

# Marketplace Update and Market Trends 2023

Q1 TRANSPORTATION REPORT

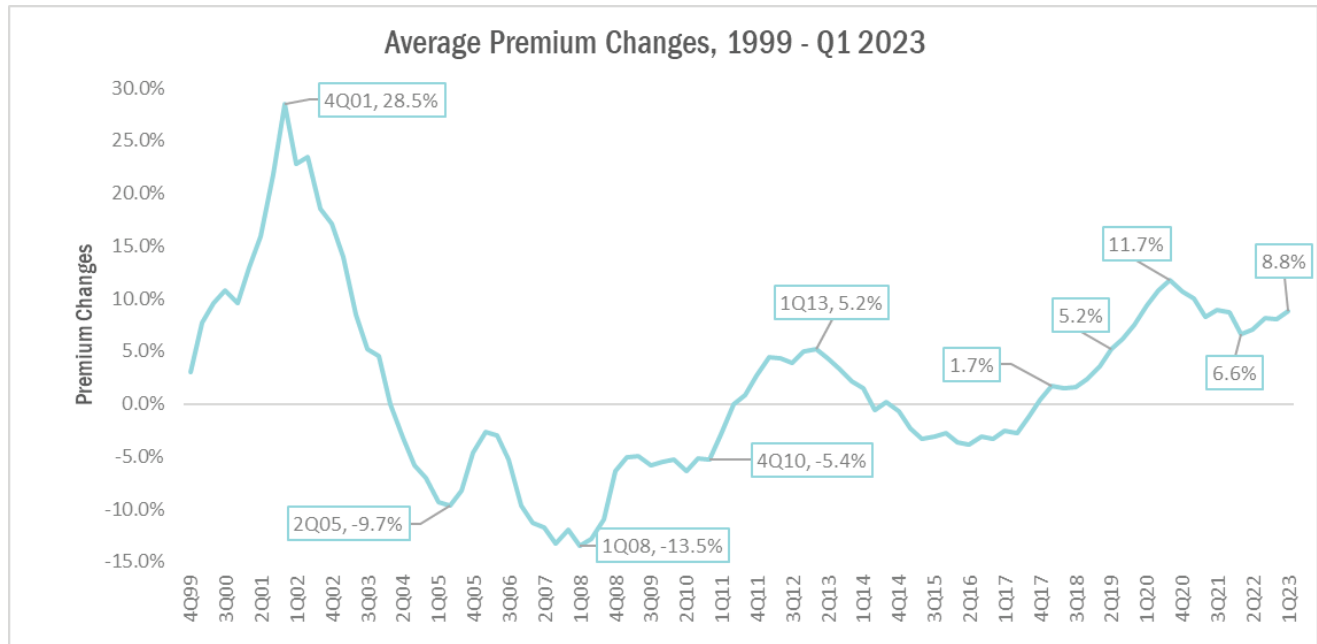


Cottingham & Butler

## General Market Conditions

Rate increases are now at 22 consecutive quarters since 2018 but are now moderating slightly on nearly all lines (Property is the exception).

All lines of business saw slight-to-significant premium increases in Q4 2022, except for workers' compensation.



Pricing increases by market segment continue to show rate increases hitting medium and large accounts harder than small accounts.

### Average Commercial Pricing Increases

	By Account Size			AVERAGE
	SMALL	MEDIUM	LARGE	
First Quarter 2023	6.2%	9.0%	11.4%	8.8%
Fourth Quarter 2022	6.5%	8.3%	9.1%	8.0%
Third Quarter 2022	6.5%	9.0%	8.8%	8.1%
Second Quarter 2022	6.4%	7.3%	7.5%	7.1%
First Quarter 2022	6.4%	7.3%	6.2%	6.6%
Fourth Quarter 2021	6.3%	10.6%	9.2%	8.7%
Third Quarter 2021	6.2%	10.1%	10.4%	8.9%
Second Quarter 2021	6.2%	9.4%	9.3%	8.3%
First Quarter 2021	6.3%	10.9%	12.3%	10.0%
Fourth Quarter 2020	6.7%	11.7%	13.7%	10.7%
Third Quarter 2020	7.1%	12.7%	15.3%	11.7%
Second Quarter 2020	7.3%	11.0%	14.2%	10.8%

Source: The Council of Insurance Agents & Brokers (2023 Q1 Market Report)

Main P&C Lines Rate Change over past 8 Quarters:

- Property continues to experience higher rate increases than the 'core' lines of coverage; Umbrella continues to stabilize
- Work Comp continues to be competitive

Line-by-Line 2021-Q1 2023 Rate Changes

	Comm'l Auto	Workers' Comp	Comm'l Property	Gen'l Liability	Umbrella
First Quarter 2023	8.3%	-0.5%	20.4%	4.6%	8.5%
Fourth Quarter 2022	7.3%	-1.1%	16.0%	4.9%	9.6%
Third Quarter 2022	7.6%	-0.7%	11.2%	5.7%	11.3%
Second Quarter 2022	7.2%	-1.2%	8.3%	4.7%	11.3%
First Quarter 2022	5.9%	-5.0%	8.6%	3.9%	10.5%
Fourth Quarter 2021	8.0%	0.3%	10.5%	6.4%	15.0%
Third Quarter 2021	7.4%	-0.3%	10.3%	6.3%	16.9%
Second Quarter 2021	6.8%	0.3%	9.9%	6.0%	17.4%
First Quarter 2021	9.0%	1.0%	12.0%	6.2%	19.7%

Source: The Council of Insurance Agents & Brokers (2023 Q1 Market Report)

General Market P&C Headlines

**BUSINESS INSURANCE**

October 26, 2022

**Rate hikes predicted for most lines of coverage**



The property insurance market will remain tight for the rest of the year and will get even more challenging for buyers in 2023 as Property reinsurers increase rates at Jan. 1 renewals in the wake of losses from Hurricane Ian. Many casualty lines will also see rate increases, from the "State of the Market" report, which predicts pricing trends for the fourth quarter of this year and the first quarter of 2023.

**BUSINESS INSURANCE**

Risk Management

**Some rates will stabilize; less optimal risk profiles will see hikes**

January 04, 2023

Digest FPN : Digest Edition - Thursday, May 25, 2023

[Print This Story](#)

**Auto insurance market on 'collision course away from profitability': LexisNexis**

Auto claims severity worsened by nearly every metric throughout 2022, and the pricing and underwriting trends seen of late show no sign of changing direction so far this year, according to a recent report from LexisNexis Risk Solutions.

**INSURANCE JOURNAL**  
The National Property Casualty Magazine

**APCIA Says Property Insurance Market 'Hardest in a Generation'**

By Jim Sams | March 29, 2023

A combination of historic high inflation and a growing frequency of natural catastrophes is creating the hardest market in a generation for property insurance, the American Property and Casualty Insurance Association says in a new white paper.

**INSURANCE JOURNAL**

**AM Best: Trouble Around the Bend for Commercial Auto Insurers after good 2021?**

By Chad Hemenway | October 12, 2022

For the first time in many years the commercial auto insurance segment enjoyed a combined ratio below 100 in 2021 (contributed to significantly by covid impacts), but increased claim frequency and severity in 2022 point to a U-turn in financial results.

