

PARMA - State of the Market – 2024

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Agenda

01 Overall Market Conditions and (Re)Insured Impact

02 How CA is viewed in the Insurance Industry and (Re)Insured Impact

03 Hot Exposures, the CA influence and the (Re)Insured Impact

04 Renewal Takeaways

05 Summary


06 Q&A


Overall Market Conditions and (Re)Insured Impact


01




Economic growth is likely to decelerate. Labor markets are showing signs of normalization.

 **Inflation trends are cooling**, but likely to remain above the Fed's 2% target through 2024.

 Core goods inflation dropped from a peak of 12.4% in February 2022 to 0% in October 2023.

 We assume the hiking cycle is over, leaving the Fed Funds on hold at 5.25%-5.5% until the middle of 2024.

 Forecasted 25 bps cuts at each meeting beginning in June, bringing the **Fed Funds target range to 4.00%-4.25%** at end of 2024



Components of the Combined Ratio, Property/Casualty Insurance, 2014–2023

Year	Loss ratio	Expense ratio	Combined ratio 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	73.5%	25.8%	99.8%
2023²	78.6%	25.2%	104.2%

1. Includes Dividend Ratio not shown in table above
 2. Results are through June
 Source: 2023 National Association of Insurance Commissioners



Shift in Investments



- Interest Rates – highest in 22 years
- Investment Income – improving

This market dynamic should relieve some pressure on underwriting results.

Pressure easing but still focus on Underwriting

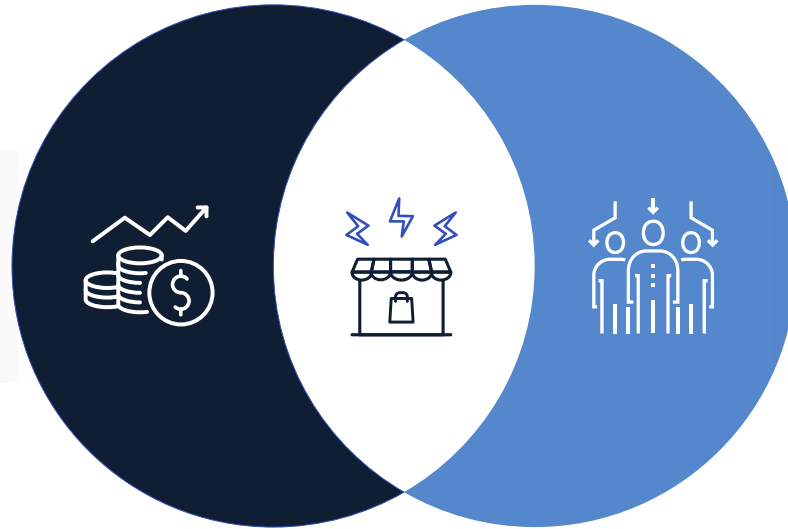


- Prudent Underwriting Decisions
- Underwriting Results

There should be some stabilization in rate for longer tail lines.



Inflation



Labor Shortage



How has inflation affected insurance rates?

Property



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

Auto/GL



- ✓ Cost of labor and materials
- ✓ Rising defense costs
- ✓ Higher settlement values
- ✓ Nuclear Verdicts & Settlements
- ✓ Higher operating costs
- ✓ Increase in reserves

