The State of the US Business Insurance Market

TRENDS AND INSIGHTS

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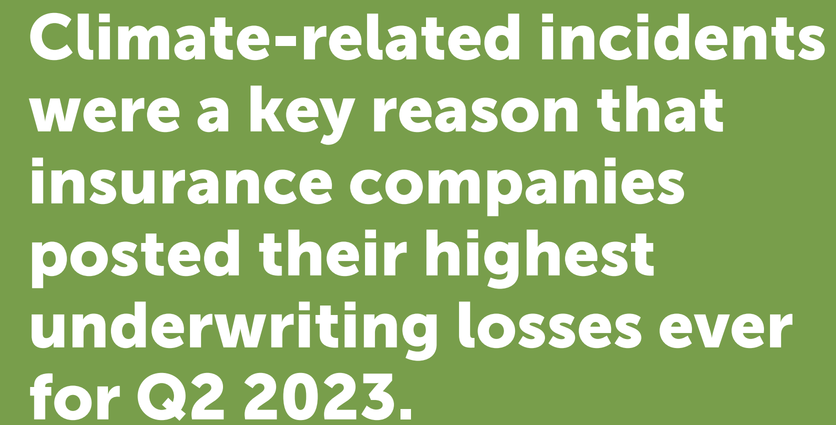
2024 Outlook

WHAT TO EXPECT OF THE 2024 US BUSINESS INSURANCE MARKET

An Objective Outlook on Availability and Cost

The business insurance landscape is increasingly complex and volatile, driven by impactful trends like high inflation, increasingly excessive liability jury awards and settlements, and growing climate change risks. It's never been more challenging to assess risk and obtain the best coverage, rates, and terms to protect a business's valued assets.

This white paper reviews the state of the US business insurance market for 2024, including the trends that will impact coverage availability and rates across the most common types of commercial coverages.



Climate-related incidents were a key reason that insurance companies posted their highest underwriting losses ever for Q2 2023.

Commercial Property Insurance Remains Tight

Though the 2023 hurricane season proved less eventful and less damaging than anticipated, the fact remains that more frequent storms and more severe weather have become the norm.

Aside from historical concerns about hurricanes, convective storms that spur high winds and heavy rain pose just as big a risk for property damage. Meanwhile, wildfire risks continue to worsen in the western states, with over 2.5 million acres burned in the US from January to October 2023. The devastating wildfires in Maui in August 2023 illustrated how quickly these events can escalate and how damaging they can be to both life and property. The resulting insured losses could total $4.5 billion or more, according to Moody's RMS.

Climate-related incidents were a key reason that insurance companies posted their highest underwriting losses ever for Q2 2023. With inflation still running high, impacting material and labor costs for reconstruction and repairs, rising property claims costs persist.

Against this backdrop, analysts believe the commercial property insurance market could stabilize somewhat in the coming year—but that simply means rate increases won't be quite as high as they've been. Rates certainly won't decline (even for superior construction and non-catastrophic risks), underwriting scrutiny will remain the standard, and capacity will prove challenging in high-risk markets.

As always, specific rates will depend on the property's location and condition. Properties not located along the coast or in other areas prone to catastrophic weather should see rates rise more modestly, averaging low single digits to 15 percent. Habitational frame construction (including apartment and condo buildings) and properties located in catastrophic weather zones will see greater increases of 15-30 percent. Insurers hope they've turned the corner on an incredibly hard market, but the experience in the first two quarters will impact the balance of the year.

Aside from higher rates, commercial property owners might see premiums rise in 2024 due to higher property valuations. Still reeling from the significant losses of the last few years, insurers will continue to scrutinize valuations in the context of persistently inflated material, labor, and energy costs. In turn, they're requiring insureds to carry higher limits that better reflect the building's current replacement cost. If the values weren't properly adjusted in the past year, clients should prepare for the impact of more stringent insured-to-value requirements in 2024.

Meanwhile, insurance companies are still applying stricter overall underwriting guidelines and greater scrutiny when writing commercial property policies. Most require documented evidence of loss prevention measures, such as leak detection devices, system upgrades, and a schedule of diligent property maintenance, and some will make impromptu site visits for first-hand observations.

The reinsurance market always affects the overall market, but it will have a particularly pronounced impact on commercial property. Coming off the catastrophic property losses of the last five years, reinsurers will likely impose higher rates on insurers in 2024. But unlike the record 40-50 percent reinsurance rate hikes of 2023, analysts anticipate more modest increases of low double-digits. Industry experts also believe reinsurers will deploy more of their capital in 2024, providing additional relief. So, while the commercial property insurance market will remain firm, rate increases should be tempered. Insurers remain wary of the impact of climate-driven disasters, so any catastrophic losses of that nature could swing the pendulum back toward more aggressive rate increases and less availability.