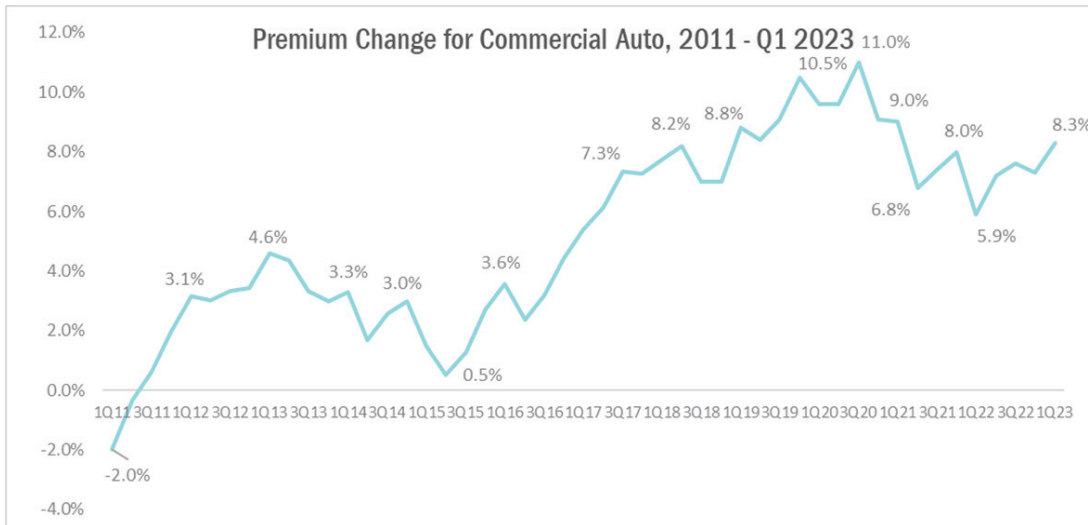
According to AM Best, costs related to social inflation, nuclear verdicts, higher repair costs, and distracted driving are likely outpacing recent rate increases despite insurers' efforts to achieve adequate rates and maintain pricing discipline.

## Commercial Auto (Q1 2023)

Continued rate increases (47 consecutive quarters)

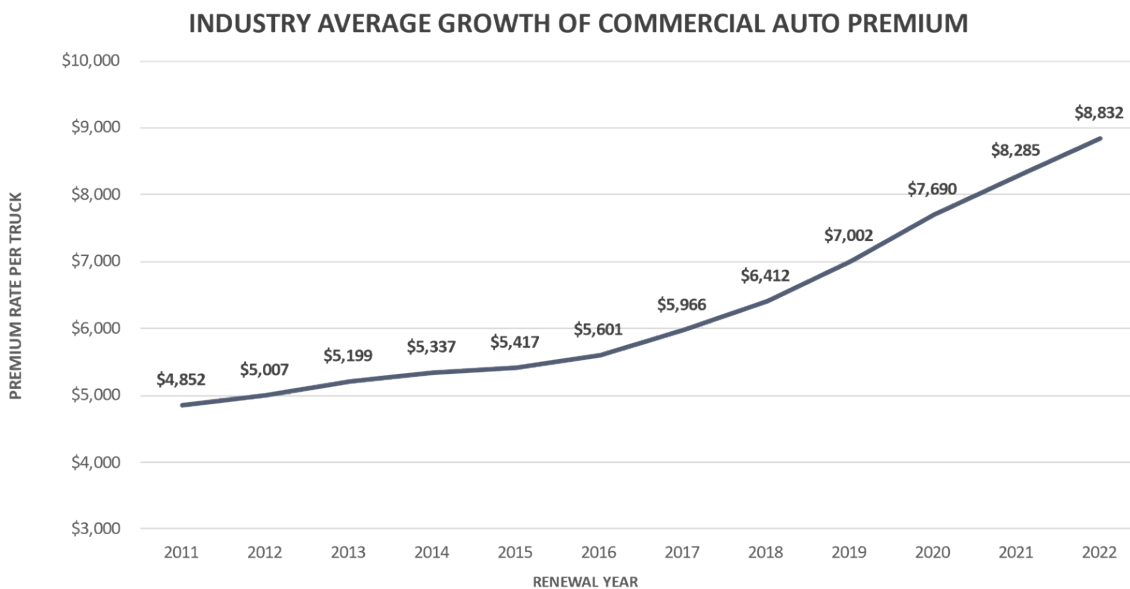
Auto rate increases will continue, ongoing increasing claims cost trends

Auto rate increases to continue but slowing down slightly. Contributing factors: inflation, increased liability severity (lawsuits, litigation financing); distracted driving; higher physical damage claims (technology); driver shortage = less qualified drivers; technology has lowered frequency, but severity continues to increase.



## Auto - Impact of Rate Increases over Time

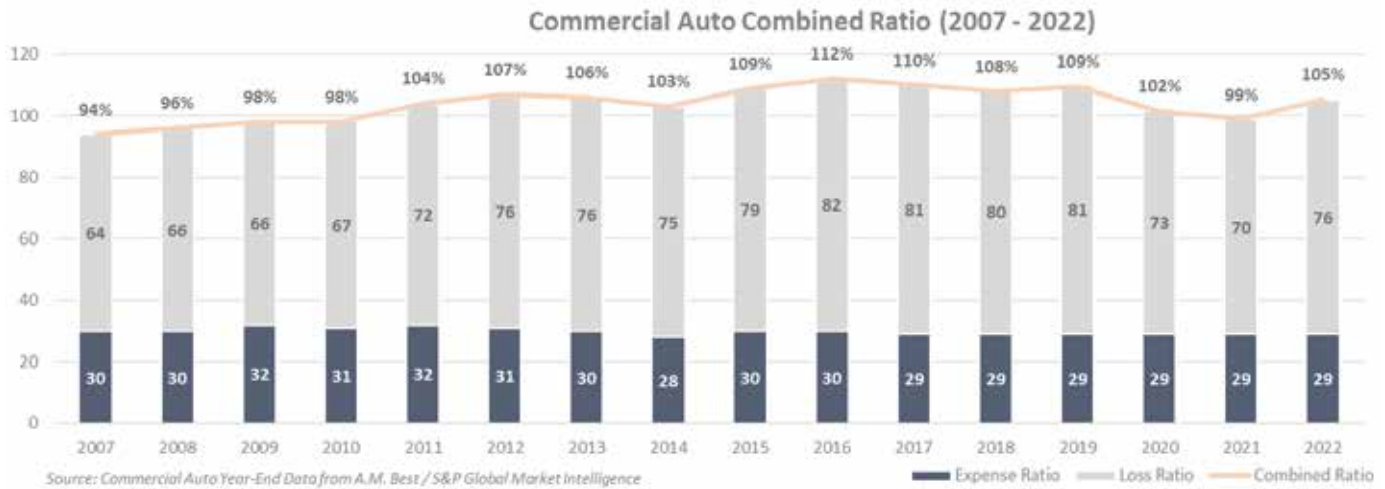
Factoring in the average annual increase for an account over the past 47 quarters of commercial auto increased, would result in an 82% cumulative rate increase during that time period.



## Commercial Auto Historical Profitability

### Commercial Auto – Carrier Profitability?

- The industry showed a profit for the first time since 2010, after double digit rate increases over multiple years.
- Industry combined ratio is a result heavy impact from COVID related frequency declines and courtroom shutdowns.
- Inflation and underlying loss trends will continue to put pressure on auto rates, with 2022 combined expected to near 115%