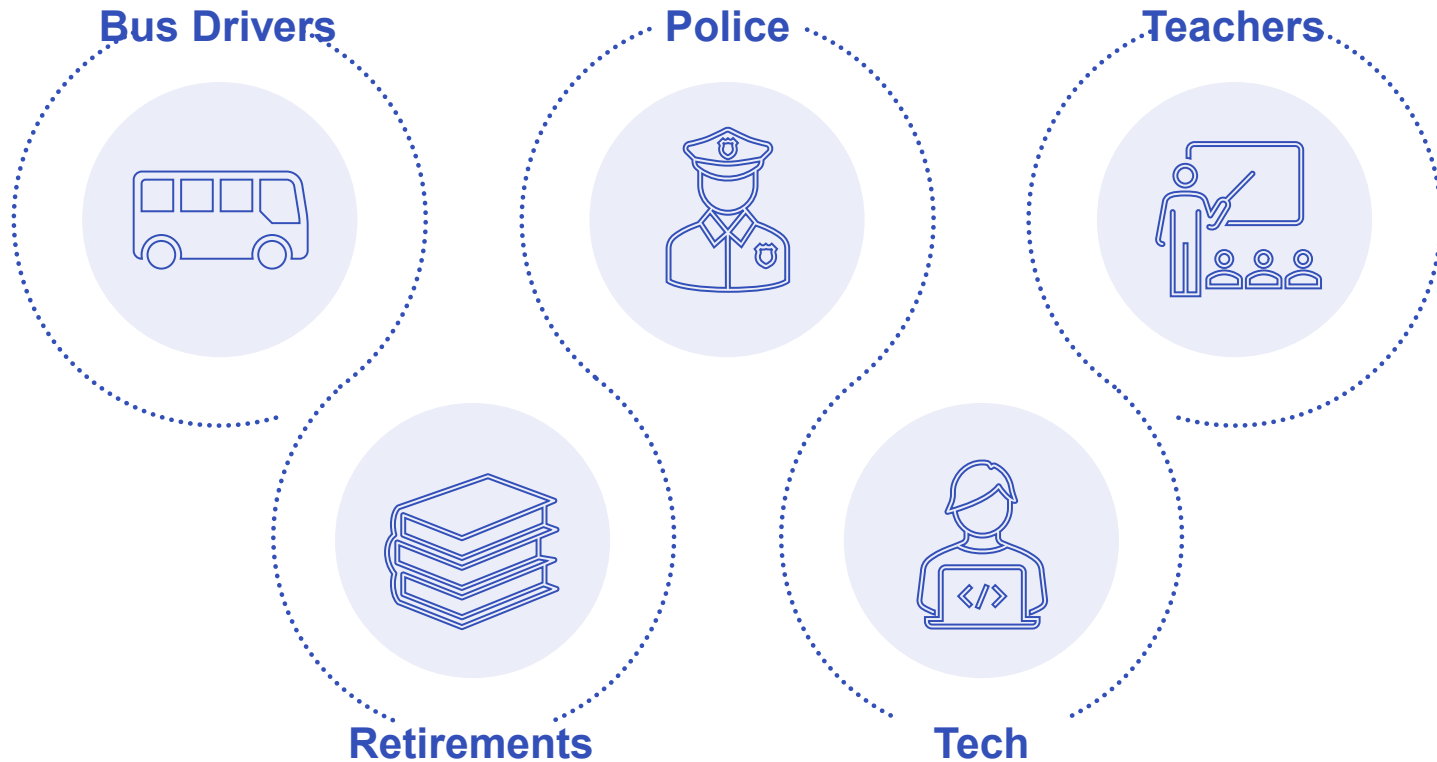
Professional



- ✓ Rising defense costs
- ✓ Higher settlement values
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Labor Shortage Public Entity Challenges