Builder's Risk Capacity is Easing for Some, But Not Rates

Aside from the same climate-related risks that plague the property market generally, project owners that need builder's risk coverage face additional challenges. Borrowing expenses are higher than they've been in decades, raising soft costs and making insurers more cautious. And, as inflationary pressures drive up construction costs and squeeze profits, it becomes tougher to absorb premium increases.

Contractors engaged in major renovation projects will continue to find it difficult to obtain builder's risk coverage. The existing property insurer might not want to stay on if the building is under renovation, while many insurance companies don't want to cover the property and the renovation work at the same time. Finding a seamless solution often requires the guidance of an experienced independent insurance advisor.

Fortunately, builder's risk insurance is becoming easier to access for non-catastrophic risks. Areas with greater climate risk exposure may find that capacity remains a bit tight, especially for wind and hail, and higher deductibles will be the norm for all risks, especially for water damage. Rates are expected to rise in 2024, with non-catastrophic risk properties averaging 10 percent increases and catastrophic-risk projects seeing rate hikes of 25 percent or more.

One of the greatest challenges is ensuring the property remains covered even if the project is delayed. Since most insurers aren't willing to extend the policy end date more than once or twice, it behooves the insured to provide a worst-case scenario schedule, rather than an optimistic timeline, to avoid a coverage gap.

Given that builder's risk insurers won't quote a project sooner than 30 days out, it's critical to coordinate with the broker to provide all the information to obtain a quote as soon as feasible. For owners looking to do a buydown to cover difference in conditions (DIC) for perils like earthquake and flood, tight coordination is even more important. With buydown and DIC policy costs rising, in some situations it might be worthwhile to self-insure a portion of the risk through higher retentions. Finally, owners should be prepared for insurers to require tighter site security measures, like fencing, lighting, water detection, and 24/7 security guards.

General Liability is Normalizing…For Now

Despite the persistence of nuclear verdicts (where jury awards far exceed what might be expected), the market for general liability (GL) insurance has softened over the past several years and that trend should continue in 2024. Most businesses will see modest rate increases of 1-4 percent, with organizations that have higher-than-average exposure at the higher end of the range.

Capacity also should remain favorable, other than for businesses deemed at very high risk for GL claims, including hospitality and retail enterprises. Regardless of the company's risk profile, underwriters will require rigorous loss control measures to reduce claims. Since insurers began to impose those requirements over the last couple of years, many businesses may be in a good position to meet the necessary conditions. And no matter the rate environment or the trend in awards and settlement, protecting against third-party bodily injury or property damage claims will remain essential for any business, especially those that see a high volume of foot traffic.

Commercial Auto Remains Difficult in Some Industries

Commercial auto insurers have experienced higher claims costs in recent years due to a convergence of factors. Greater litigation risk and rising social inflation (an increase in claims costs beyond what could be attributed to general economic inflation alone) are fueling higher verdicts, while high economic inflation, a shortage of skilled auto mechanics, and supply chain issues are driving up repair costs. And a lack of available trained commercial drivers has forced companies to loosen their hiring practices and driver guidelines, which has negatively impacted their accident rates and claims. The trucking industry has been especially hard hit, with the American Transportation Research Institute reporting that trucking verdicts have increased by more than 50 percent each year for the past decade. Across the commercial auto industry, the Insurance Information Institute found that social inflation has led to a $30 billion surge in claim costs since 2012.

Despite these forces, commercial auto rates were stable for a few years, partly due to a decline in miles driven during the pandemic restrictions and a resulting drop in claims. Then as driving activity normalized, auto claim volume gradually increased to pre-pandemic levels. Industry sources now expect the commercial auto market to return to more typical conditions in 2024, with most companies seeing increases of 7-15 percent.

However, industries like trucking and ride sharing will experience higher-than-average rate increases, tight capacity, and greater underwriting scrutiny. Smaller trucking fleets with a favorable loss history and robust driver training will have less

difficulty obtaining coverage, while companies that operate vans and buses will find it more problematic. And with litigation against ride sharing companies increasing, many insurance companies are requiring those businesses to carry higher limits or declining to write coverage altogether.

