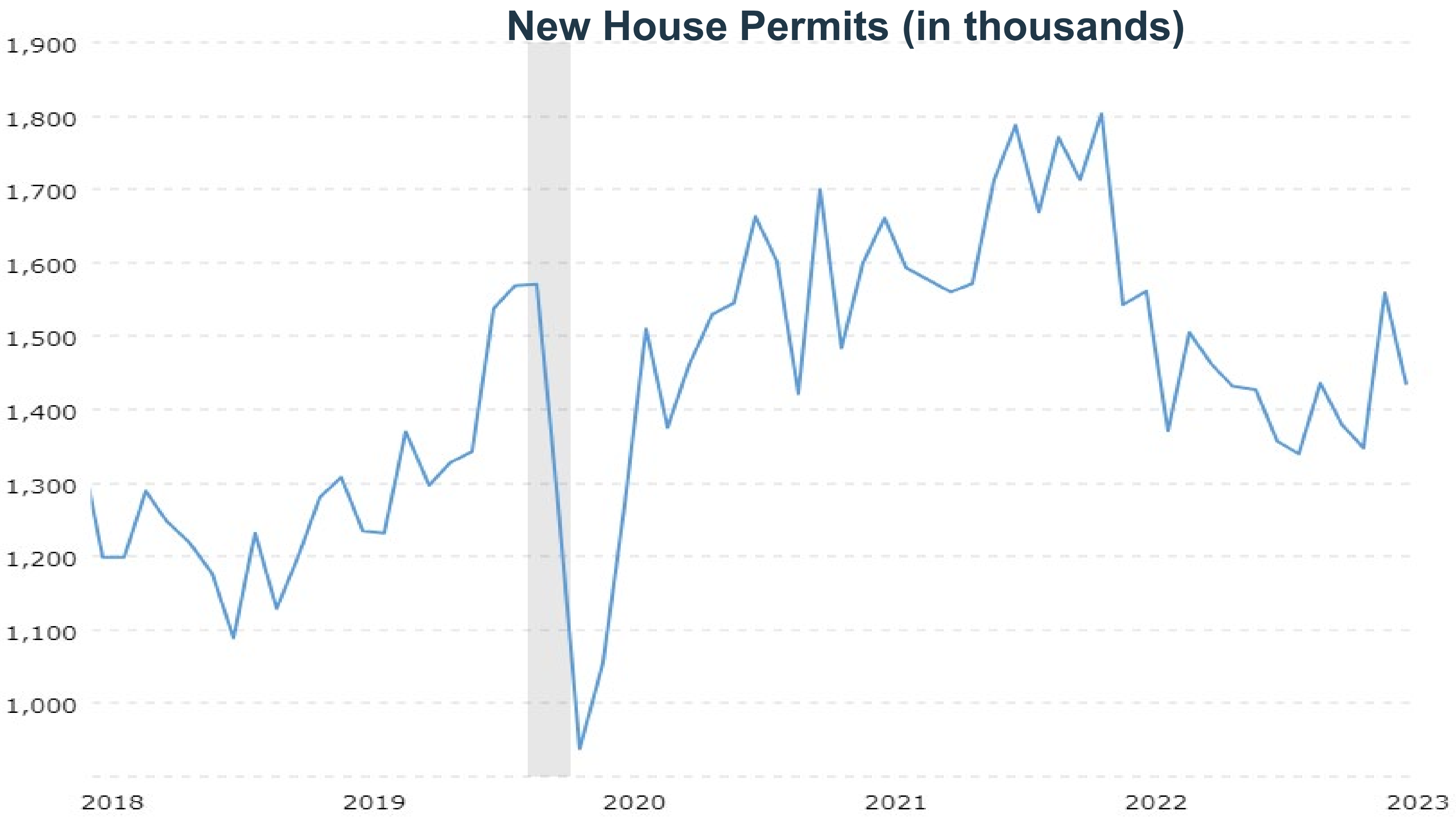
The unemployment rate reaches 4.1 percent by the end of 2023 and 4.7 percent by the end of 2024 before falling slightly, to 4.5 percent, in 2025. Payroll employment declines by an average of 10,000 jobs per month in 2024 and rises by an average of 6,000 jobs per month in 2025.