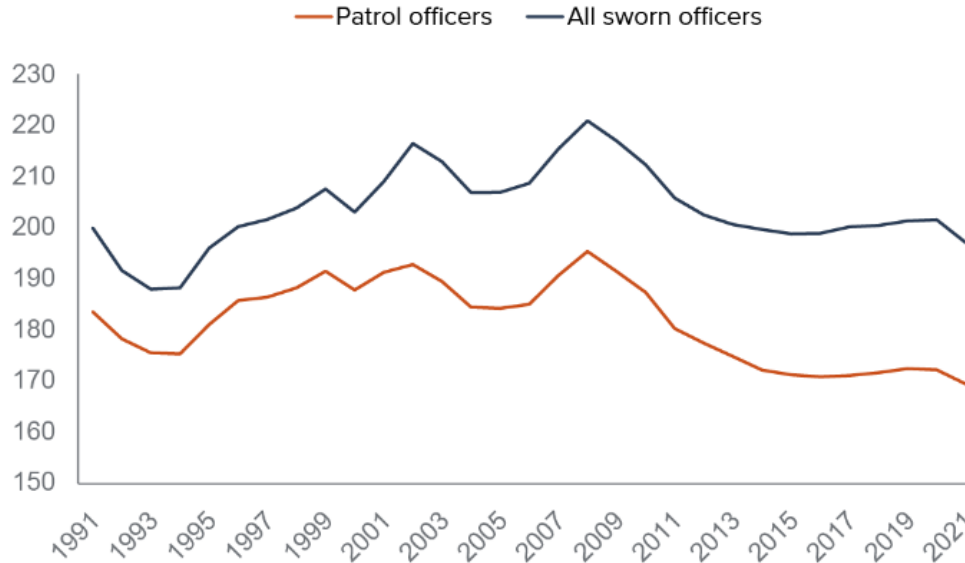


Labor Shortage - CA

Public Entity Challenges

Today the number of patrol officers per 100,000 residents is the lowest since at least 1991

Officers per 100,000 residents



Labor Shortage - CA


Public Entity Challenges

In Summary

California's schools are struggling to staff up – despite billions in state money flowing to school districts to remedy teacher shortages. Grants have helped but, educators say, they aren't enough.

- Property/TIV
 - Ensure values are accurate
 - Address greatest risks
 - Work to understand the broader market
 - What happens elsewhere in the world affects you
 - Consider a new mix for coverage

- Auto Liability/General Liability
 - Techniques to combat nuclear verdicts
 - Loss control is critical. What are you doing to reduce frequency & severity?
 - Tell that story!
 - Good communication with your carrier

 How CA is viewed in
the Insurance
Industry and
(Re)Insured Impact

02





Jurisdictional Challenges

These areas are all interrelated

West Coast

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



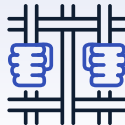
Tort Reform

- 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

2023/2024

1 Georgia
Pennsylvania Supreme Court &
the Philadelphia Court of Pleas

2 Cook County, IL

3 California

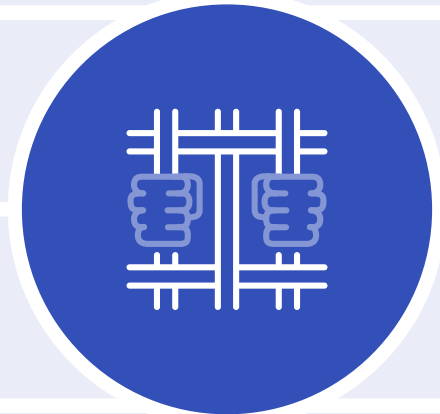
4 New York City, NY

South Carolina
Asbestos Litigation **5**

Lansing, MI **6**

Louisiana **7**

St. Louis, MO **8**



Judicial Hellholes – CA losses against Public Entities 2023/2024

\$13.5M for CA Man's Daughter After Police Restraint Led to Death; Wrongful Death October 2023

Plaintiff was restrained by officers. Officers pinned him to the ground using their bodyweight, and he was taken to the hospital. He died a few days later. Jurors awarded \$13.5 million.

\$135M for CA Students Abused by Teacher; Sexual Abuse, Assault, & Molestation, October 2023

Plaintiffs were abused by a school teacher. They sued the school district. Jurors awarded \$135 million.

\$23.8M for CA Mother After Son Killed by Police; Wrongful Death, August 2023

Plaintiff's son was shot and killed by two police officers who used excessive force. Decedent had been in the opposite direction of the officers. Jurors awarded \$23.8 million.

\$16.3M for CA for Motorcyclist and His Wife After He Was Struck by SUV; Negligence, August 2023

Plaintiffs, a motorcyclist and his wife, sued after the motorcyclist was hit by an SUV. He sued the driver as well as the state, alleging there was a dangerous condition. His wife sued for loss of consortium. Jurors awarded \$16.3 million, with 60% fault attributed to the public entity.



