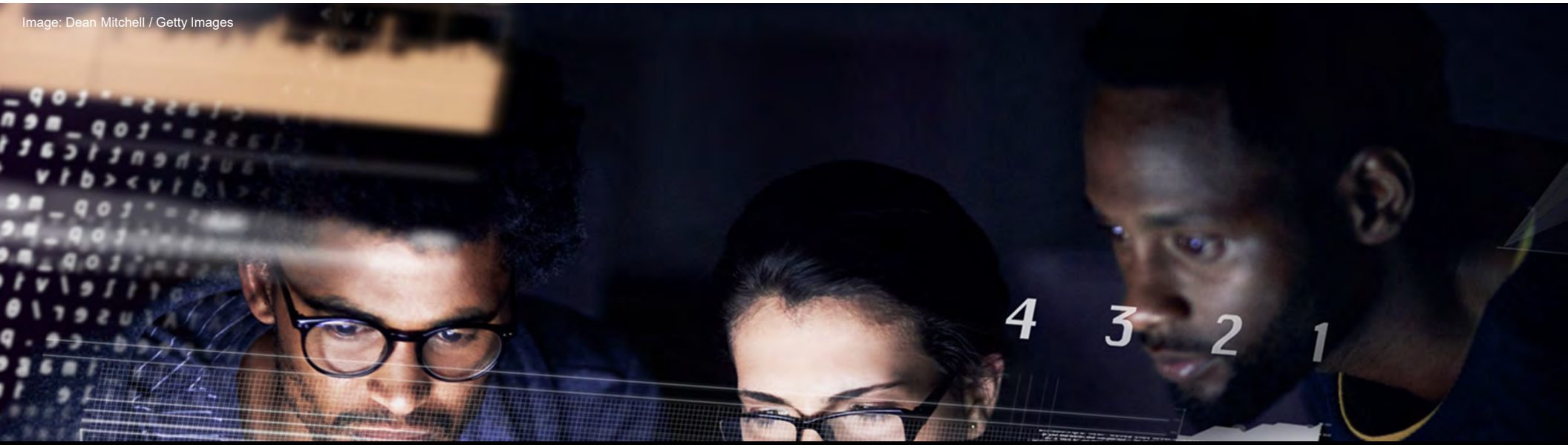


Image: Dean Mitchell / Getty Images



State of the Market – 2023

Lauren Tredinnick
President of Public Entity Risk Solutions
Munich Re Specialty Insurance

Munich RE 

Agenda

01 Overall Market Conditions and Outlook

02 Property Trends and Market

03 Cyber Trends and Market

04 Casualty Trends and Market

05 Risk Management Considerations

06 Summary

07 Q&A

Overall Market Conditions and Outlook

01



Image: PeopleImages / Getty Images

Components of the Combined Ratio, Property/Casualty Insurance, 2013–2022

Year	Loss ratio	Expense ratio	Combined ratio ¹
2013	70.7%	26.9%	98.1%
2014	70.7%	27.6%	98.8%
2015	69.3%	27.7%	97.6%
2016	71.4%	27.7%	99.7%
2017	73.0%	27.0%	100.6%
2018	68.9%	26.9%	96.3%
2019	70.0%	27.1%	97.6%
2020	68.6%	27.5%	97.7%
2021	69.6%	26.7%	96.9%
2022 ²	73.5%	25.7%	99.7%

1. Includes Dividend Ratio not shown in table above

2. 2022 results are through June 2022

Source: 2022 National Association of Insurance Commissioners

Shift in Investments



- Interest Rates – going up
- Investment Income – improving

Pressure easing but still unease in Underwriting



- Prudent Underwriting Decisions
- Underwriting Results

This market dynamic should relieve some pressure on underwriting results.

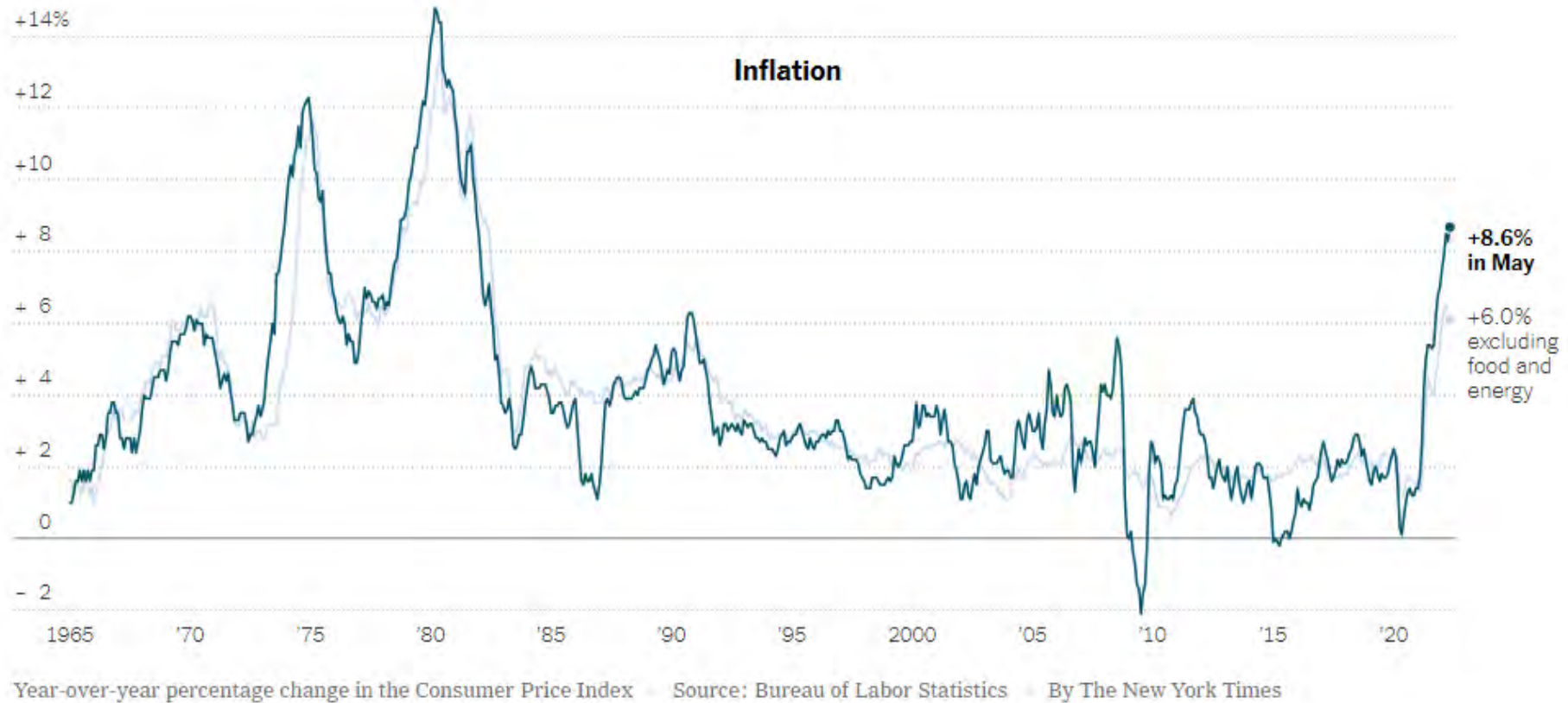
The upside message here is that there should be some stabilizing for longer tail lines.

Market Pressures



Inflation

U.S. Inflation report



How will inflation affect insurance rates?