Economic Factors – Gross Domestic Product



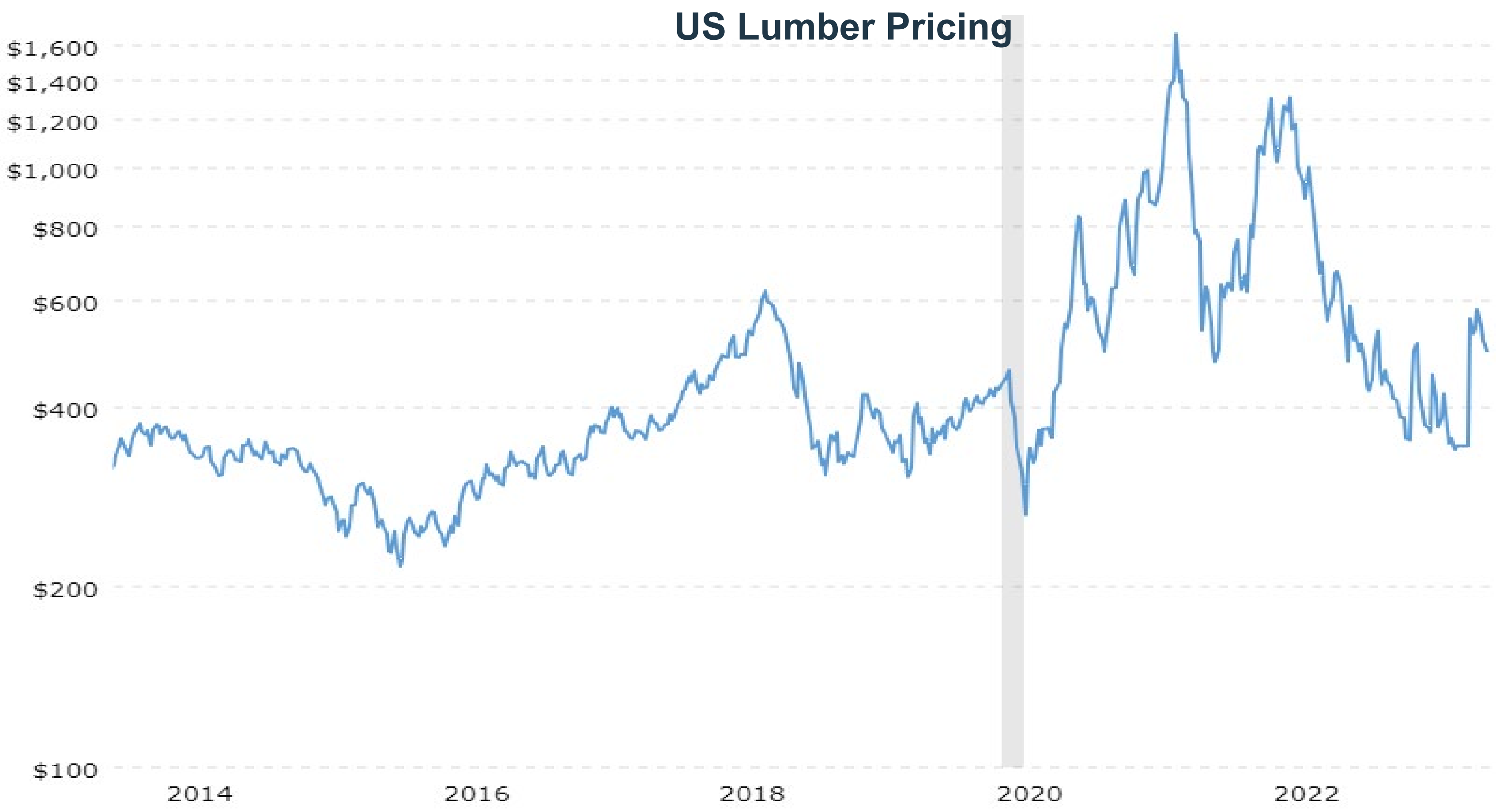
In the long-term, the United States GDP Growth Rate is projected to trend around 1.70 percent in 2024 and 1.80 percent in 2025, according to our econometric models

Economic Factors – Housing



With high mortgage rates and inflationary building material prices, expects forecast growth to stabilize within a few years, with the number of new housing starts decreasing 8 percent in 2023, and another 5 percent in 2024.