Social Inflation and Nuclear Settlements

Social Inflation

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





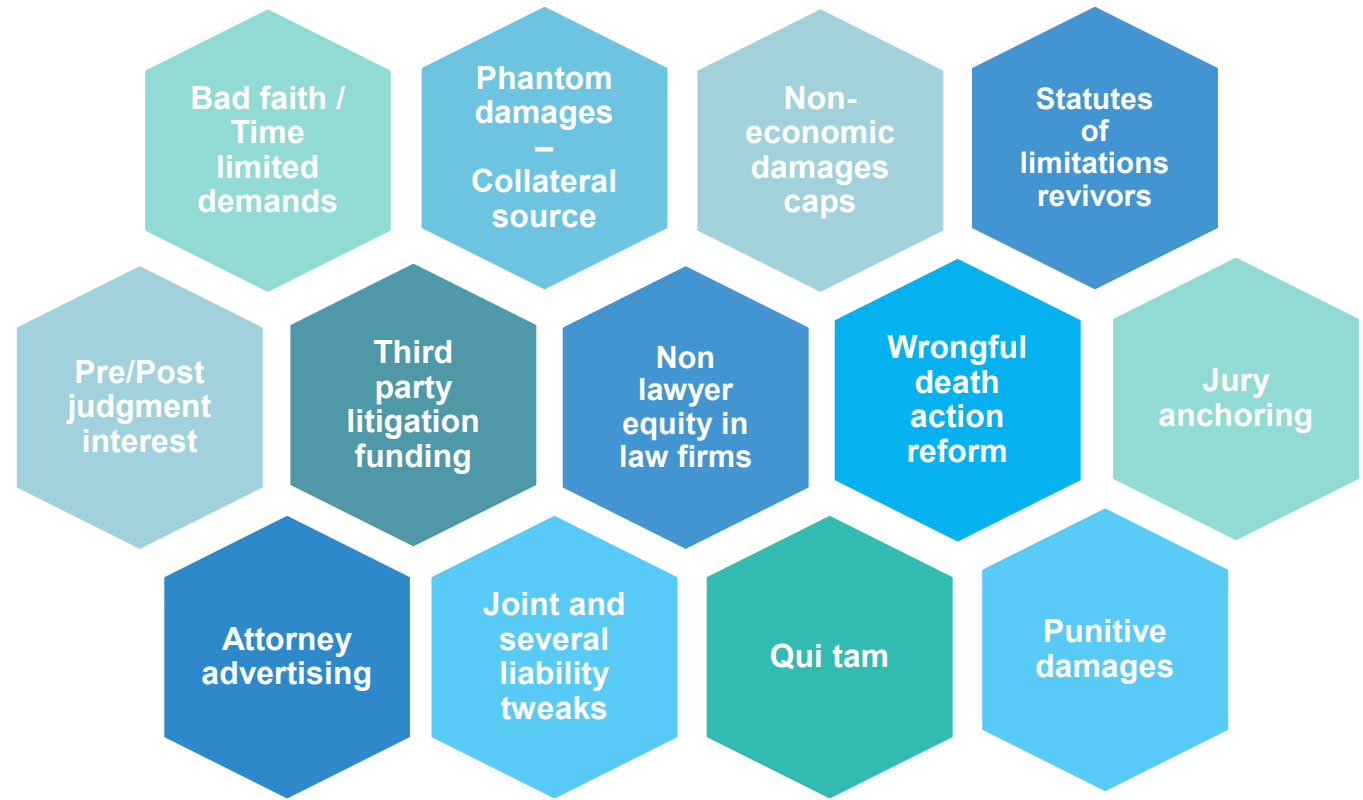
Nuclear Settlements

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





Legal / Regulatory Update - 2024: 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.