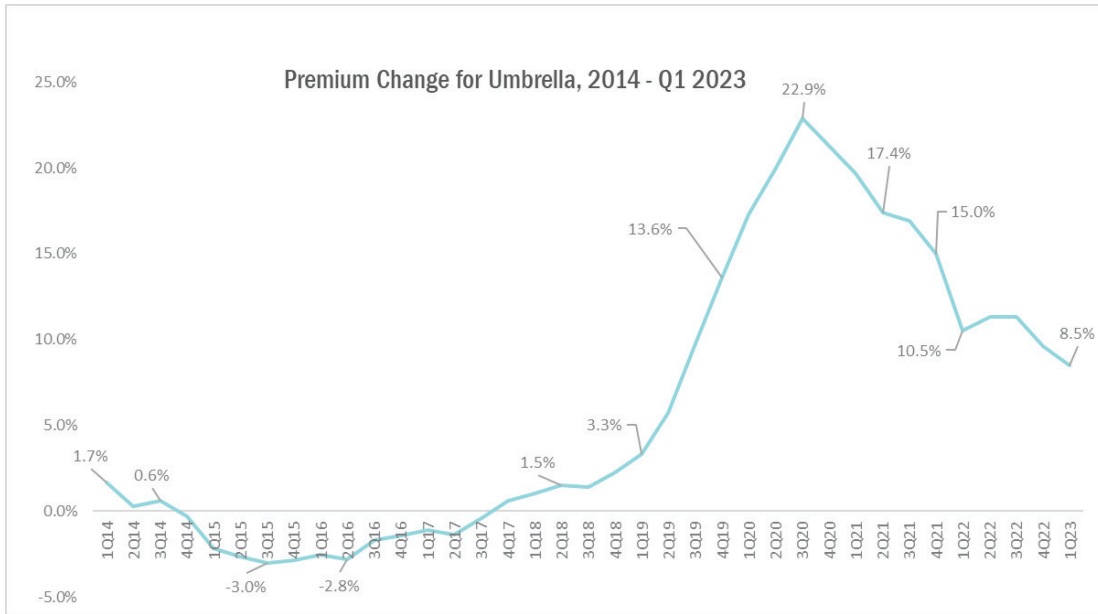


## Umbrella (Q1 2023)

Dramatic firming from late 2019 through 2022; auto rate moderation is continuing into the excess, reopening of courts could reverse this trend

Continued lack of carriers willing to put up \$10M or \$25M capacity layers

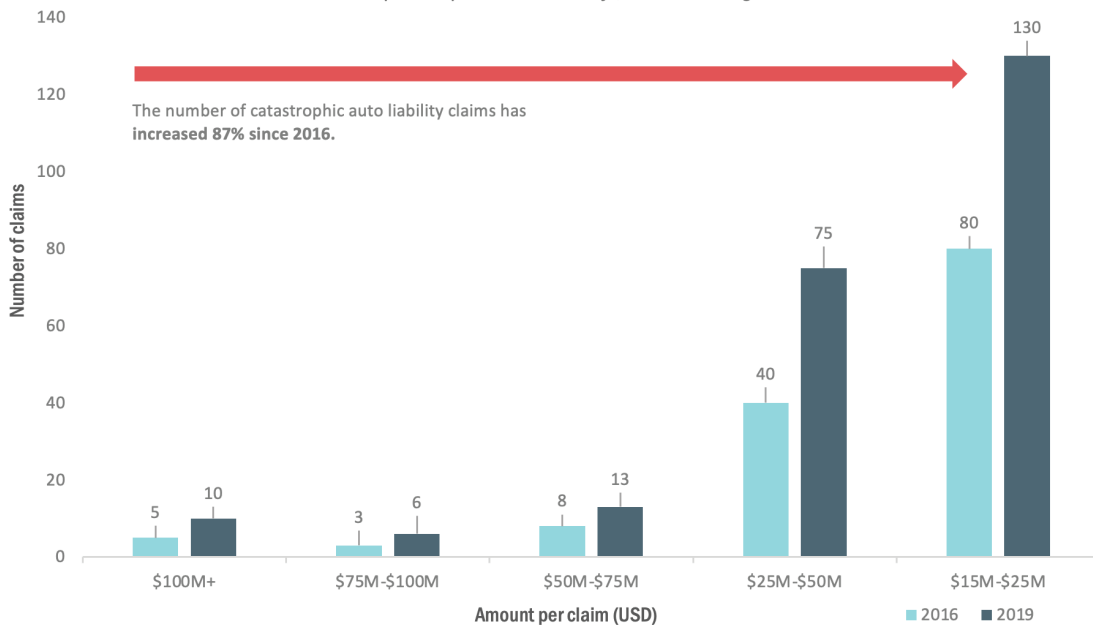
Increases are materially higher for fleet-exposed accounts



## Commercial Auto – Increasing Claim Severity

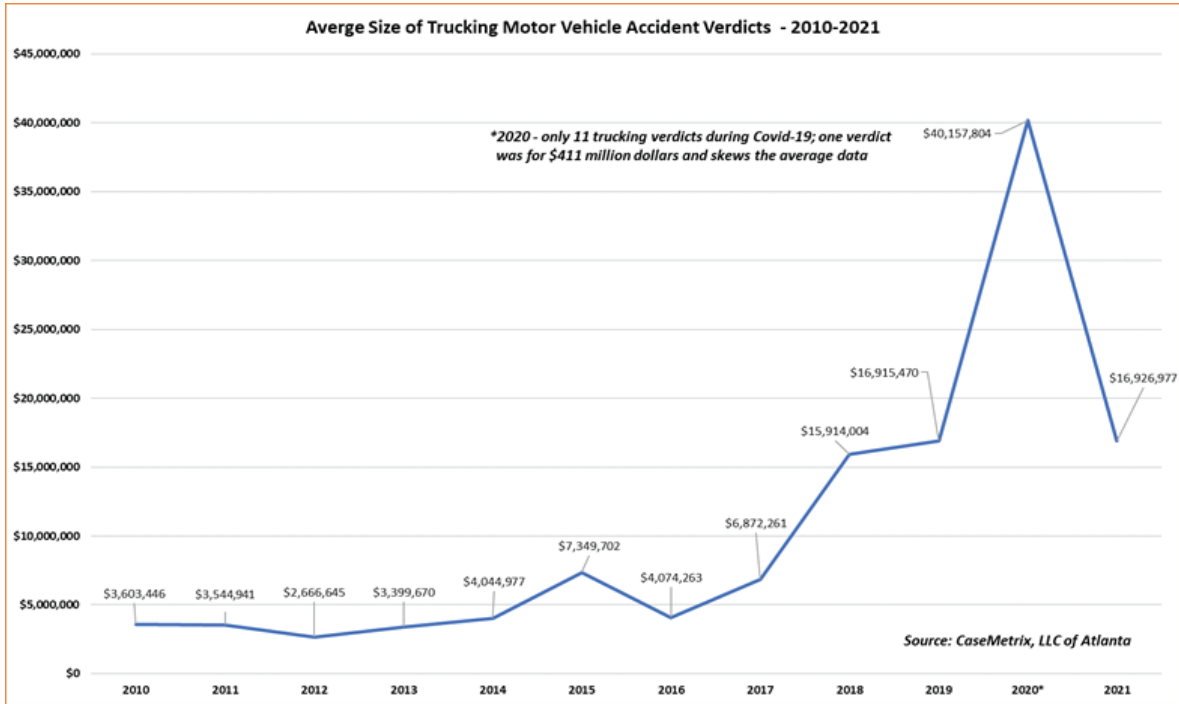
### Catastrophic Auto Liability Claim Counts & Settlements

"Catastrophic" equates to a cost of \$15 million or greater



Source: Advisen

The average motor vehicle accident verdict has increased from \$3.6M in 2010 to \$17M in 2021.



The median settlement of the top 50 U.S. verdicts nearly doubled from \$28M in 2014 to \$54M in 2018.

From 2015-2019 compared to 2010-2014, there was a 500% increase in \$20 million-plus verdicts.

According to Reuters, the average personal injury award increased 88% from 2010 to 2018.

The average cost to settle an auto fatality has increased from \$1.9M in the mid 2000s to now over \$3.5M.