Regardless of the industry or vehicle class, many insurers are requiring telematics that collect data on miles driven and driving behaviors, then employing the data to mandate measures that can reduce crashes. Even without mandates, businesses can minimize losses by providing ongoing driver safety training that covers the most common crash risks, strengthening fleet safety policies and procedures, and leveraging technologies that improve safety in ways that are not distracting. Checking motor vehicle records, conducting vehicle safety inspections, and rewarding accident-free drivers also can reduce crashes and the associated costs.

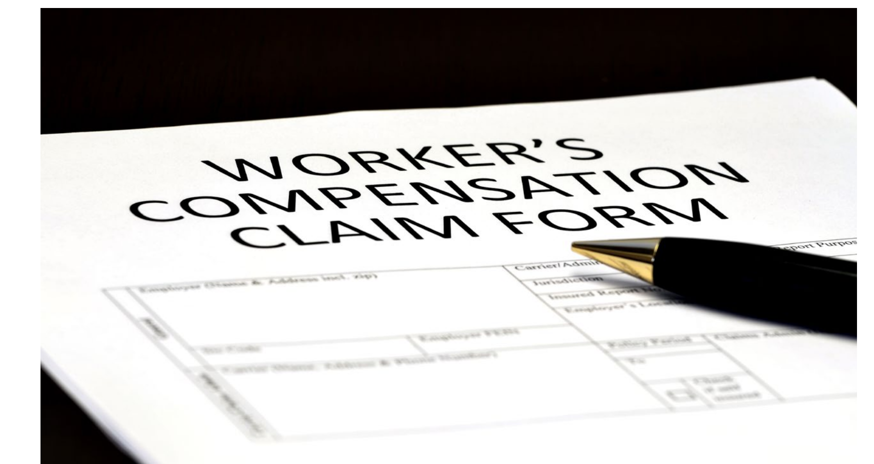
Workers' Compensation Provides Some Relief

If there's a bright spot in the business insurance market, at least for now, it's workers' compensation. Insurers have been writing these policies profitably for nearly a decade, yielding consistent annual rate declines of 1-5 percent for most companies. Some insurers even require the workers' compensation business in order to write a company's other policies. Experts believe rates will remain stable at a minimum in 2024, while some companies could see rates drop by the single or double digits.

However, one development that could greatly impact the workers' comp landscape is the new experience rating formula set forth by the National Council on Compensation Insurance (NCCI). The council is adjusting the experience modification factor for the 36 states where it governs the workers' compensation system, with changes set to go into effect after each state's regular filing date, on or after November 1, 2023. Under the new formula, each state will be subject to its own primary/excess split point, based on its loss experience. Though split points will vary significantly by state, NCCI currently estimates that over 80 percent of all risks will experience a shift of five points or less in either direction.

With medical claim severity up 5 percent and indemnity claims up 6 percent, per NCCI, rising claim costs also could hamper the workers' compensation market. The remote work trend is driving up claims, with more musculoskeletal conditions reported when employees work without ergonomically-designed workstations. The high incidence of mental health problems like anxiety, depression, and post-traumatic stress disorder is also taking a toll on workers' comp, especially in states that require businesses to cover these conditions.

Improving occupational safety and health can go a long way toward reducing workers' compensation costs, and artificial intelligence (AI) is transforming how businesses approach this objective. AI is enhancing hazard detection, employee training, and equipment maintenance, and it's improving claims management through personalized treatment plans and rehabilitation recommendations, employee monitoring and support throughout recovery, and claim pattern identification.



Though umbrella and excess liability rates are stabilizing, policy exclusions are on the rise

The Umbrella & Excess Liability Market Will Moderate

Over the last year many businesses were bracing for excessive rate increases for umbrella and excess liability policies, in part due to the rise in excessive settlements and awards. The average verdict for personal injury and wrongful death lawsuits with nuclear verdicts in excess of $10 million now stands at $76 million, per a US Chamber of Commerce report based on a database developed by the Institute for Legal Reform. The data is based on 1,376 reported nuclear verdicts of $10 million or more for the period from 2010 through 2019 (excluding class action and mass tort settlements). With these verdicts skyrocketing, reinsurance rates creating volatility, and third-party funding inviting more lawsuits, insurance companies were forecasting big rate hikes for 2023.

Instead, last year's rate adjustments were moderate, with most companies (excluding the highest risks) seeing umbrella and excess liability increases of 10-12 percent. The outlook for 2024 is similar, with rates expected to rise less than 10 percent for most businesses and 10-15 percent in high-risk industries. However, as insurers face growing claims management costs, temperate rate increases may not continue for long.