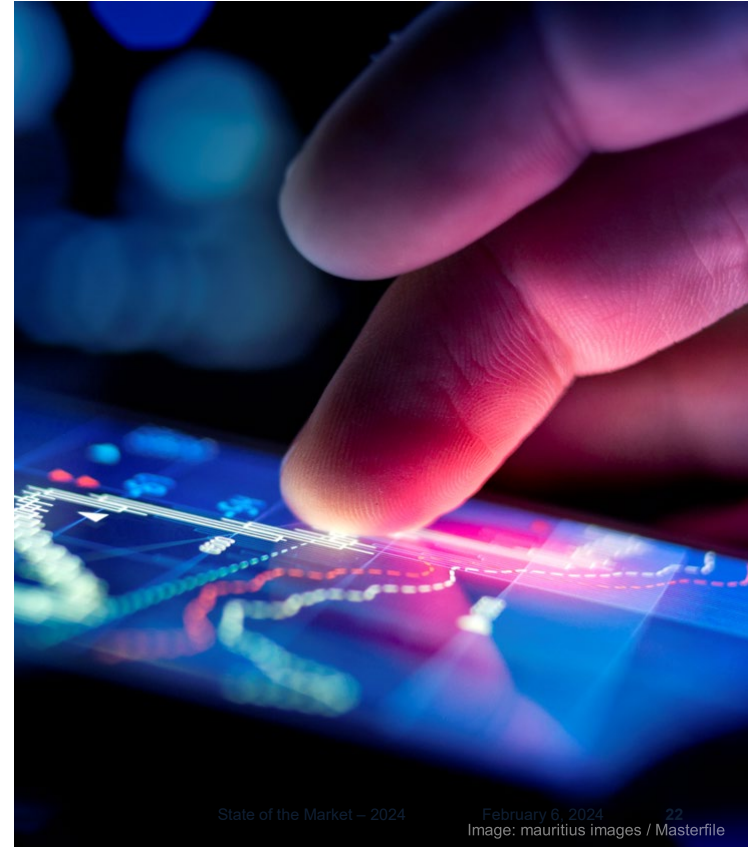
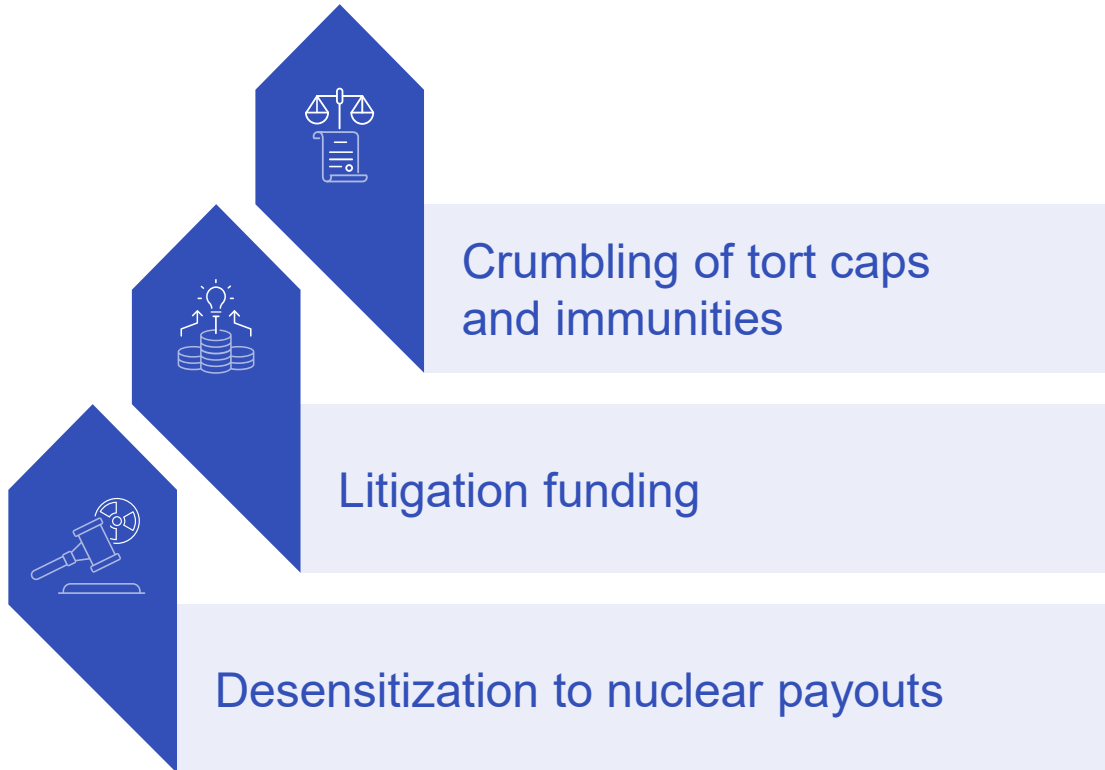