Source: WTW Insurance Marketplace Realities

## Marketplace Update (Excess Claim Examples)

INSURED FLEET SIZE	ACCIDENT DATE	JURISDICTION STATE	ACCIDENT DESCRIPTION	TOTAL INSURED LOSS & EXPENSES
500+	11/17/2017	Alabama	Insured vehicle rear-ended Claimant #1 into Claimant #2 and Claimant #3	\$6,699,390
500+	03/01/2016	Arkansas	Insured vehicle struck parked Claimant #1, Claimant #2, and Claimant #3	\$2,300,121
251-500	12/05/2016	California	Fatality - Claimant #1 ran into backing Insured vehicle.	\$2,320,468
76-150	01/14/2017	Florida	Insured vehicle rear-ended Claimant #1 into multiple vehicles	\$5,359,959
251-500	08/25/2016	Florida	Outside carrier pulling a new trailer. Hit a pedestrian on the highway.	\$3,634,002
76-150	05/20/2015	Georgia	Insured vehicle rear-ended Claimant #1	\$10,405,792
76-150	11/13/2017	Georgia	Traffic stopped ahead - Insured vehicle rear-ended Claimant #1 at highway speed - multiple vehicles involved	\$9,855,350
500+	03/30/2016	Georgia	Insured was stalled in roadway. Claimant #1 rear-ended insured trailer.	\$5,424,362
151-250	05/13/2015	Illinois	Insured vehicle reportedly rear-ended 3 other vehicles in a construction zone	\$5,952,429
76-150	11/08/2016	Illinois	Insured vehicle rolled over and was blocking the lane, Claimant #1 struck Insured vehicle	\$4,100,000
76-150	03/06/2015	Illinois	Insured vehicle made a left turn and the trailer struck 3 pedestrians	\$4,073,045
76-150	03/07/2015	Indiana	Insured vehicle rear-ended Claimant #1	\$5,723,644
151-250	02/27/2018	Indiana	Insured vehicle came upon an accident and hit Claimant #1 & 3 people in the ditch	\$2,083,088
151-250	01/10/2019	Indiana	Fatality - Insured vehicle struck Claimant #1 in intersection; May have run light.	\$2,023,726
500+	08/06/2016	Kentucky	Fatality - Insured vehicle backing, Claimant #1 rear-ended Insured vehicle.	\$5,158,367
500+	10/30/2017	Louisiana	Fatality - Insured vehicle rear-ended Claimant #1, pushing Claimant #1 into Claimant #2 and Claimant #3.	\$5,286,036
251-500	03/02/2018	Michigan	Insured vehicle struck Claimant #1 who was standing outside her vehicle after she collided with a barrier due to icy conditions.	\$9,005,958
76-150	05/02/2018	Missouri	Insured vehicle was making a left turn and was struck by Claimant #1, which was traveling in the opposite direction.	\$2,854,371
500+	10/11/2018	Missouri	Fatality - Insured vehicle crossed center median and struck Claimant #1	\$2,072,864
251-500	11/21/2015	New Mexico	Insured vehicle rear-ended Claimant #1	\$5,200,001
251-500	10/22/2015	Oklahoma	Insured vehicle hydroplaned, hit Claimant #1 with fuel spill to Insured vehicle	\$3,879,464
16-25	10/07/2015	Oklahoma	Pickup slammed on his brakes, Insured vehicle slammed on his brakes in response and jackknifed	\$2,833,499
151-250	07/02/2018	Pennsylvania	Fatality - Insured vehicle sideswiped Claimant #1 vehicle and driver while broke down on the side of the road.	\$3,550,897
251-500	09/08/2016	Pennsylvania	Insured vehicle changed lanes into Claimant #1	\$2,200,753
76-150	09/30/2015	Tennessee	Insured vehicle hydroplaned and struck Claimant #1 causing chain reaction	\$4,891,725
151-250	10/15/2018	Texas	Insured vehicle lost steering, trailer rolled on top of Claimant #1	\$3,980,945
76-150	01/14/2017	Texas	Insured vehicle lost control. Insured vehicle hit by Claimant #1	\$3,549,257

## Marketplace Update (Nuclear Verdicts)

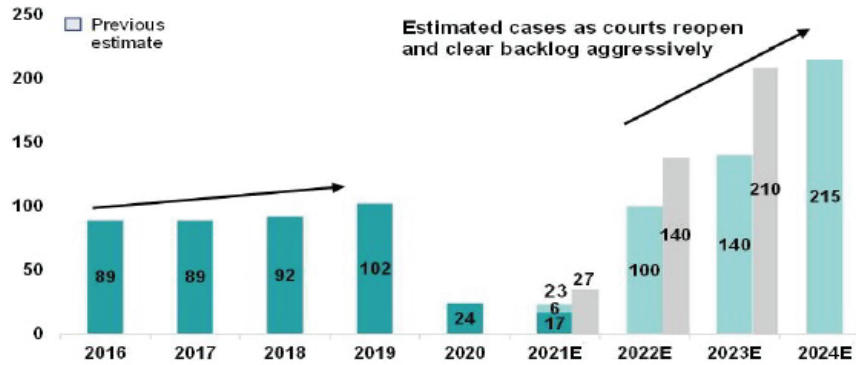
DATE OF ACCIDENT	LOCATION	ACCIDENT DESCRIPTION	EST. TOTAL SETTLEMENT VALUE
July 2018	Gilmer, Texas	Single BI w/ neck & back injuries	\$101,000,000 / \$75,000,000 Punitive
May 2018	Houston, Texas	Pickup crossed median & hit tractor	\$90,000,000
2013	Kern County, California	Two deaths occurred when CMV turned right	\$15,000,000
May 2013	Blount County, Alabama	Passenger killed when vehicle ran into parked tractor-trailer	\$5,000,000
March 2013	Santa Fe, Texas	Driver training and prior safety violations	\$58,000,000 / \$47,500,000 Punitive
April 2013	Texas	Fatality - man struck by truck's drive shaft. Negligence in maintaining truck	\$281,000,000 / \$100,000,000 Punitive
February 2017	Humboldt, California	Construction worker hit by other motorist	\$56,500,000
July 2017	Cook County, Illinois	Truck rear-ended vehicle going 40 mph. Negligent hiring of driver	\$54,000,000 / \$35,000,000 Punitive
November 2017	Texas	SUV rear-ended vehicle (driver on cell phone). Negligent safety program	\$45,300,000 / \$32,000,000 Punitive
October 2017	South Florida	Third party truck tractor caused fatality. Construction company was found of negligent worksite safety	\$45,000,000 / \$25,000,000 Punitive
October 2018	Los Angeles, California	Utility truck hit motorcycle	\$46,000,000
December 2018		Pedestrian hit by double decker bus	\$85,000,000
May 2016	Cook County, Illinois	Vehicle rear-ended by tractor-trailer at intersection. Injuries of passenger of rear-ended vehicle resulted in tetraplegia.	\$43,050,000
October 2021	Harris County, Texas	Head-on collision between two tractor-trailers. Employer of the driver that crossed the center line was found negligent in their supervision and training.	\$30,000,000
February 2018	Los Angeles, California	Intoxicated driver side-swiped truck at intersection. Driver of truck required lifetime care due to brain and spinal injuries.	\$141,100,000
January 2019	Boone County, Kentucky	Head-on collision between truck and mid-size vehicle resulting in fatality. Asphalt company was found negligent in the performance of its paving work.	\$74,000,000



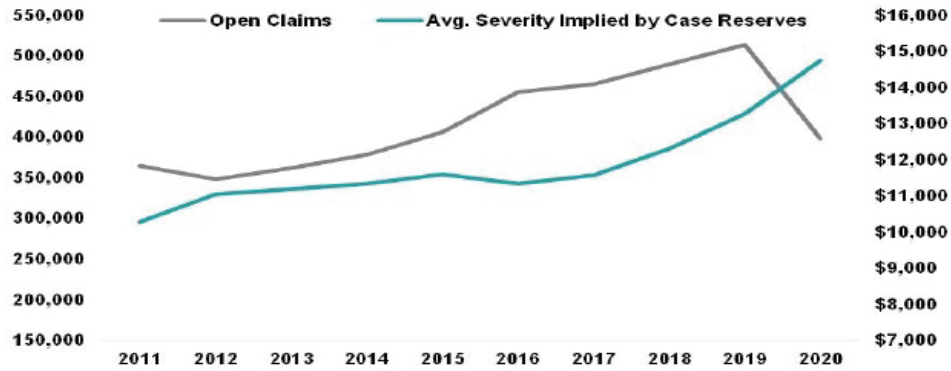
## Umbrella - Is Moderation Sustainable?