Excess liability capacity and attachment points often prove problematic, with most insurers requiring an underlying limit of $10 million. Many businesses will find that using the same insurer for both primary and excess liability coverage can minimize this obstacle and result in more favorable rates. Layering coverage also might be necessary to obtain sufficient limits.

Though umbrella and excess liability rates are stabilizing, policy exclusions are on the rise. Many insurers are now excluding abuse/molestation, assault and battery, biometrics (which pose privacy problems), and per- and polyfluoroalkyl substances (PFAS), also known as "forever chemicals." Meanwhile, communicable disease exclusions are likely to be the norm in a post-pandemic world.

The Cyber Market is Finally Calming

With cybercriminals continually adjusting their tactics and tools to exploit vulnerabilities—especially human error—it's critical for every business to invest in robust cyber insurance. Though ransomware claims declined briefly toward the end of 2022, insurance companies saw claims volume increase 27 percent in 2023, with the average ransom demand rising sharply to $1.62 million. Social engineering attacks (giving money willfully to an individual or company, only to discover it was a scam) are also on the rise.

The good news is that after several years of significant rate increases and tight capacity, cyber coverage is getting more affordable and easier to obtain. Renewal rates are expected to stay flat or decline in 2024, and businesses with less than $100 million in revenue, seeking no more than $5 million in limits, in lower-risk industries, will have the least difficulty securing coverage. Some insurers are even removing exclusions that were previously the norm (like war-related cyberattacks) and placing fewer limitations on endorsements.

As always, robust preventive measures remain the best defense against a cyberattack, and most insurers will require such measures to be in place. Since cyber prevention efforts take an investment of time and budget, it's best to plan well ahead of seeking new coverage or a policy renewal.

Management Lines Are Softening

It's anticipated that the current market for management lines should soften further, marked by flat or modestly lower rates and greater competition to write the business.

Errors & omissions (E&O) insurers are becoming less restrictive and more willing to take on risk, with the best risks seeing no premium increases and even higher-risk businesses seeing only modest increases. One exception is law firms, which continue to see larger-than-average E&O rate hikes due to escalating claims costs fueled by social inflation. Businesses that develop or employ technology-enabled products should assess whether an E&O carrier is willing to cover bodily injury or property damage resulting from a tech-enabled system malfunction, as these emerging risks are often excluded from GL and cyber policies.

The market for **directors and officers (D&O)** insurance is also softening. Publicly-traded companies should see 10-15 percent drops on average in 2024—mostly due to a decline in new IPOs and a corresponding drop in claims—while privately-owned companies are likely to see more modest reductions of 0-10 percent.

Employment practices liability (EPL) insurance rates are stabilizing generally, in part because insurers experienced lower-than-expected EPL claims resulting from pandemic-related activities like furloughs and remote work policies. However, the outlook for

the coming year will depend on the individual business's industry, loss history, salary bands, and locations. In jurisdictions that are not employer-friendly—like California, New York, New Jersey, Florida, Illinois, and the District of Columbia—rate moderations will be less pronounced, and insurers will require higher retentions to offset higher risk, especially for class actions and high wage earners. Businesses seeking high limits will likely need to layer coverage from multiple insurance companies, making it critical to plan early for new coverage or renewals.

Crime and fidelity premiums should remain flat or decline as insurers continue to see low claims frequency, making it a good time to shop a policy that has been in place for more than a few years. And after years of intensive rate hikes, **fiduciary insurance** rates are likely to stabilize in 2024 thanks to a drop in class action lawsuits against large employers. But high retention requirements will persist, making it impossible to obtain first-dollar fidelity coverage.

How an Independent Insurance Advisor Can Help

Many segments of the business insurance market remain volatile, and high-profile incidents like catastrophic weather and nuclear verdicts have the potential to disrupt markets that are currently easing. Navigating this complex landscape demands the help of a trusted advisor.

Many organizations turn to the insurance specialists at B. F. Saul Insurance to work through a complicated business insurance market, reduce risk, and obtain the best coverage. As an independent insurance advisor, we bring an objective perspective, access to the entire market, and a creative approach to help businesses protect their assets and reputations. We have deep expertise in the full range of commercial coverages, and we're licensed in every state, so we can assist businesses that own or operate commercial properties or employ staff anywhere in the US.

B. F. Saul account managers work diligently to advise each organization and coordinate our breadth of resources on your behalf. And if you experience a loss, our claims specialists will offer options and recommend a course of action that best serves your interests.

If you own, operate, or advise businesses, contact the experts at B. F. Saul Insurance to learn how we can help reduce risks and secure the best coverage.

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