Property



- ✓ TIV increase
- ✓ Cost of labor and material
- ✓ Higher operating costs
- ✓ High demand/Low supply
- ✓ Added pressure from increased Cat exposures

Auto/GL



- ✓ Cost of labor and material
- ✓ Rising defense costs
- ✓ Higher settlement values
- ✓ Nuclear verdicts
- ✓ Higher operating costs
- ✓ Increase in reserves

Professional



- ✓ Rising defense costs
- ✓ Higher settlement values
- ✓ Nuclear verdicts
- ✓ Higher operating costs
- ✓ Increase in reserves

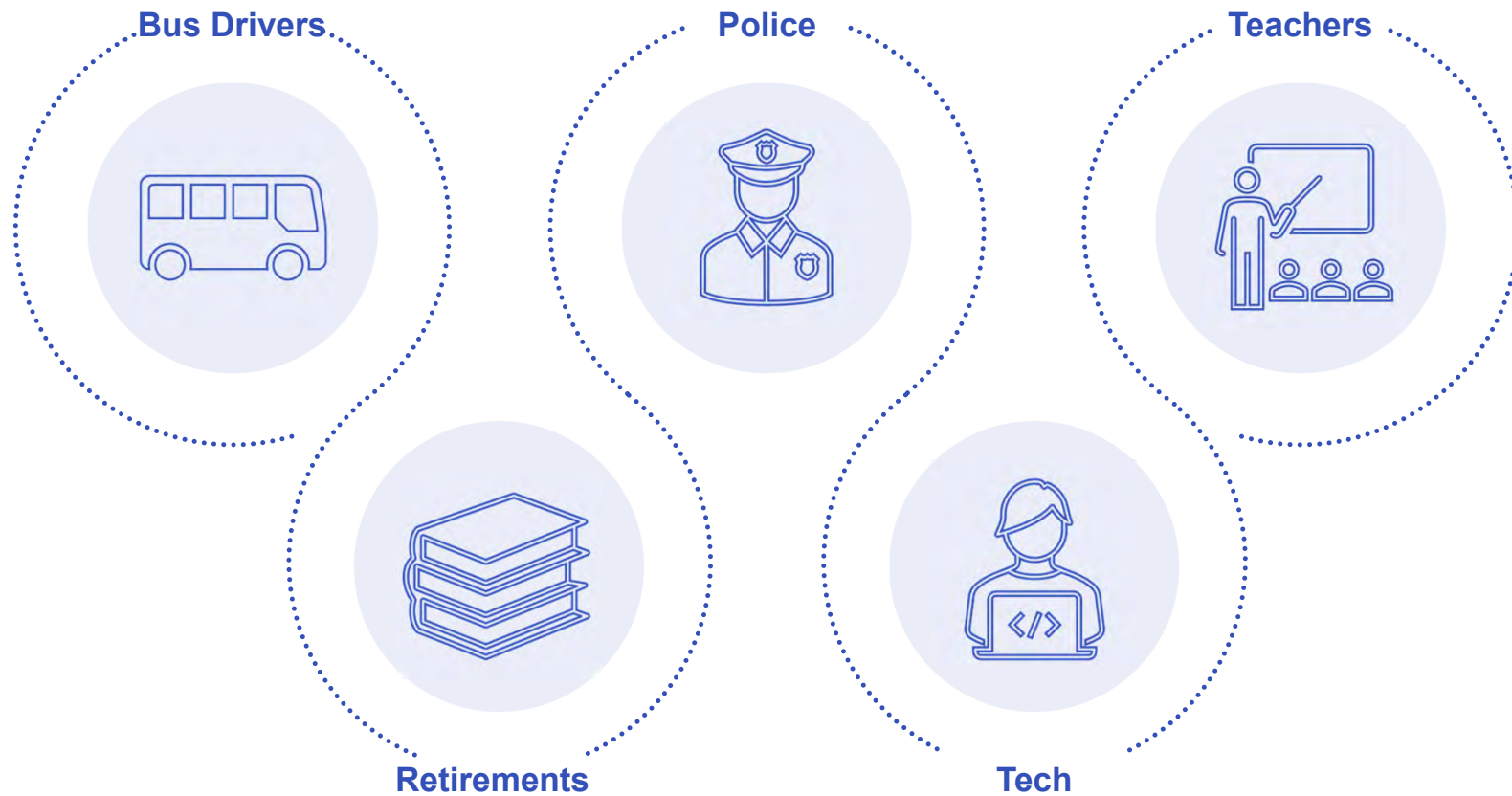
Labor Shortage

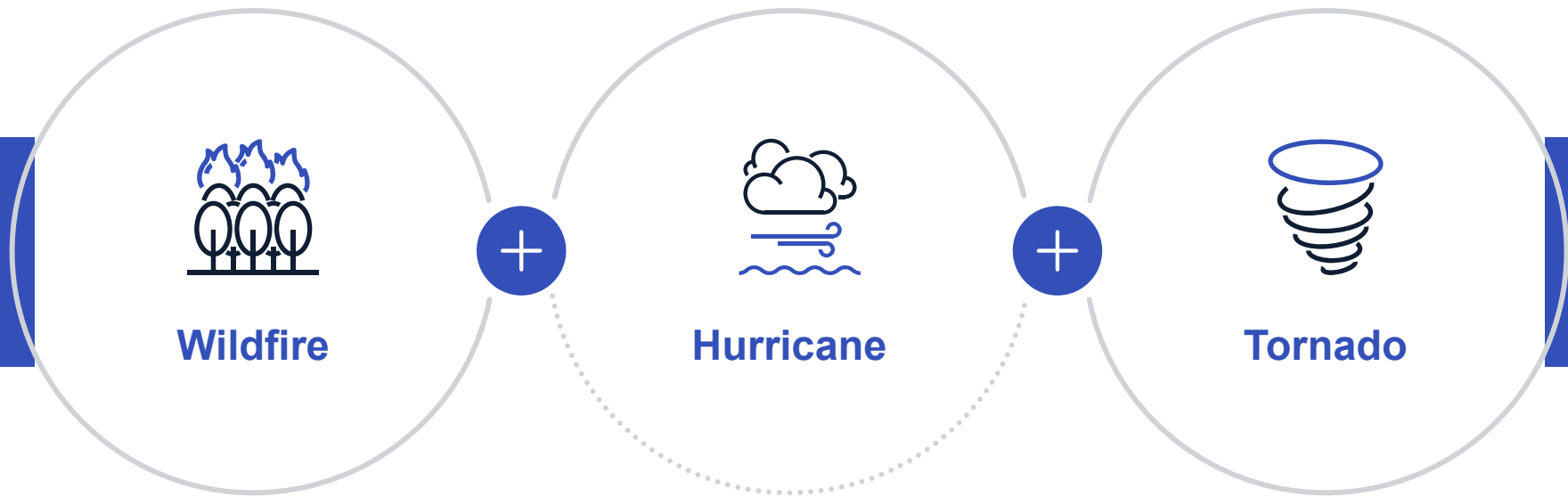


Image: Bim / Getty Images

Labor Shortage

Public Entity Challenges

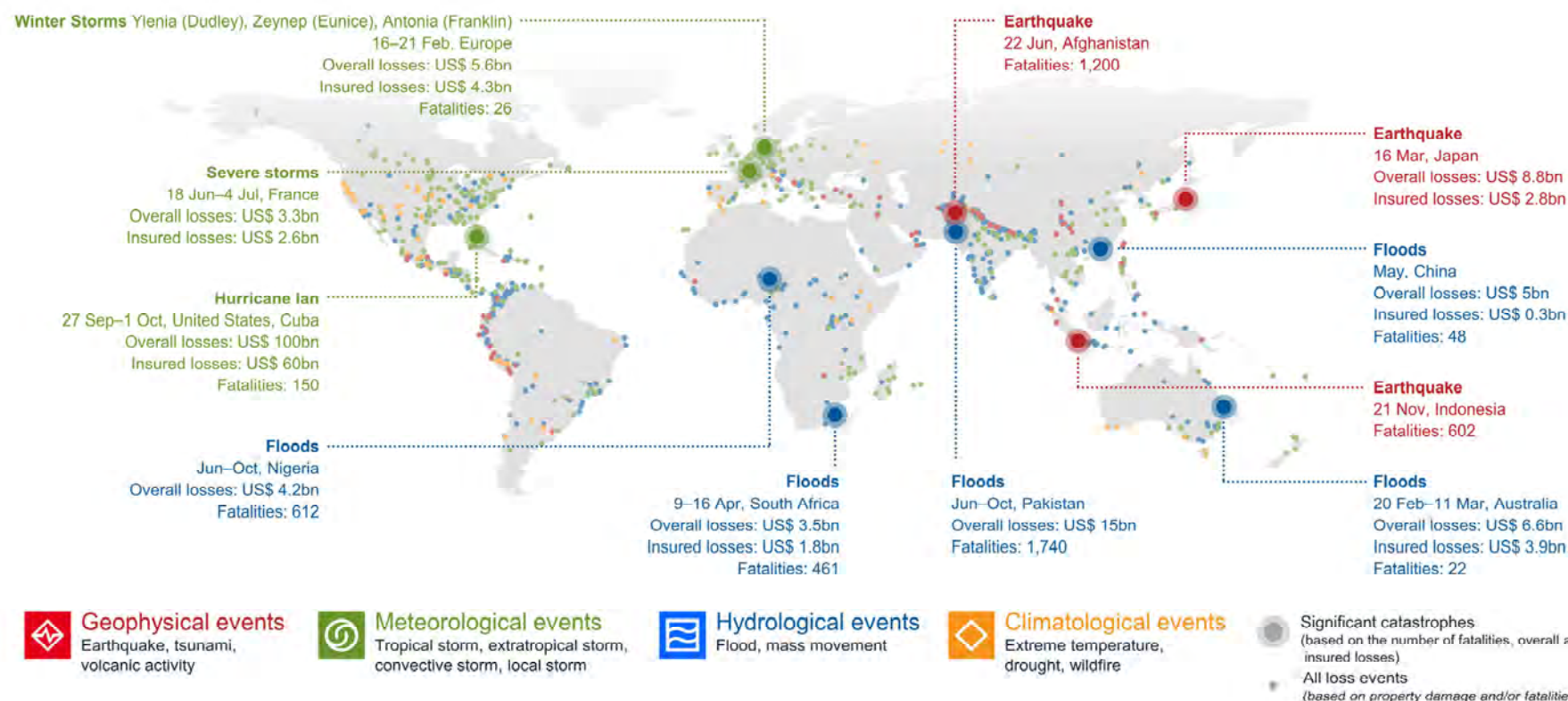




CAT Activity 2022 – Worldwide

Nat cat loss events 2022

Natural catastrophes caused overall losses of US\$270bn worldwide



Source: Munich Re, NatCatSERVICE, 2023

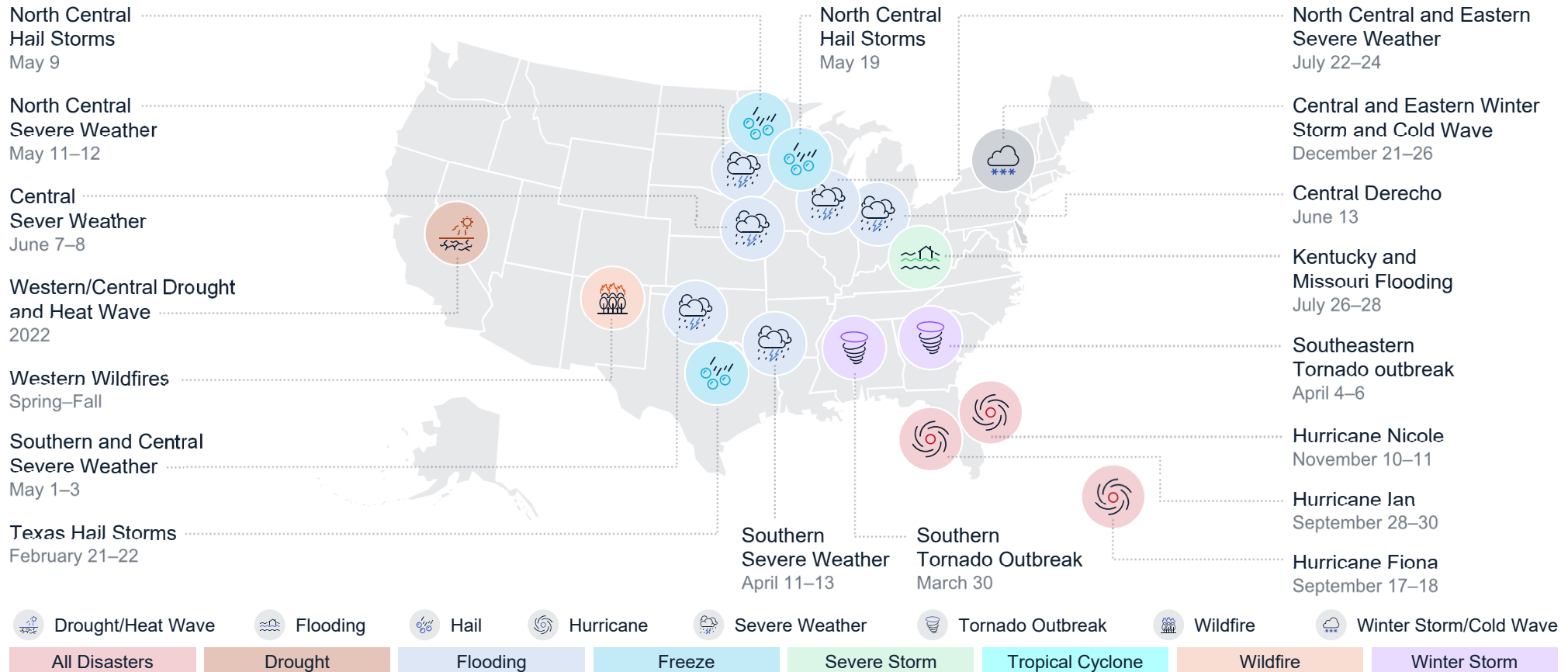
State of the Market – 2023

February 6, 2023