- Auto / Umbrella – some moderation, how long will it last?

**Court cases with verdicts above \$20mn**

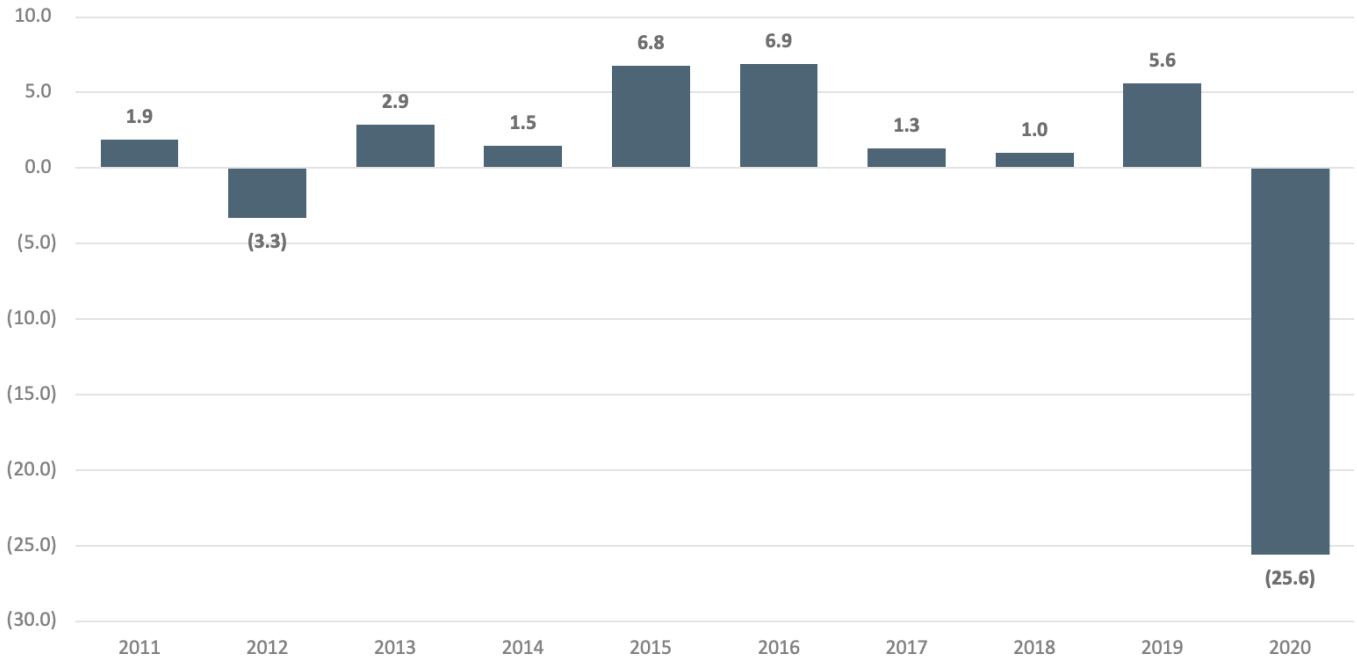


**Note:** According to Verdict Search, there have been only 17 cases above \$20mn this year. While there is the possibility that the pandemic led to fewer cases and more cases settled out of court, with the past decade seeing an average of 92 cases a year, it's clear the courts are still delayed.  
 Source: Verdict Search



## Marketplace Update – Auto Liability & COVID Impact

### Commercial Auto YOY % Change in Number of Claims

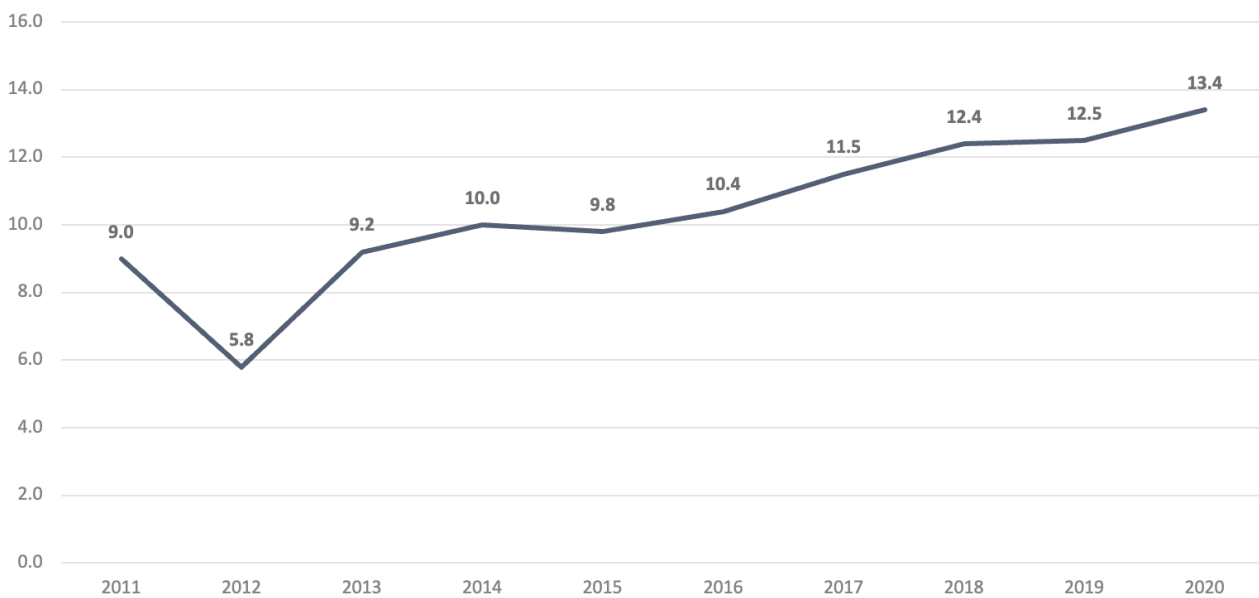


Accident Year Totals | Property & Casualty Totals | Source: S&B Global Market Intelligence