Economic Factors – Commodities



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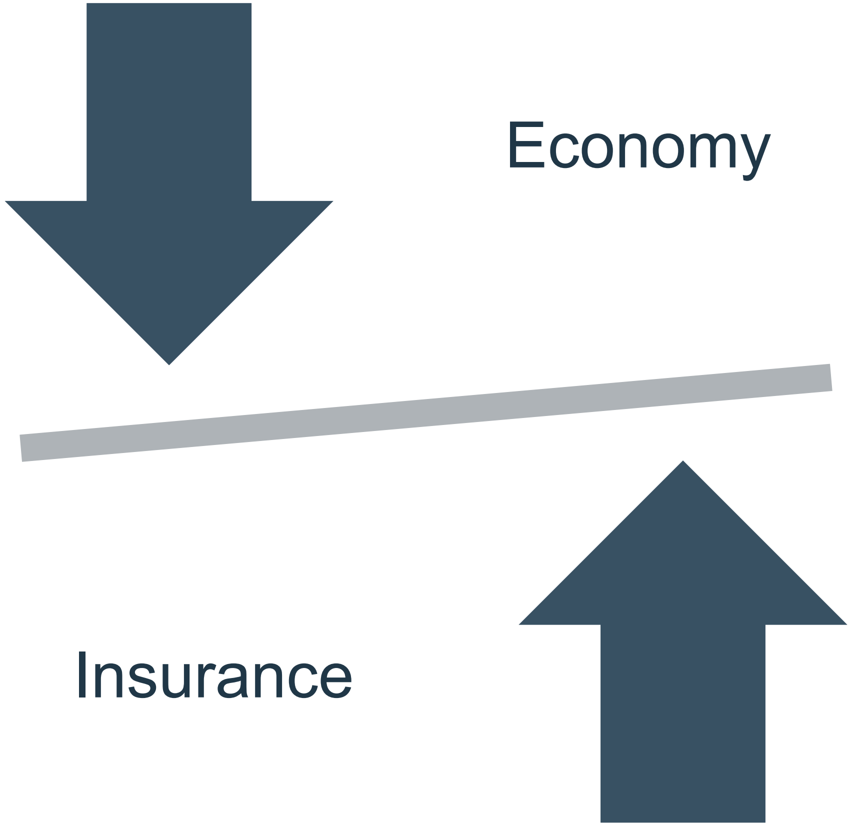
Economic Impacts on Insurance Industry