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CAT Activity 2022 – US

U.S. 2022 Billion-Dollar Weather and Climate Disasters

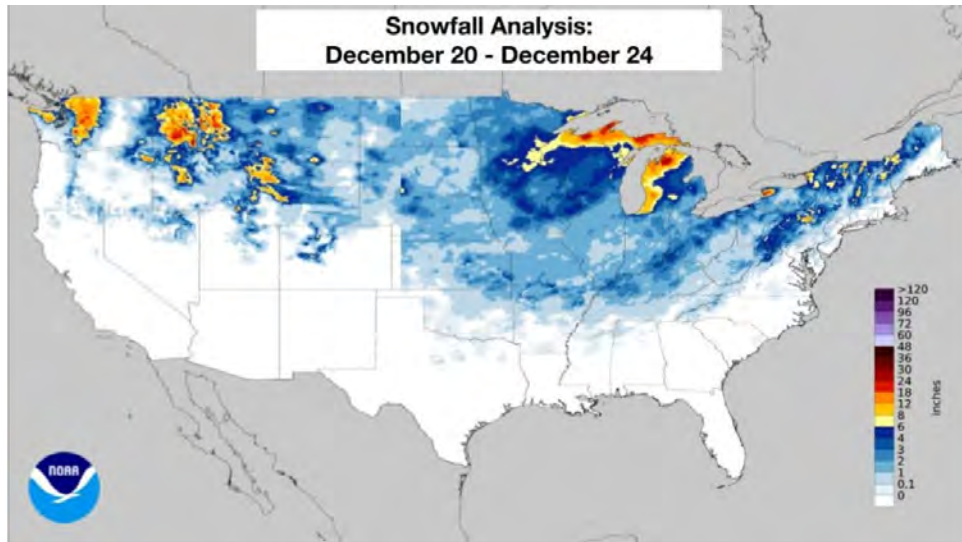


This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States Jan–Sept 2022

Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2021).

Winter Storm Elliott

High winds, blizzard conditions, flooding



A bomb cyclone

- Fast-developing storm that occurs when atmospheric pressure drops
- Coast to Coast: OR – NY – FL
- 60% of population had a winter weather alert
- -50 degrees in Montana
- 39 inches of snow in New York
- 151 mph – highest wind gust in New Hampshire

Forecast for 2022 Hurricane Activity

Forecast Parameters	CSU Forecast for 2022 ¹	Average for 1991–2020
Named Storms	18	14.4
Named Storm Days	85	69.4
Hurricanes	8	7.2
Hurricane Days	30	27.0
Major Hurricanes	4	3.2
Major Hurricanes Days	8	7.4
Accumulated Cyclone Energy+	150	123