## Marketplace Update – Auto Liability

- Severity still increasing, despite frequency declines

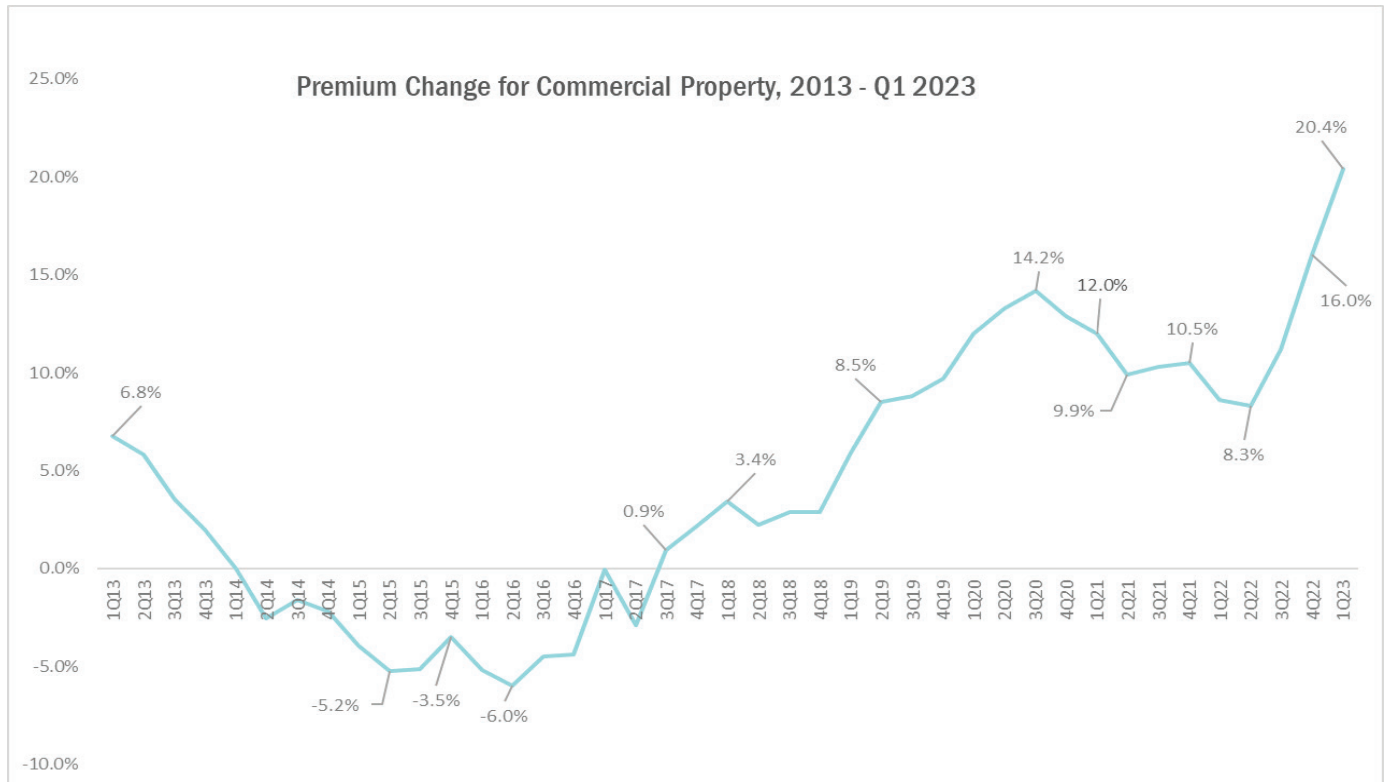
### Commercial Auto - Average Paid Loss per Closed Claim



Accident Year Totals | Property & Casualty Totals | Source: S&B Global Market Intelligence

## Property (Q1 2023)

- Property rate increases accelerating, expected to continue throughout 2023
- Years of historically poor industry loss years (17', 20', 21' and then again in 2022)
- Restriction in appetite, capacity, non-renewal activity in challenging classes of business or poor performing accounts; with catastrophe exposed capacity restrictions (flood/storm surge and wind/hail hazard zones). HUGE inflation pressure on losses.
- Rate increases are bleeding into the cargo marketplace in pockets.



# Property – Inflation/Valuation Concerns

## U.S. National Building Cost Trends

1<sup>st</sup> Quarter 2022

CoreLogic<sup>®</sup> is pleased to provide you with an overview of the select building material and construction labor price changes over the last quarter. Quarterly changes reflect the difference between fourth quarter 2021 and first quarter 2022. Annual changes reflect the difference between first quarter 2021 and first quarter 2022.

1Q2022 Indexes	Quarter	Annual
Residential Average	-0.3%	13.2%
Commercial Steel	3.1%	21.5%
Commercial Concrete	1.8%	14.2%
Commercial Masonry	0.5%	14.5%

CoreLogic monitors a wide variety of construction materials and labor for both residential and commercial building industries. A snapshot of common elements is listed below:

**Asphalt Shingles**

**Drywall**

**Lumber**

**Ready Mix**

U.S. Materials	Quarter Change	Annual Change
Asphalt Felt	4.8%	10.1%
Asphalt Shingles	3.0%	8.2%
Concrete Block	4.0%	7.4%
½ Copper Pipe	14.2%	70.1%
Drywall	5.0%	9.3%
Lumber	-14.9%	15.8%
Plywood	-19.6%	47.0%
Re-bar	2.5%	29.3%
Ready Mix	1.5%	6.7%
Steel Studs	23.0%	50.7%
Structural Steel	4.2%	34.2%

U.S. Labor	Quarter Change	Annual Change
Bricklayer	1.0%	3.7%
Carpenter	0.7%	3.1%
Cement Mason	0.8%	3.6%
Electrician	0.6%	3.2%
Glazier	1.1%	3.8%
Iron Worker	0.7%	3.6%
Laborer	0.7%	3.6%
Painter	0.6%	3.3%
Plasterer	0.7%	3.6%
Plumber	1.0%	3.4%
Roofer	0.6%	3.4%

**US Averages** The average for U.S. building materials increased 1.0% for the quarter; and increased 40.2% annually. For labor, the average wage rate increased 0.9% for the quarter; 3.7% annually based on construction trade contracts that were renewed.

## BUSINESS INSURANCE

Risk Management

### Inflation adds to problems of property policyholders

July 05, 2022



Commercial property insurance buyers should prepare well in advance of renewals and ensure their valuations are accurate to better manage the impact of inflation on the cost of their property insurance programs.

While rates have been moderating slowly after several years of substantial hikes, policyholders face premium increases of up to 20% as inflation pushes up values and potential loss costs, industry experts say.

## How construction cost trends impact property valuation

### Sky-high Building construction costs, 2011-2021<sup>1</sup>

Dec. 2011- Dec. 2020<sup>2</sup>      Dec. 2020- Dec. 2021

**Manufacturing and Industrial**

3.2%      14%

**Warehouses**

2.8%      21%

**Offices**

2.8%      14%

Source: Bureau of Labor Statistics

1 Material and labor

2 Average per year



# Property – Reinsurance Pressures on rate/pricing grow

## US property cat reinsurance rates at highest level since 2009: Guy Carpenter

[artemis.bm/news/us-property-catastrophe-reinsurance-rates-guy-carpenter/](https://artemis.bm/news/us-property-catastrophe-reinsurance-rates-guy-carpenter/)

25 July 2022



### January Renewals See Hardest Property Catastrophe Reinsurance Rates in Generation

By L.S. Howard | January 4, 2023

A convergence of global events has led to the hardest property-catastrophe reinsurance market in a generation and a “complex,” “grueling” and “late” January renewal season, which went down to the wire, according to reports issued by brokers.

The geopolitical and macroeconomic shocks that occurred during 2022 included the war in Ukraine, fractured energy markets, 40-year high inflation, interest rate hikes, depleted capital and Hurricane Ian, the second most expensive natural disaster. The result, said reinsurance broker Howden, was the introduction of “significant volatility into the market” as well as massive reinsurance rate increases at the Jan 1, 2023 renewals, which it described in a press release as the “hardest property-catastrophe reinsurance market in a generation.” (50-55% of catastrophe reinsurance is renewed in January each year).

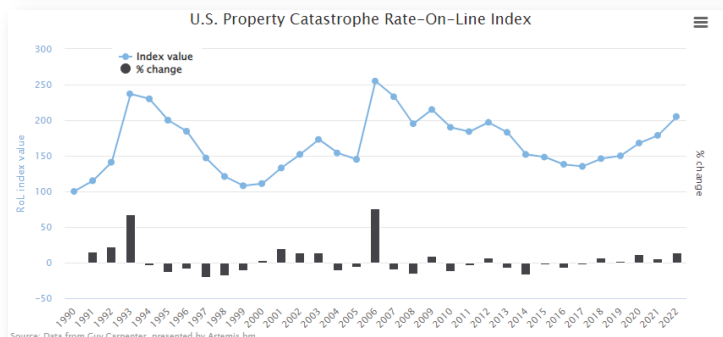
Howden said average global rate increases recorded at the renewals were 37% for global property catastrophe (the biggest year-on-year increase at 1/1 since 1992); 45% for direct and facultative business (a cumulative increase of 160% since 2017); 50%-plus for retrocessional cover (a cumulative increase of 165% since 2017) and 5%-plus for London market casualty reinsurance excess-of-loss rates (which reinsurers blamed on rising inflation and the prospect of higher claims severity).