Funding is expensive and may deter plaintiffs from accepting a settlement offer.





Social Inflation and Nuclear Settlements



Telling your story

(1 of 3)

- Need to improve both the quality and quantity of data you are sharing
 - Things are very different than they were 10 years ago!
- How do you manage your claims?
 - Innovation?
 - Attorney selection
 - Fight or settle
 - Your insurer needs to understand how your agency handles claims in this environment
 - Mock trials
 - Addressing nuclear verdicts

Telling your story

(2 of 3)

- Know your own loss drivers
- Focus on your loss prevention efforts
 - Tools
 - Training
 - Third party vendors
- If you are a standalone agency
 - What are your departments doing? Not just Risk Management
- If you are a pool
 - What are your members doing? Not just the pool

Telling your story

(3 of 3)

- Involvement in the larger risk community
 - Legislative reform
 - Professional organizations
 - Industry exposure

 Hot Exposures, the
CA influence and the
(Re)Insured Impact

03





Casualty Trends and Market

Increasing impact on liability exposure

Law Enforcement Liability

Reviver Legislation and Sexual Abuse

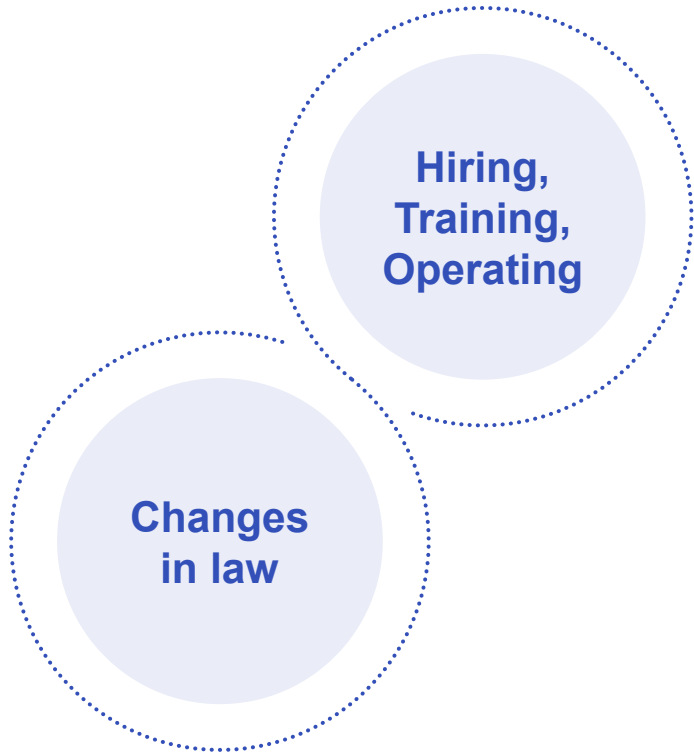
Auto Liability



Challenged
Exposures

Current
Climate

CA Impact





Staff Reductions

- Staffing on steady decline since 2019
- Mostly resignations (42.7%) and retirements (23.6%)¹
- Scaled higher than ever in 2020-21
- NYPD officers resign in record numbers in 2023 (117% increase since 2022)²