Actual

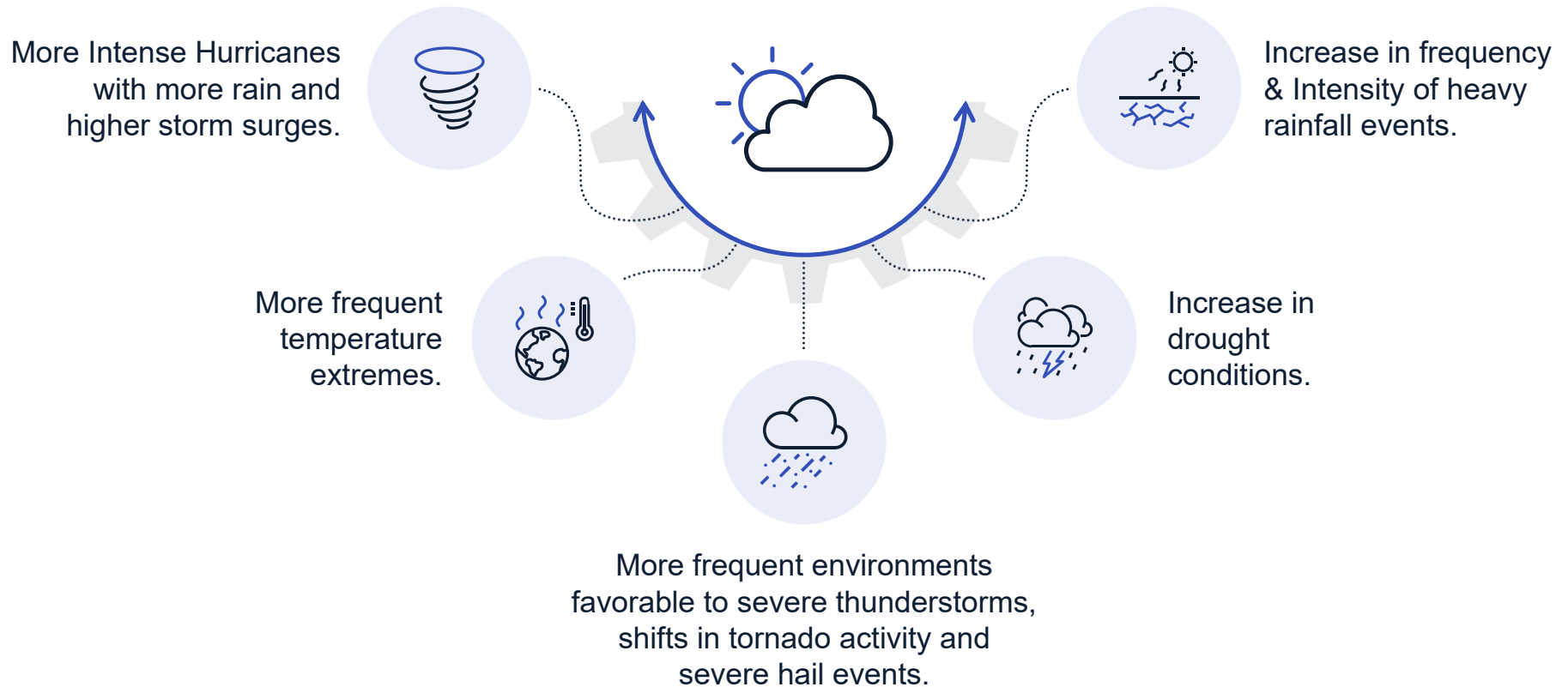
Named storms: 14, including 8 HU with 2 major HU (Fiona, Ian)

Climate Change



Image: Song_about_summer / stock.adobe.com

What has Changed?



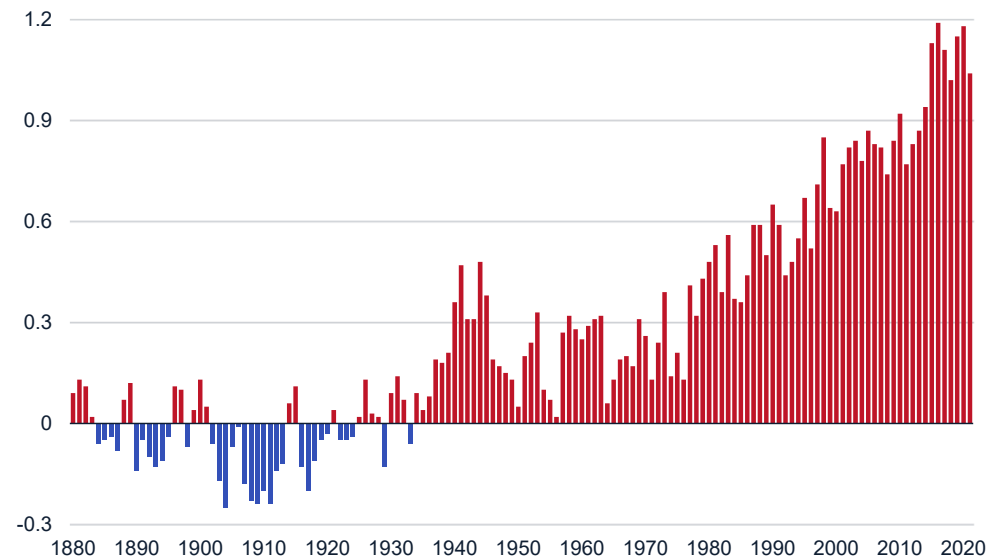
Understand: Global warming is changing probability distributions

Small increase in average temperatures → large increase in probability of extremes

Linear temperature trend (1881–2021): 1.2°

Man-made share >>50%

In °C

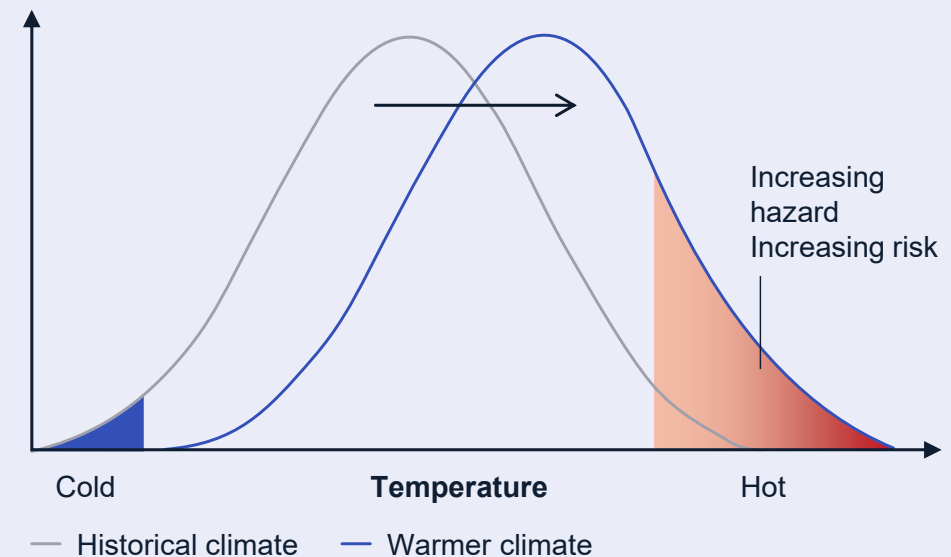


Annual temperature anomalies (°C) compared to the 1880–1900 average

Source: NOAA

Increase of probabilities of extreme temperatures and new extremes

Probability



Increase of global average temperatures – changing probability distributions

Understand: Impact of climate change is becoming ever more evident

Scientific attribution studies show increasing probabilities of extreme weather events

Europe floods 2021, the costliest flood event globally to date: **€46bn** in losses

Image: Svetlana / stock.adobe.com

Record heat in UK in 2021:
10 times more likely²

Image: Make_Video_Company / Getty Images

Wildfires: **Climate change**
is changing the risks

Image: yelantsevv / stock.adobe.com

Typhoon Hagibis (2019): Climate change added
US\$4bn to insured losses²

Image: NASA Earth Observatory

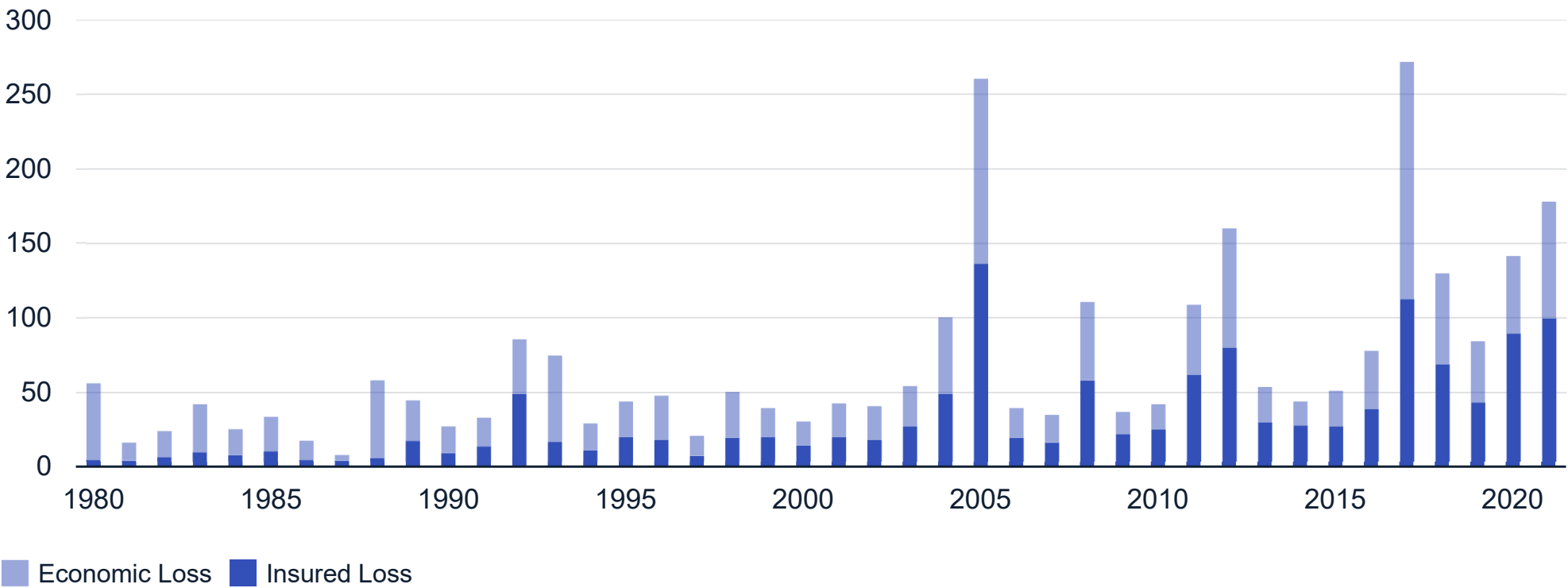
¹ Potsdam Institute for Climate Impact Research (PIK) ² World Weather Attribution (WWA)