## BUSINESS INSURANCE

### Underwriters must hike property cat rates by 50% to restore profitability

December 16, 2022

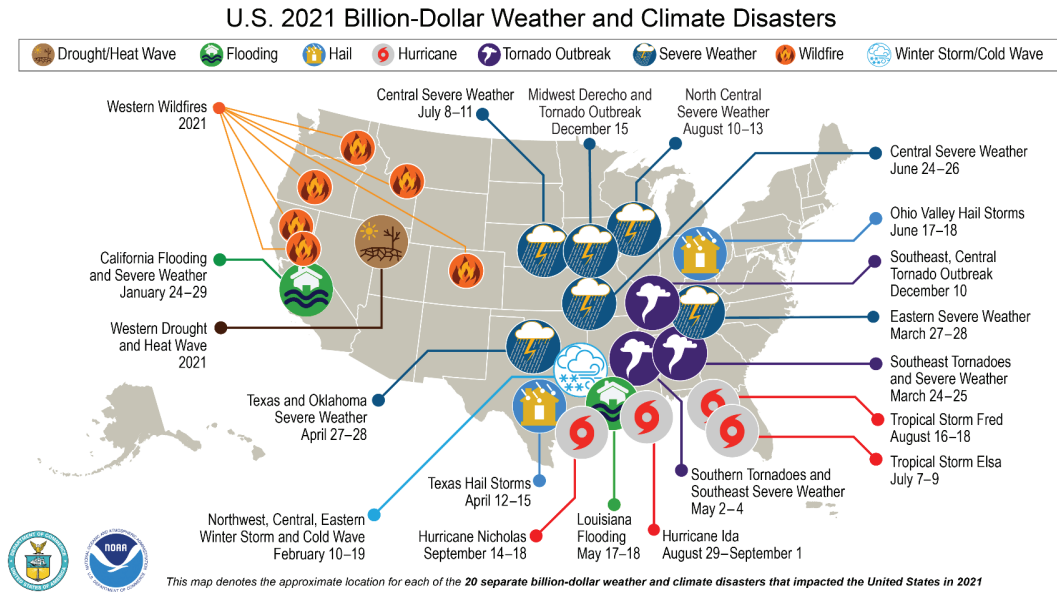
Ernst & Young Global Ltd. said property catastrophe reinsurance rates should rise 50% during the 2023 January renewals, if insurers and reinsurers want to offset the rising claims costs and restore profitability, Artemis reported. This suggested rate hike comes as underwriters are increasingly exposed to climate change-related risks and inflationary pressure.



# Property

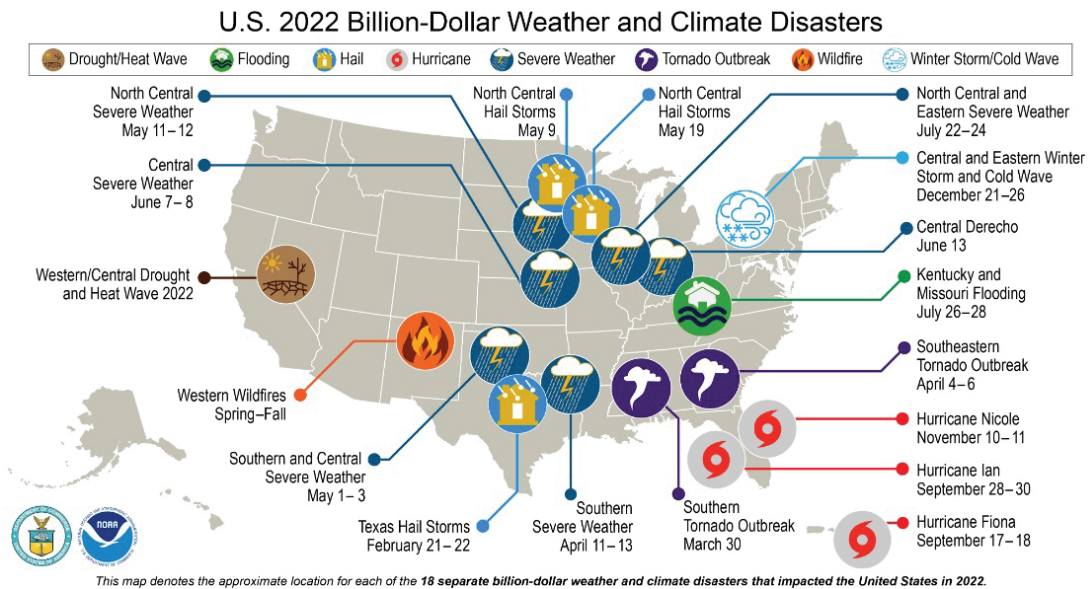
Property (catastrophe losses) – 2021

- Cat loss severity continues...elevated # of \$1B+ loss events (20); \$TBD loss projection



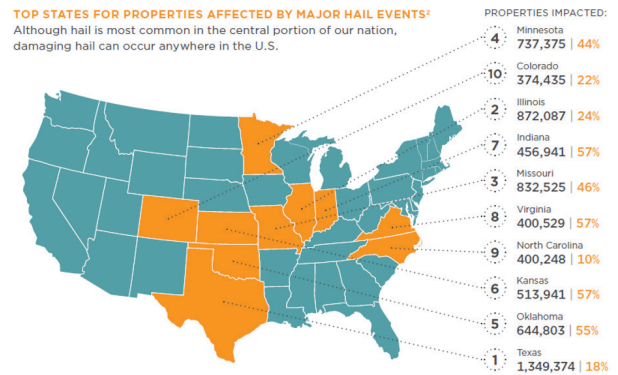
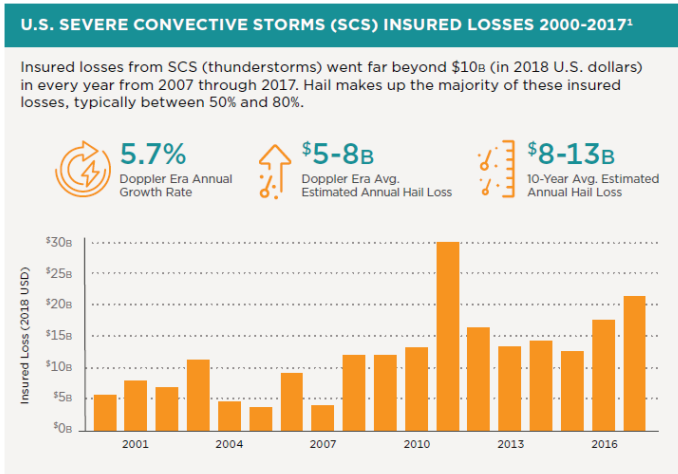
Property (catastrophe losses) – 2022

- Cat loss severity continues...elevated # of \$1B+ loss events (18); Hurricane Ian alone projected as a (\$60B+ loss event); overall \$110B+ projected losses



## Property (convective storm trends)

- Increasing frequency and severity of convective storms
- 2020 Midwest Derecho Storm, 2 Midwest derechos in 2021 & 2022



Source: Verisk (2017) Hail: the hidden risk; an analysis of property exposures to damaging hail