1. Police Executive Research Forum Staffing Survey, April 1, 2023
2. New York Post, March 10, 2023



Policing Reform

Accreditation Requirements	Limit or end officer's use of qualified immunity	Chokeholds & Neck Restraints	Calls for Transparency
Criteria for traffic stops	Body Cameras	Restricting "No-Knock" Warrants	Database for Officer Misconduct
Investigation into officer-involved deaths	Officer Intervention	Officer Decertification	Refunding



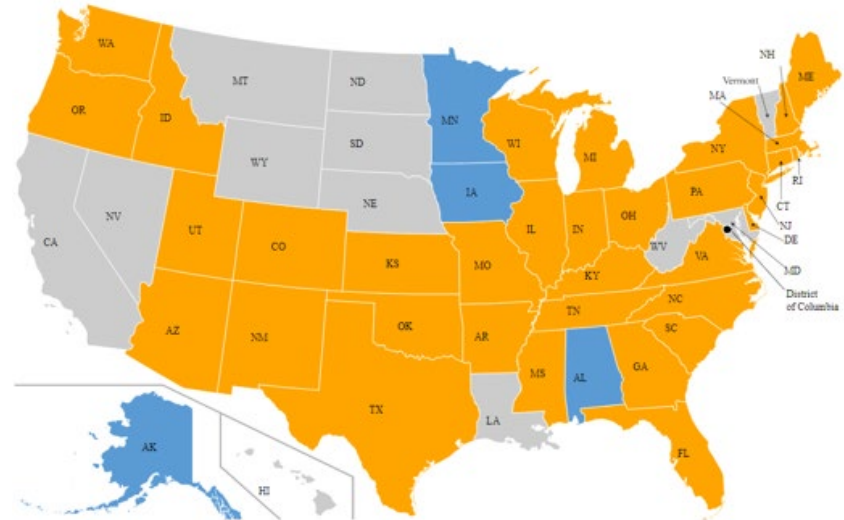
National Accreditation Programs



International Association of Campus Law Enforcement Administrators



Accreditation Programs by State¹



- States with an accreditation program
- States with accreditation programs in development
- States without accreditation program

¹ Source: https://cops.usdoj.gov/LEA_accreditation

Recent years in CA: Retail theft, Motor Vehicle Theft, aggravated assault (including assaults using firearms) on the rise.

CA Homelessness and law enforcement activities related to homelessness are on the rise.

Competition for qualified Law Enforcement officers continues to be fierce. Refunding and increases to budget to hire more officers have started to come back