Climate Change Losses

U.S. Weather/Climate Losses on the rise



Losses in 2022 \$bn



Insurance to Value



Image: Marcus Buck / Munich Re

Property Trends and Renewal Expectations

2023 Renewals



Broker Market Rate Predictions


Property


Amwins
Q4 2022



CAT-free
Moderate

CAT-exposed
Dramatic


WTW
Q4 2022



CAT-free
+10% to +15%

CAT-exposed
+15% to +25%


Brown & Brown
Q1 2023



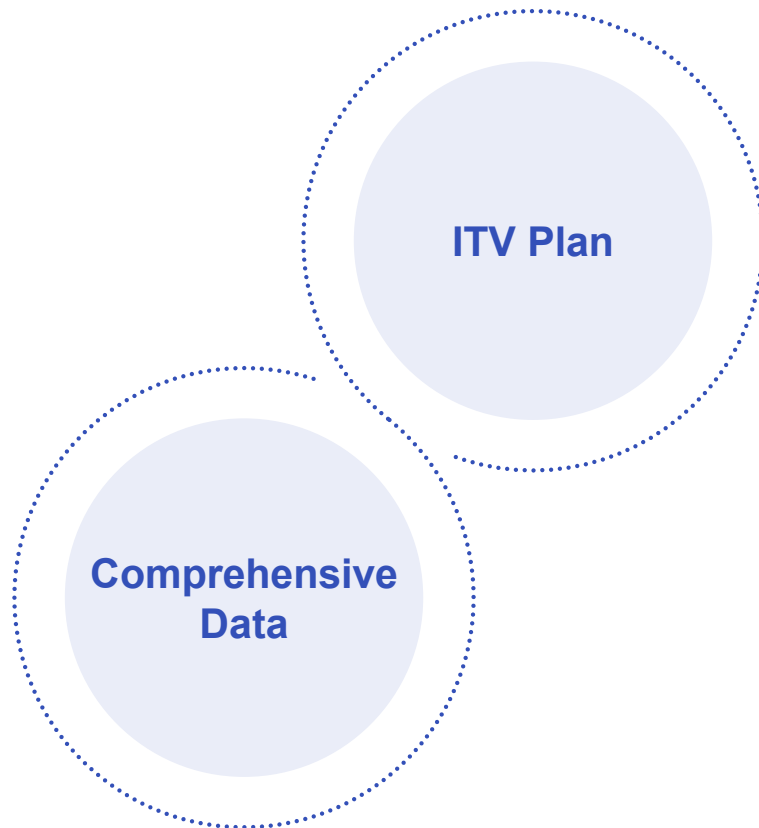
CAT-free
Low single digit

CAT-exposed
Double digit or more

Source: to be found in notes



Property Considerations



Cyber Trends and Market

03



Image: Laurence Dutton / Getty Images

Cyber

Insurance pricing increased 48% in the third quarter, compared to 79% in the prior quarter

The cyber insurance market experienced **increased competition**; more insurers increased capacity for insured with **strong cybersecurity controls**.

Increased competition is due to many factors, including:

- Controls
- Retention increases
- Rate adjustments
- Reduction in frequency

Discussions continued in the industry and in government regarding **systemic exposures and correlated nature of cyber risk**.

Source: Marsh – Global insurance markets Q3 2022: Financial and professional lines pricing declines



Image: Laurence Dutton / Getty Images


Cyber Trends and Renewal Expectations

2023 Renewals




Broker Market Rate Predictions

Cyber


Aon
Q3 2022



Challenging


WTW
Q4 2022



Flat to +25%


Brown & Brown
Q4 2022



Challenging, but stabilizing

Source: to be found in notes



Image: Tetra Images / Getty Images

Casualty Trends and Market

04



Image: Maskot / Getty Images

Casualty Trends and Market

Increasing impact on liability exposure

Auto Liability

PFAS

Reviver Legislation and Sexual Abuse

Law Enforcement

Jurisdictional Challenges

Social Inflation and Nuclear Verdicts

**Sexual Abuse
and Molestation**

**Law
Enforcement
Liability**

Verdicts



Image: Maskot / Getty Images



Chemicals – PFAS

Perfluoroalkyl and Polyfluoroalkyl Substances



Image: TEK IMAGE-SCIENCE PHOTO LIBRARY / Getty Images

PFAS

Perfluoroalkyl and Polyfluoroalkyl Substances

+ Nicknamed “The Forever Chemical”

+ Over 7,000 manmade compounds

+ Uses

+ Commonly found in drinking water, ground water and soil

+ Projected that 97% of Americans have PFAS in their system

- Non-Stick coatings
- Food products
- Cosmetics
- Textiles
- **Firefighting foams**