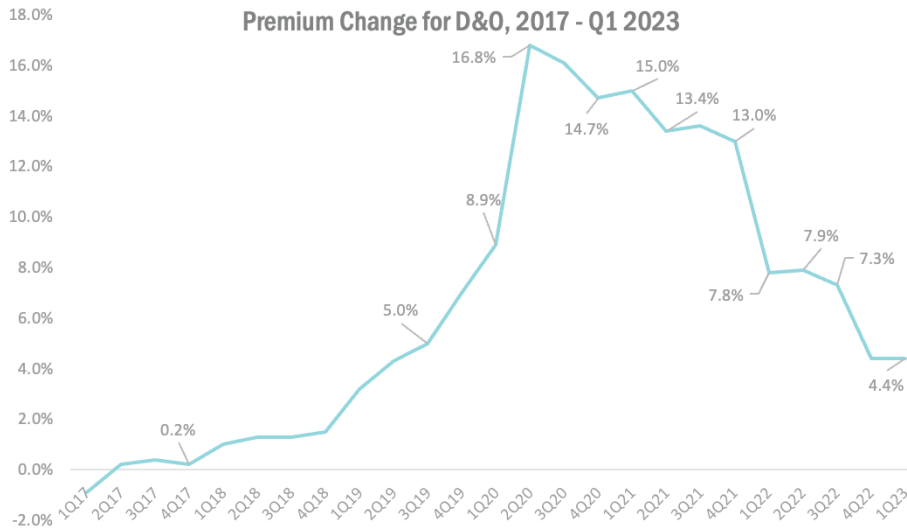
## Workers' Compensation (Q1 2023)

- Loss severity trends are improving (increased safety / better management of claims); but improvements are tempered by rising medical costs (medical portion of WC claims now exceeds 60%) & rising wages (indemnity payments)
- Medical Cost inflation is ongoing, continuing to pressure underwriting rates



## Directors & Officers / EPLI (Q1 2023)

- Ongoing claims frequency and severity; relating to #MeToo as well as ongoing wage & hour litigation and social inflation impact on claims
- Meaningful drop in rate increase from Q1-2021 to Q1-2023, signs of stabilization

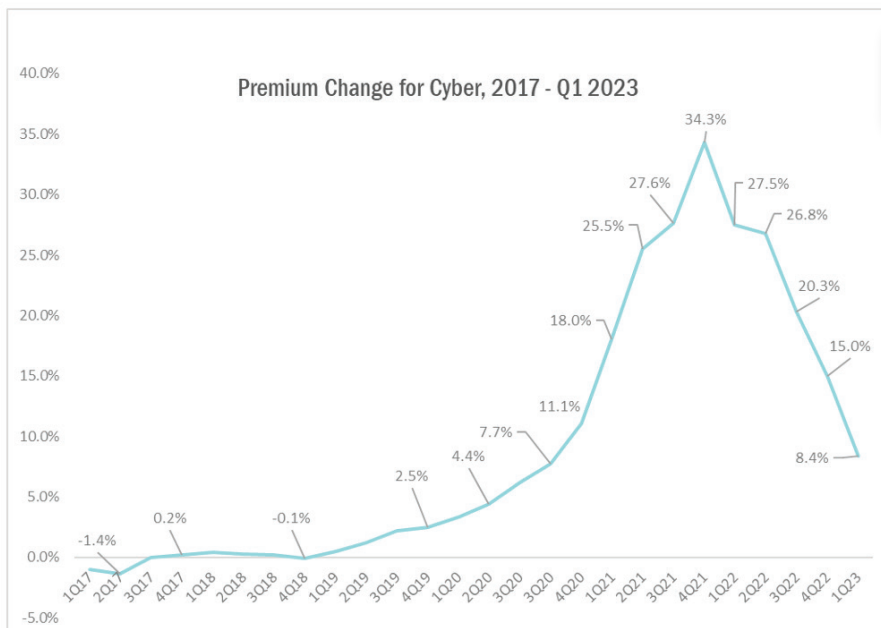


**RIMS**  
**Boom or Bust: What's in Store for the D&O Market in 2023?**  
 Russ Banham | February 1, 2023

**insurance insider**  
**Howden predicts D&O stability in 2023 amid rate adequacy scrutiny**  
 Samuel Casey | 22 February 2023

## Cyber Q1 2023

- Ongoing increases in Cyber claims frequency and severity; driven primarily by Ransomware attacks. Rate increases continue but are down significantly from peak.
- Multi-Factor Authentication is quickly becoming required to offer coverage; if not present – limits are being restricted with large premium increases



**Technology Cybersecurity**  
**Cyber Insurance Is Back From the Brink After Onslaught of Ransomware Attacks**  
 Price increases are moderating following a surge last year  
 After a pandemic-era retreat, more insurers enter the market

**Surprises continue in the 2023 cyber insurance market**  
 The cyber insurance market is stabilizing thanks to improved insured behaviors, higher pricing, judicious limits and more.  
 By Steve Robinson | February 28, 2023 at 12:00 AM

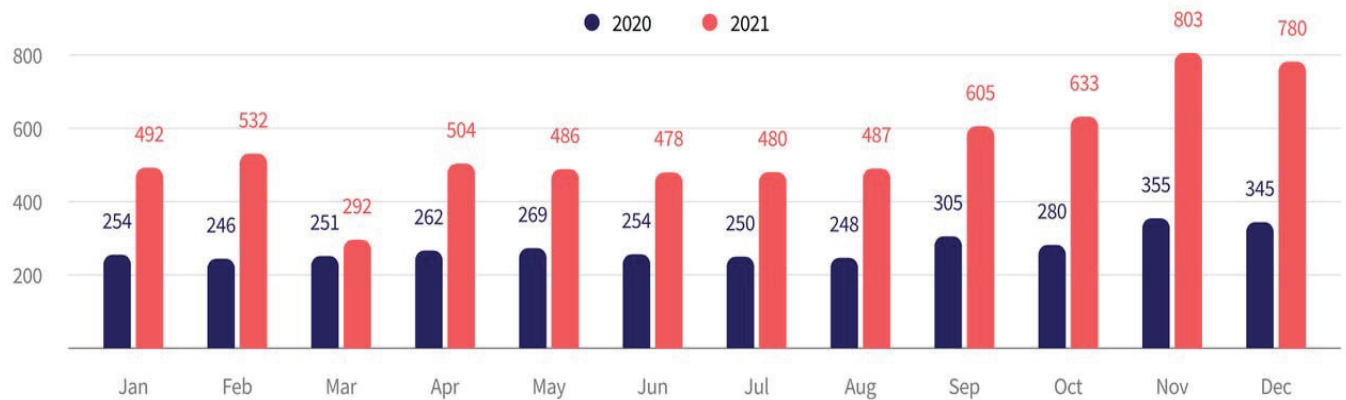
## Marketplace Update (Cyber Claims Examples)

While Home Depot and Target get the headlines, small companies, including trucking companies, continue to be targeted by cyber criminals.

Some recent claims examples for trucking risks:

- Ransomware attack that locked files through encryption. The company could not access their system for multiple days, resulting in a business incomes loss of over \$150,000.
- A hacked email to mirror the accounting department was sent to a customer and redirected a payment of over \$250,000 to the hacker. The customer refused to pay the amount again to the client.
- A domain name, similar to the client's, generated fictitious emails. Through a series of hacked emails, a customer was convinced to send a \$130,000 payment to the hacker's account. The customer refused to pay the amount again to the client.

**Increasing Attacks in Transportation Sector, 2020 to 2021**





## **Your Trusted Insurance Advisor**

Although there have been moderate increases in most lines of coverage, we understand that clients remain worried about rising premiums and coverage limitations. To tackle these challenges, we strongly advise buyers to start preparing for their renewals in advance, ensuring that your businesses are well-equipped for the ongoing hurdles of a hardened market.

The Cottingham & Butler Transportation team are seasoned professionals at navigating these market conditions and we encourage you to reach out with any questions regarding the market or to discuss your risk insurance solutions.

### **Cottingham & Butler Transportation Group**

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[www.cottinghambutler.com](http://www.cottinghambutler.com)