January 2024

# CURRENT MARKET CONDITIONS

## KEY FACTORS IMPACTING THE REINSURANCE MARKETPLACE

***Public entities across the country are facing the same challenges when it comes to the impact of market conditions and risks - from a rise in cyber incidents and climate-related losses to decreasing capacity and increasing costs in a hardening insurance market.***

### PROPERTY

*Increase in frequency and severity of claims*

- **Worldwide insured natural catastrophe losses at $100B in 2023**
- **First half of 2023**: insured losses 190% more than the annual average
- Inflation and supply chain issues drive up claim costs
- **Capacity constraints**: reinsurers/carriers leaving the market and/or reducing limits
- **Coverage reductions**: especially in the absence of formal onsite property appraisal programs, coverage reductions may include:
  - Elimination of blanket limits that provide broad coverage for your entity's property
  - Introduction of restrictive claims provisions such as Margin Clauses, Coinsurance Penalties or assigning physical assets to a Stated Amount to cap losses
  - Per-building wind/hail percentage deductibles
  - Adding age restrictions for roofs

### CYBER

- **Ransomware** continues upward trend: 101.84% increase from August 2022 to May 2023
- **Increases in average initial ransom** demand: $1.4M in 2021, $1.04M in 2022, $2M in 2023
- **Cyber-attacks** in the US up 57% in 2022 vs 2021; 2023 figures expected to show further increase
- **Ransomware** and **business e-mail compromise** leading causes of loss
- **War** and **systemic risks** a concern; carriers add exclusions and/or sublimits to reduce their risk
- Increased/continued focus on insured's security controls

### CASUALTY

- **Casualty claims**: YOY 11% growth rate (~$8B to ~$23B)
- **Rate increases** of **5%** to **15%,** with favorable loss experience & jurisdiction
- Social inflation
- Nuclear verdicts and jury disconnect
- Unregulated third-party lawsuit funding
- **Capacity constraints**
- PFAS, communicable disease, cyber exclusions

## KEY INSIGHTS

- **ECONOMY**: Inflation, supply chain issues, high interest rates and labor shortages have continued to disproportionately impact the public entity sector.
- **INCREASED CLAIMS COSTS**: Social inflation, third-party funded litigation, nuclear verdicts and inflation have driven claims costs higher.
- **BUDGET MANAGMENT**: Rapidly increasing costs have led to increasing budget deficits. Public entities have not recovered from the increased costs and reduced income caused by COVID-19.
- **CAPACITY**: While not yet improving, the public entity marketplace has begun to stabilize; however, new capacity is *highly* selective in terms of the lines of business and types of risk they will consider.