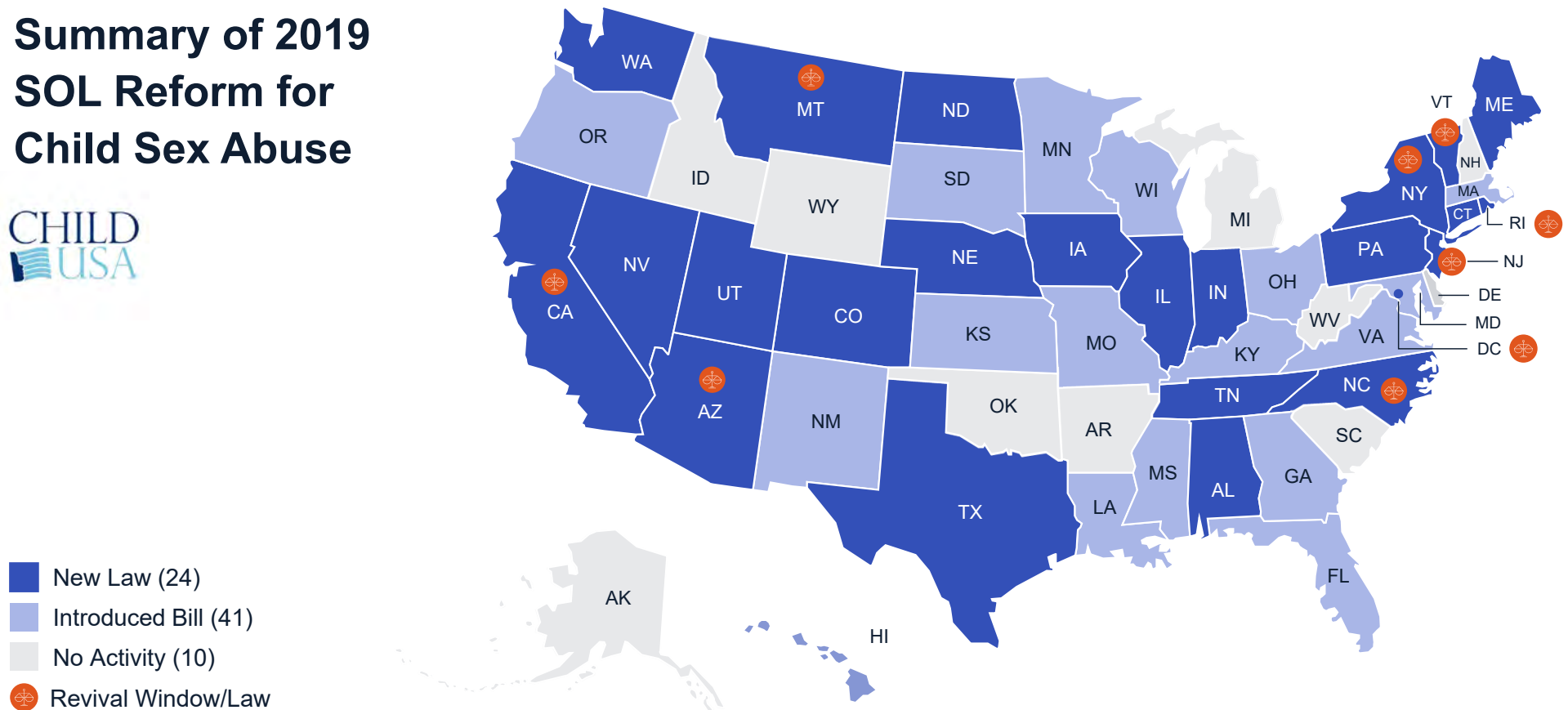
Sex Abuse Market Dynamics



Image: used under license from shutterstock.com

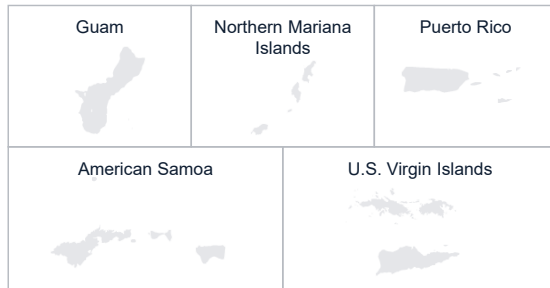
Reviver Legislation and Sex Abuse 2019




Summary of 2019 SOL Reform for Child Sex Abuse



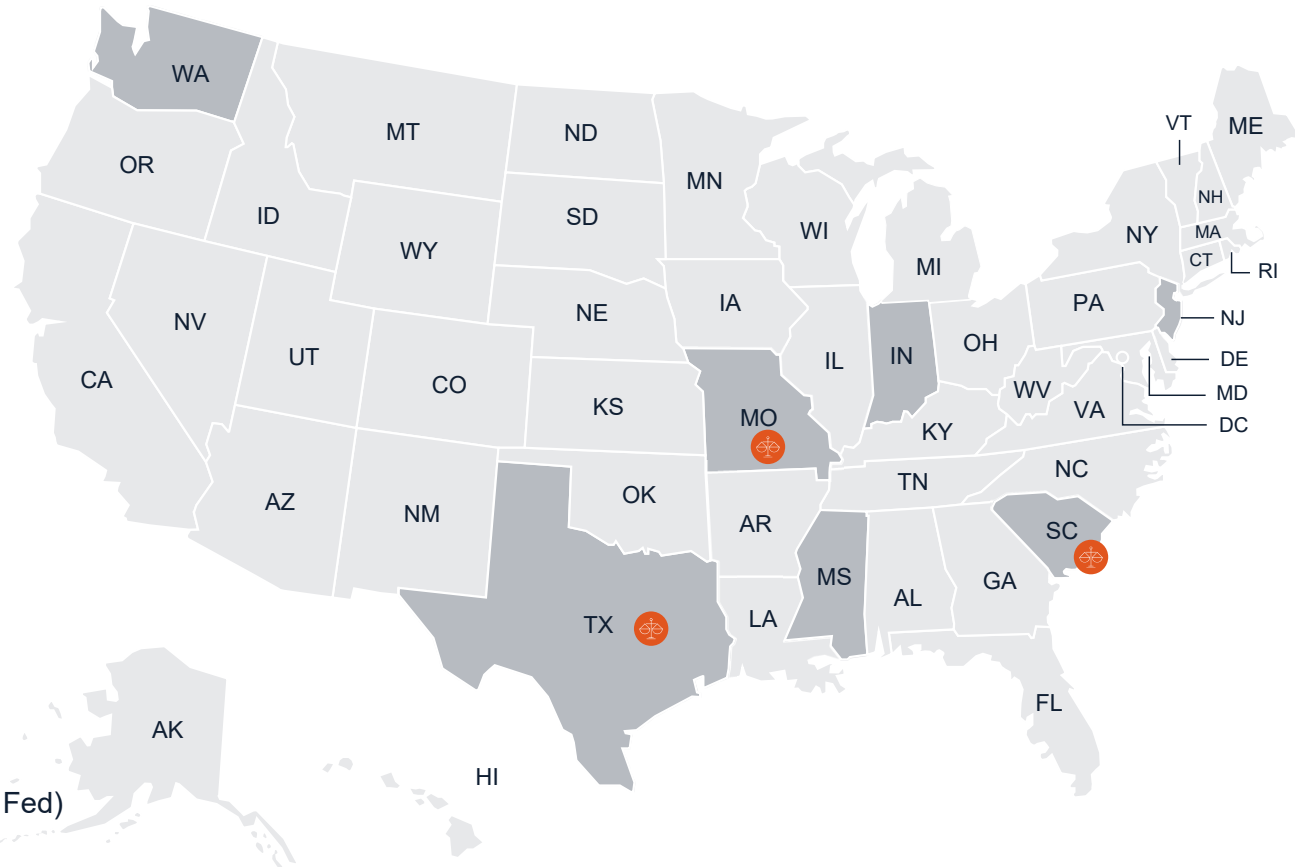
2023 SOL Tracker

Child Sex Abuse SOL Reform Bills in 2023



-  SOL Reform Bill Pending (7 States)
-  No SOL Activity Yet (43 States, 6 Terr & Fed)
-  Window Bill (3 States)

Source: <https://childusa.org/2023sol/>



Law Enforcement Market Dynamics



Law Enforcement

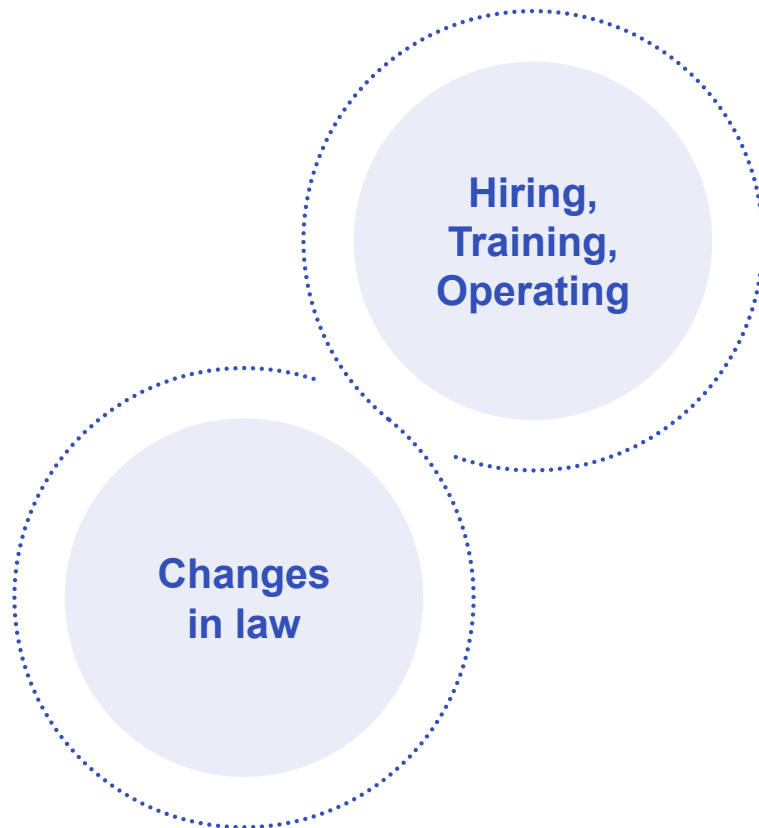


Image: Tetra Images / Getty Images

Policing Reform



Age & Education
Requirements

Limit or end officer's use
of qualified immunity

Chokeholds &
Neck Restraints

Criteria for traffic stops

Body Cameras

Database for Officer
Misconduct

Investigation into officer-
involved deaths

Officer Intervention

Decertify Officer

CO Law Enforcement Integrity Act

Key Provisions



Requires officers to wear and activate **body/dash cams**.

Requires police departments to **release video + audio recordings** if complaint is received regarding an incident.

Requires police departments to **report detailed data** and info to state DPS and requires DPS to publish it on searchable, public database.

Restrict officers' response options during **protests**.

Creates a **new civil action** for violation of state constitutional rights; **removes qualified immunity and statutory caps**.

Redefines and codifies **use of force protocols**.

Requires police officers to **intervene** if another officer is violating the Act and to timely report that intervention to superiors.

Addresses **profiling**; requires officers to disclose personal information during public encounters to ensure complaints may be submitted.

Major consequences



Increased
civil liability.

Increased
criminal liability.

Increased
penalties/discipline
in administrative
proceedings
(more suspensions,
revocations)

Disregard of
Tort Claims Act.

Removal of qualified
and statutory immunity.