Economic Impacts on Insurance Industry

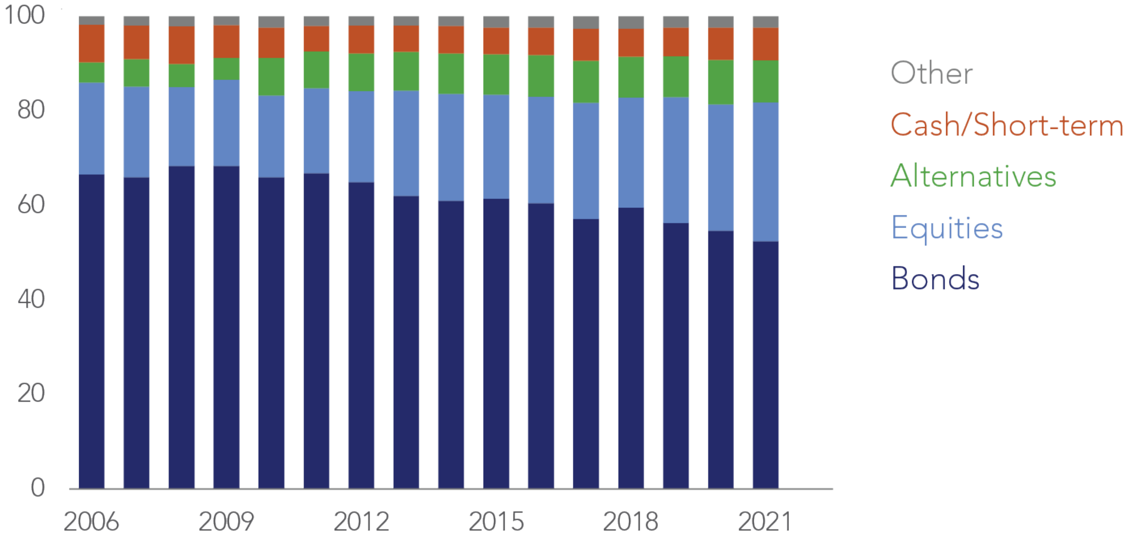


- Return on investments
- Cost of reinsurance
- Cost of claims
    - Labor cost increases
    - Cost of goods increases
    - Supply chain disruptions
    - Increased timelines

Return on Investments

- During the prolonged low-interest rate environment, certain investment strategies were adopted, widely, by insurers in an attempt to boost yields. However, enhanced yields do not come without trade-offs, such as increased risk and reduced liquidity.
- Modestly rising interest rates are generally positive for the insurance industry. When rates rise at a reasonable pace, portfolio yields also rise. With these new, higher-yielding corporate and other bond purchases, insurers' investment earnings also increase.
- Because many insurance companies tend to hold assets such as long-term bonds, when interest rates increase, the opportunity cost of holding bonds at a lower-rate over time also increases.
- Adding inflation to the mix, however, affects insurers differently. For example, while property and casualty (P&C) insurers also benefit from increased bond portfolio yields, higher-than-expected claim costs for home, automobile, and other insurance lines may impair earnings.

Figure 2: Property & Casualty Insurers' Investment Portfolios (percent)



Sources: S&P Market Intelligence, Office of Financial Research

Cost of Reinsurance and Claims

- Unexpected high inflation, rising interest rates and greater-than-expected CAT losses hurt the world's four largest reinsurers' bottom lines in 2022.2 As a result, reinsurance rates for commercial property insurers rose 20% to 60% in the first quarter of 2023. Those insurers are now passing on costs to policyholders with higher rates and burdensome terms and conditions
- In the U.S., hurricanes in the Southeast, tornadoes in the Midwest, hailstorms in the north and wildfires throughout the West battered the country. In Canada, late-winter storms in the East; tornadoes, hail and wind in the West; and Hurricane Fiona in Eastern Quebec and the Maritimes made 2022 the third-most costly year for insured damage in the country's history
- But there is hope that prices will moderate soon. Inflation in the U.S. has fallen steadily since its peak of 9% in June 2022, and few lingering supply chain bottlenecks from the pandemic remain. Insureds who invest in mitigation strategies are likely to see the greatest benefits.
- Commercial property rates have been on the rise — increasing every quarter since 2018. Adding to the market burdens are record disaster losses and higher costs for building materials, equipment, labor and financing. For property insurers, those rising prices drove up loss costs $30 billion in 2021, marking a trend that continued into 2022.

20%-60% Increase in reinsurance costs

2022 is third most costly year in country's history

Continuous increase trend in property rates

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Insurance Market Outlook

Commercial Rate Outlook - US

Coverage	U.S. Rate	Guide Insights
Commercial Automobile 5 Vehicles or Less	**↑ 10%-15%**	While best-in-class risks in the small fleet segment may experience some rate relief, rising wages and repair costs, medical inflation and litigation trends continue to affect overall rate trends.
Commercial Automobile: > 5 Vehicles	**↑ 10%-15%**	The disparity in rate increases continues to widen for above-average risks compared with below-average risks. Insureds must understand and highlight their fleet safety measures during the underwriting process, such as the use of telematics and mitigation procedures to combat unsafe driving exposures. Larger fleets must rely on lead umbrella options to secure sufficient limits.
General Liability	**↑ 2%-10%**	Carriers are deploying capacity carefully, and underwriters are requiring thorough submissions before accepting a risk in challenging classes, partly due to the persistence of nuclear verdicts but also to offset higher reinsurance costs. Risks with adverse claim history, or those with exposure to abuse and molestation or wildfire, are facing tougher renewals. Accounts with favorable loss history are experiencing moderate rate increases — and occasionally small rate reductions — based on exposures and sustainable program structures. Additional time will be necessary in all property & casualty lines to structure insurance programs and negotiate terms with carriers.