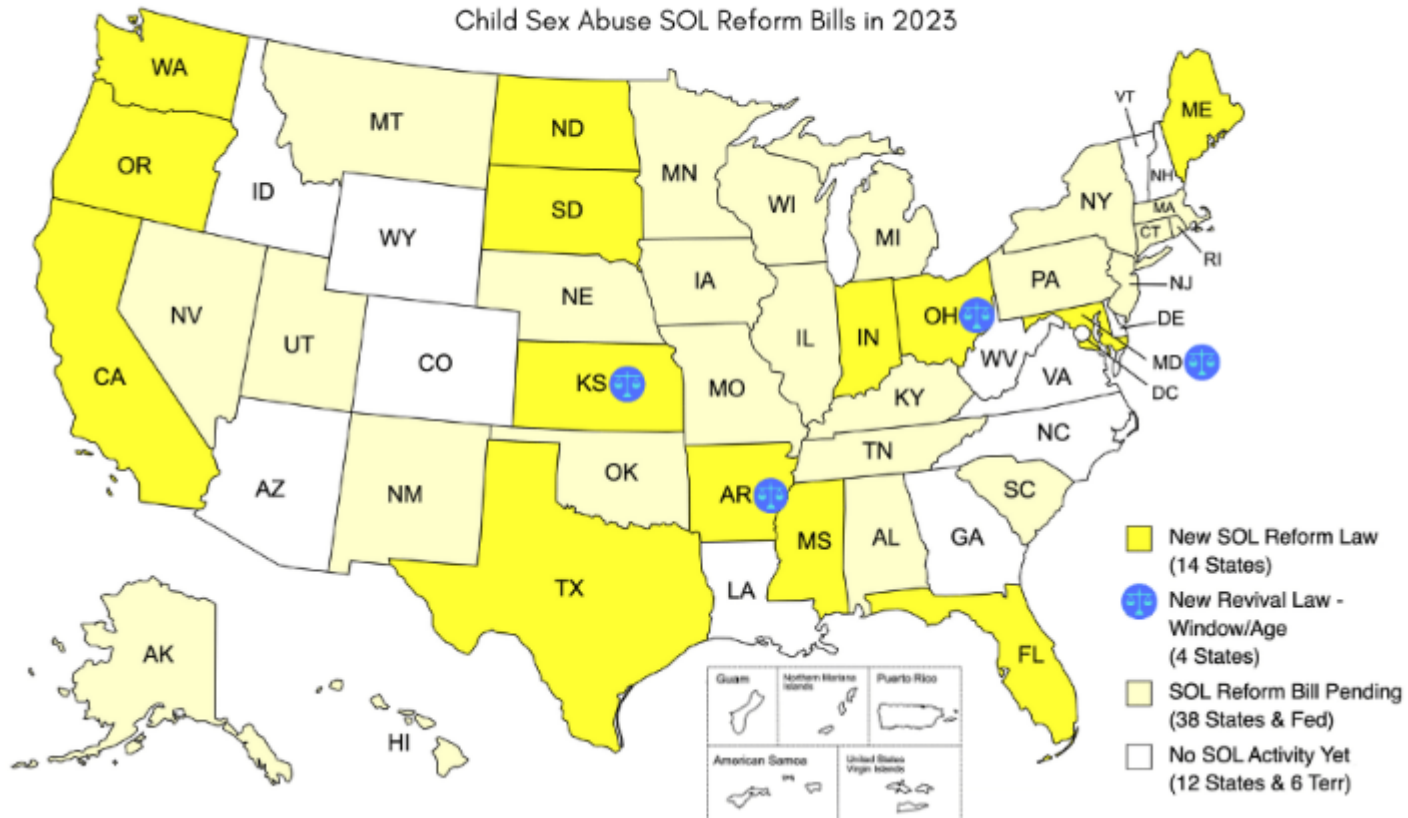
Sex Abuse Market Dynamics





2023 SOL TRACKER

Child Sex Abuse SOL Reform Bills in 2023





Climate Change and pressure on infrastructure and infrastructure related liability risks:

- Weather pattern changes are happening. San Diego floods and intense atmospheric river
- From wildfires in past years to historic rainfall in the present.
- Blizzards, tornadoes, and a hurricane in CA?

Additional articles

[Blizzards, tornadoes and a hurricane: We lived through SoCal's year of weird weather](#) Los Angeles Times

[Historic California rain could foreshadow more extreme rainfall in coming weeks](#) ABC NEWS



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 2023

↑↑

+1% to +10%

WTW
Q4 2023

↑↑

Non-Auto +1% to +10%

Auto +4% to +7%

Brown & Brown
Q4 2023

↑↑

Non-Auto +5% to +20%

Auto +10% to +15%

Source: to be found in notes



Hot Exposures – (Re)Insured Impact

- Insureds need to be flexible and nimble
- Increased retentions/deductibles
- Understand the market forces and be ready for increased costs
- Changes in your own insurance programs/towers/structures
- Be willing to make changes and work with the carriers
- Explore new markets and new products

Renewal Takeaways

04





Risk Management Considerations





Market

- Increasing investment income
- Underwriting Pressure

Image: blackred / Getty Images

Casualty

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

Image: used under license from shutterstock.com

CA Impact

- Tough exposures
- Tough jurisdictions

Image: larenenko / Getty Images

Renewal Takeaways

- Be flexible – consider options
- Tell your story



Questions



Thank you for your attention!

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