Risk of unfavourable
evidentiary rulings
at trial.

Potential loss in
department funding for
failure to comply.

Fewer cases in
federal court
(Section 1983 obsolete)

Fewer dismissals on
summary judgement.

State court juries;
increased risk of
nuclear verdicts.

Jurisdictional Challenges



Image: Tetra Images / Getty Images

Jurisdictional Challenges

These areas are all interrelated

West Coast

- CA, OR, WA – now includes CO
- Significant increase in claims values



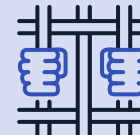
Tort Reform

- Increasing or eliminating tort caps
- Reduced or eliminated Immunities



Judicial Hellholes

West Coast is problematic, but there are issues across the country



Social Inflation and Nuclear Verdicts

Disproportionate claim values



Each of these pieces exacerbates complex and sensitive claims.

Judicial Hellholes

2022/2023

1 Georgia

2 Pennsylvania Supreme Court &
the Philadelphia Court of Pleas

3 California

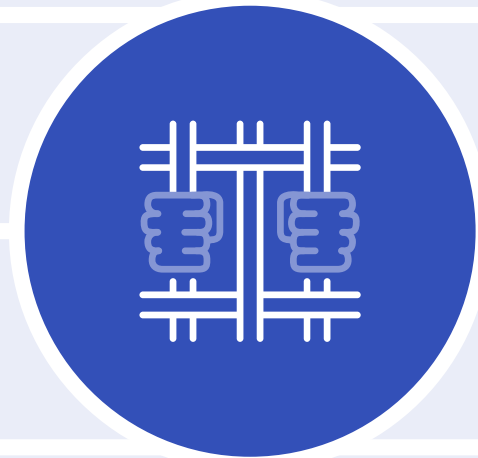
4 New York

Cook County, IL 5

South Carolina
Asbestos Litigation 6

Louisiana 7

St. Louis, MO 8



Social Inflation and Nuclear Verdicts

Social Inflation

the increase in insurance losses caused by legislative, judicial, social and economic, and technical developments.



Image: mauritius images / Masterfile

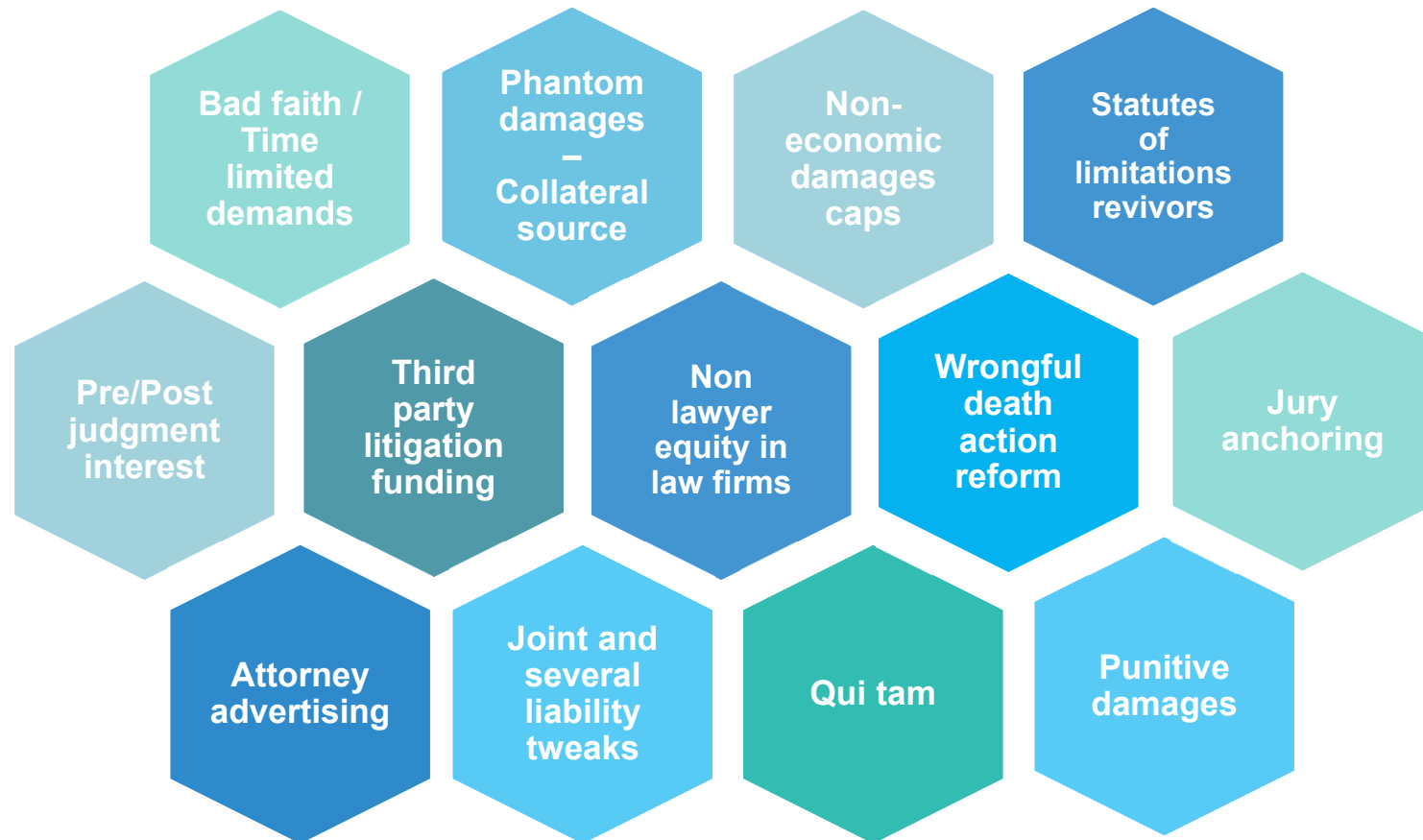
Nuclear Verdict

any award that is significantly disproportionate to what would be expected.



Image: Tetra Images / Getty Images

Legal / Regulatory Update - 2023: Legal System Abuse (a/k/a social inflation) – P&C industry state by state strategy



Litigation funding



Third Party Litigation Funding or Financing

Largely unregulated.



Information is limited because disclosure is not required.



The lack of data.



Funding is expensive and may deter plaintiffs from accepting a settlement offer.



Source: GAO-23-105210 - Government Accountability Office: THIRD-PARTY LITIGATION FINANCING Market Characteristics, Data, and Trends. Dec 2022"