Commercial Rate Outlook - US

Coverage	U.S. Rate	Guide Insights
Workers' Compensation	**↓ 5% to Flat**	The market remains stable, with some insureds even experiencing reductions where there is growth in payroll, especially for better performing risks. Companies may want to leverage their workers' compensation exposure to help offset rate in other Property & Casualty lines to achieve the most competitive terms on an aggregate basis
Package	**↑ 10 - 20%**	Loss activity continues to drive rate increases across the board, especially for risks with heavy property exposure, where increases may be closer to 25%.
Umbrella & Excess Liability	**↑ 5% - 20%**	Claims severity is the main driver for increased premiums, but new capacity is entering the market at elevated prices. Insureds with fleets above 300 units will be more difficult to place. Insureds may find more competition in their lead layer if the program is coupled with primary casualty, since carriers are seeking growth, particularly in workers' compensation. Conversely, there is increased competition for excess layers above $25M due to new capacity. Reviewing options on a global basis (including U.S. and global markets) is important; higher attachment points are available in Bermuda. HUB's state-of-the-art analytics capabilities can help insureds review program structures and determine appropriate retentions

Commercial Rate Outlook - US

Coverage	U.S. Rate	Guide Insights
Commercial Property	**↑ 10% - 25%**	The property market is the most volatile experienced in two decades. Replacement cost valuations remain a focal point irrespective of occupancy or geography, and insurers are pushing for elevated valuations. Appraisals or a narrative on the statement of values could be helpful when negotiating renewal terms. Insureds are seeing fewer blanketed limit options. In areas subject to catastrophes, the number of standard markets is exceedingly rare, with limits only offered for best-in-class properties with superior construction. Demand for capacity now exceeds the availability, especially for properties located in California, the Gulf Coast and Florida, which rely on the non-standard E&S market and purchasing policies through shared and layered programs.
Catastrophic Perils (High hazard zones/tiers)	**↑ 30 - 40% or higher Single-carrier program increases 50% - 100%**	Expect higher deductibles and retentions, coupled with reduced limits. Capacity continues to be limited, particularly in high-hazard areas exposed to floods, earthquakes, wildfires, hurricanes and convective storms. Scrutiny on wildfire exposure extends beyond California and Colorado — locations with wildfire scores of 80 or higher are seeing increasingly limited market appetite and substantial rate increases.

Commercial Rate Outlook - US

Coverage	U.S. Rate	Guide Insights
Environmental	**↑ 5%**	Modest rate increases are expected for many classes, and coverage limitations around perfluorooctanoic acid (PFOA) will become more common for many classes of environmental risk. This will be particularly challenging for pollution legal liability policies renewing from long-term policy periods.
Directors & Officers: Private	**↓10 -↑ 10%**	Pricing and retentions are trending much more favorably after years of difficult market conditions. The continued influx of new markets for both primary and excess have created increased competition. Classes of business that are more difficult to place include Healthcare, Education, Oil & Gas, Cryptocurrency and Cannabis, along with financially challenged accounts where underwriters are concerned about liquidity or bankruptcy
Cyber Liability	**↑ 5% - 10%**	Rates are easing for clients that have not had significant exposure changes or claims activity and maintain proper cybersecurity controls. However, the market continues to take slight rate. Rates for excess limits are decreasing much more than primary rates, with increased limit factors (ILFs) dropping dramatically — in some cases as much as 70% below the rate increases seen over the past few years.

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Questions?

Thank you.

Tetiana Larson.