Image: used under license from shutterstock.com

Social Inflation and Nuclear Verdicts

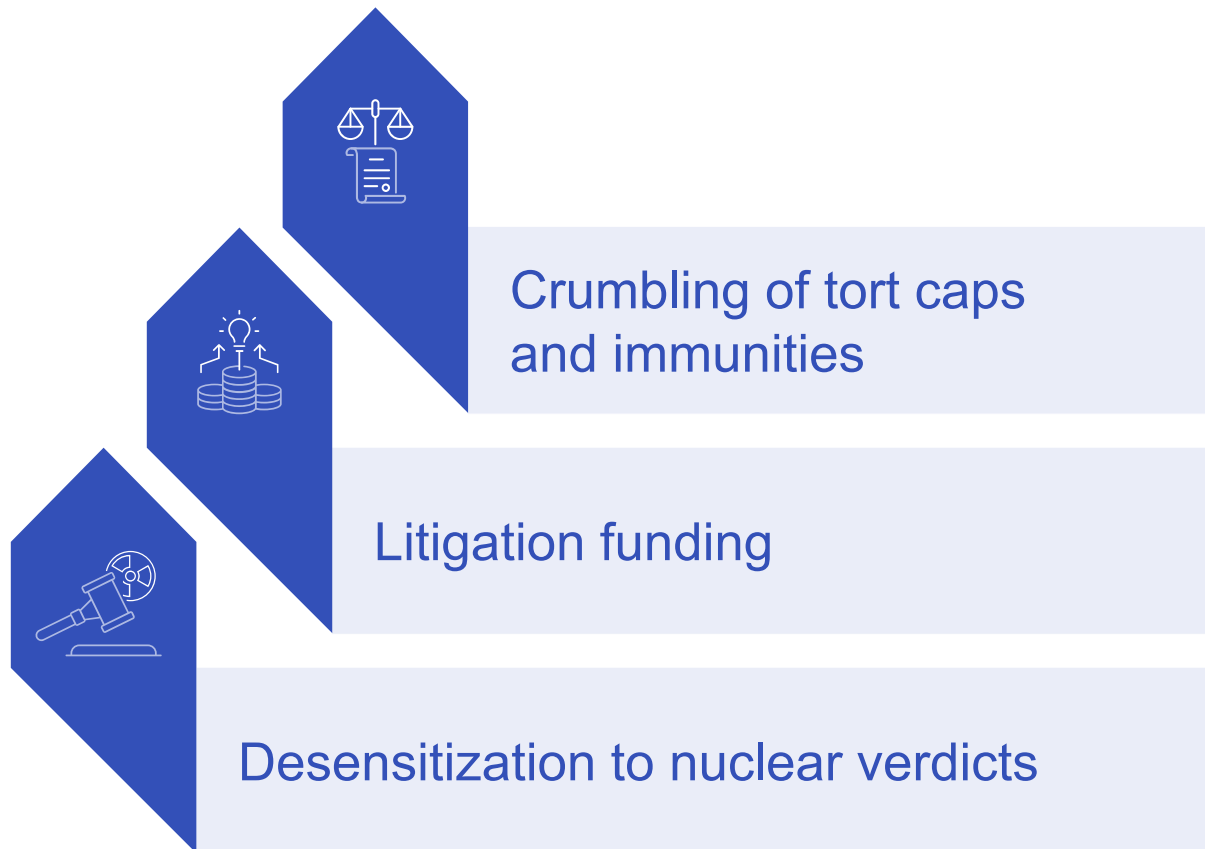


Image: mauritius images / Masterfile

Casualty Market Conditions

Capacity and Carrier

- Capacity, reduced but stabilizing
- Carriers in the space – stabilized

Terms and Conditions

- Constricted risk appetite
- Tight terms and conditions



Limits and Retentions

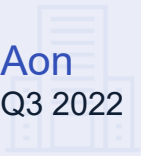

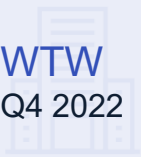

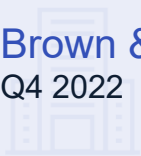

- Higher retentions → loss experience
- Expiring limits

Rate

- Increases expected
- Deceleration across all lines

Broker Market Rate Predictions

Casualty

 Aon Q3 2022		Moderate
 WTW Q4 2022		Flat to +10%
 Brown & Brown Q4 2022		<div>Non-AutoFlat to +10%</div> <div>AutoChallenging</div>

Source: to be found in notes



Image: Tetra Images / Getty Images

Risk Management Considerations

05



Image: ronnarong / stock.adobe.com

Risk Management Considerations



Summary

Market

- Increasing investment income
- Underwriting Pressure

Image: blackred / Getty Images

Property

- ITV concerns
- Rate still increasing

Image: used under license from shutterstock.com

Cyber

- Tough rate environment
- Market getting better handle on cyber exposure

Image: laremenko / Getty Images

Casualty

- Auto Liability and Law Enforcement concerns
- Social inflation exacerbating
- Rate increasing, but at slowing pace

Image: laremenko / Getty Images

Questions



Image: ronnarong / stock.adobe.com

Complete Session Surveys on the App

Find the App, Click on Events, Click on Browse by Day, Click on the Specific Session, Click on Rate Event.

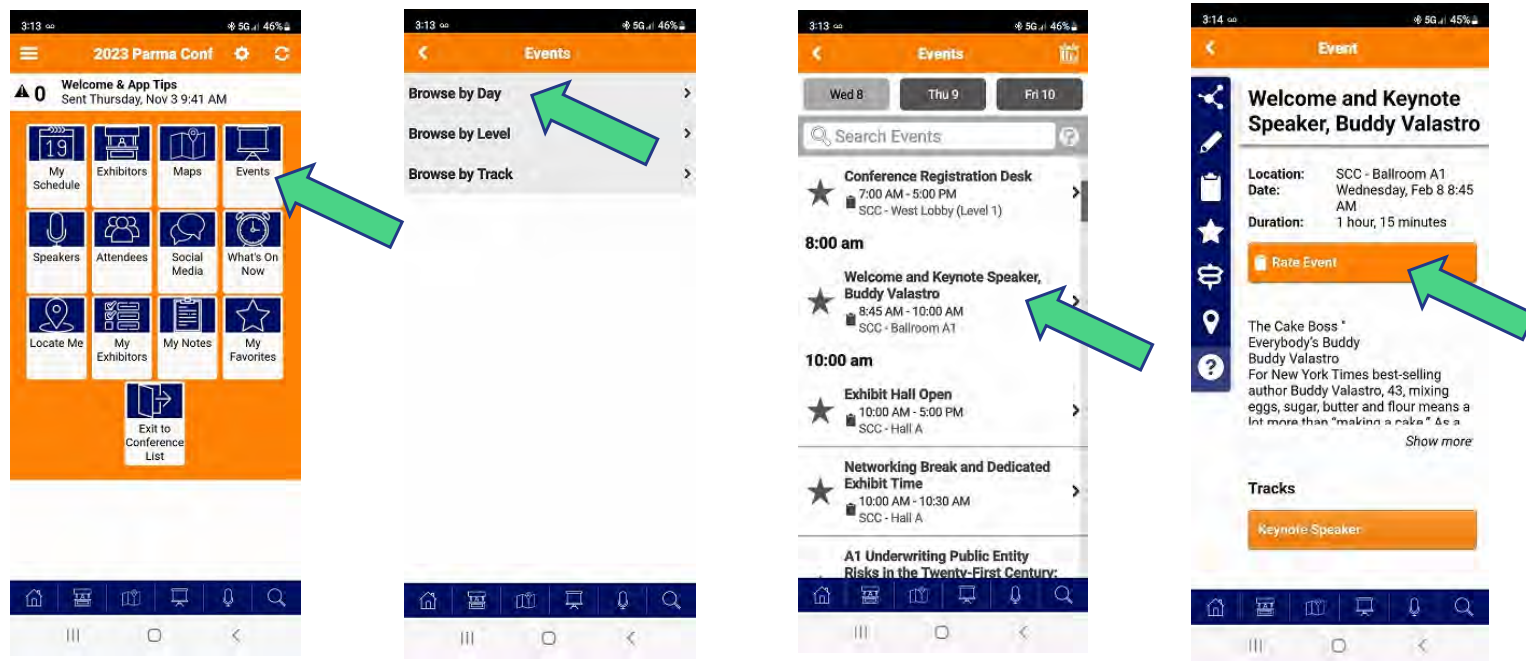
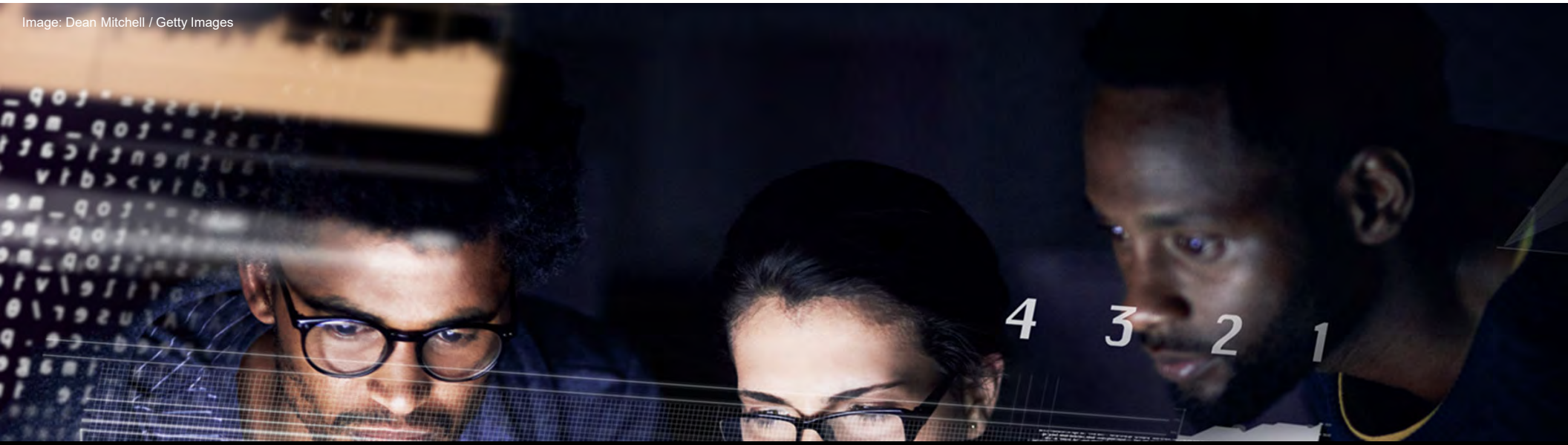


Image: Dean Mitchell / Getty Images



Thank you for your attention!

Lauren Tredinnick
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