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Insurance | Risk Management | Consulting

GLOBAL REAL ESTATE INSURANCE MARKET UPDATE

AUGUST 2023

Introduction

Econ 101 taught us that when supply and demand are out of equilibrium, costs for commodities show signs of fluctuation. Insurance capacity is a commodity, and 2023 is the poster child for reduced property capacity and corresponding rate increases. The primary near-term factors influencing property market economics include persistently high inflation, elevated interest rates and massive industry losses. Until some semblance of improved reinsurance capacity occurs, insureds will be in for a bumpy ride. Property steals the show, as other areas of the market are not quite as difficult. This report shares an overview of the global real estate insurance market, as well as insights into various regions.

Overview by Coverage Line

PROPERTY (++)

(+) = increases, (-) = decreases and (+/-) = flat

Valuation is the primary factor influencing renewal premiums. Insurers are requiring that valuations include actual rent rolls. It is key to "show your work" and evidence manner in which valuations were established.

Risk Control — Compliance with insurer loss control recommendations is mandated.

Capacity is extremely difficult to come by in excess of US$250 million, or when dealing with flood exposed assets. Some "moderate" flood zones are being reclassified as "critical" flood zones due to the proximity to a flood source or "critical" zone.

Deductibles — All other perils, wind/hail, and named storm are increasing.

Terms and Conditions — Margin clauses and scheduled limits are becoming common on shared/layered placements. They are no longer reserved for those with perceived undervaluation issues.

California Quake — Market has begun to show signs of significant hardening.

Overview by Coverage Line (continued)

PROPERTY (++)

(+) = increases, (-) = decreases and (+/-) = flat

GENERAL LIABILITY/UMBRELLA (+/-)

Split Market — Those with excellent loss history, superior contractual risk transfer language and desirable asset classes will see single digit rate increases. All others should expect double digit rate increases.

DIRECTORS & OFFICERS LIABILITY (-)

Supply/Demand

- Continued influx of new market entrants = increased supply of capacity.
- Fewer IPO's/SPAC's relative to previous years = decreased demand for D&O coverage.
- This has created downward pressure on pricing.

CYBER (+/-)

Stable — Implementation of client controls such as MFA and endpoint detection remain critical requirements to obtain coverage. Incidence of ransomware attacks continues to trend downward, causing premiums to stabilize.

EMPLOYMENT PRACTICES LIABILITY (+/-)

Added Competition — Carriers are pushing self-insured retentions higher, as loss severity increases. However, insurers are seeing price erosion in D&O and are pursuing EPL to bolster management liability premiums. This increased competition on the heels of past increases in retentions and premiums is signaling stabilization.

CRIME (+/-)

Stable — It's important to note that the frequency of social engineering fraud remains high. Special attention should be paid to what limit the insurer is providing for these exposures. Negotiations related to increased limits may be warranted.

FIDUCIARY (+)

Excessive Fee Claims are the primary concern of underwriters who are mandating much larger self-insured retentions for this type of claim in response to losses. Insureds can expect premium increases of 0%–25%. Those managing assets greater than $500 million should expect larger increases.

Australia

PROPERTY

Australian real estate insureds are experiencing a challenging property market. The impacts of global inflationary trends, elevated reinsurance costs and large losses from natural catastrophes are all driving factors for higher property renewal pricing.

Insurers are still absorbing the impacts of Australia's largest natural catastrophe loss in the country's history. Estimates from the Insurance Council of Australia peg losses from the 2022 southeast Queensland and northern New South Wales flooding at AU$5.56 billion. Losses of this magnitude pierce reinsurance layers. This is evidenced by the fact that Australia's largest insurer announced it had increased the retention on its primary program from AU$250 million to AU$500 million amid challenging reinsurance renewal conditions. Policyholders should take note because upstream changes in the reinsurance market often impact primary carriers, and ultimately insureds.[1]

Real estate insureds should expect primary insurers to remain laser-focused on adequate sums insured. The pervasive nature of inflation has meant that sums insured cannot be rolled over from year to year and building valuations must increase as the cost to rebuild or repair properties increases. Capacity will continue to be challenged on larger risks and portfolios. Ryan Gooley, Australian Real Estate practice leader, observed average Q1 2023 price increases ranging from +5% to +10%. Additionally, insureds should be mindful of concurrent terms and conditions in programs that require multiple insurers. One area to pay particular attention to is the concurrency of flood definitions.

Austrailian Government Resilience and Preparedness Funding[2]

Australia's federal government announced nearly AU$400 million worth of funding to mitigate the impact of natural catastrophes. The funding will apply to 187 projects for resilient infrastructure such as flood levees, seawalls, cyclone shelters and hazard warning systems.

CASUALTY

In Australia, we see social inflationary impacts working their way into liability coverage. Changing societal views about the role of insurance and what it is designed to cover are impacting liability claim costs. This societal shift has led to a growing pool of plaintiffs willing to litigate, increasing claims volumes, pressure for broader definitions of liability and higher compensation awards.

With more frequent litigation, actuarial analysis has pointed out that the cost to defend ongoing claims has increased significantly. Operators of large venues with high volumes of foot traffic are particularly exposed to increasing claims frequency and severity. As a result, they are bearing the brunt of increases, higher deductible structures and we've observed price increases in excess of +10%.

MANAGEMENT LIABILITY

Renewed insurer appetite has returned to the management liability market. D&O insurers are competing for a smaller pool of premiums as fewer firms have elected to pursue IPOs. This increased competition and improved underwriting profitability have driven premium costs down. Excellent corporate governance and risk management policies are key for policyholders to achieve better pricing.

CYBER

The market for cyber insurance is experiencing a favorable correction in terms of lower premiums. As improved cyber risk management controls are put in place by policyholders, insurers are taking note. Capacity has returned with renewed appetite from insurers in Australia and London. Access to this capacity is based upon the implementation of carrier-required controls. Additional focus on regulatory and government reform has been a conversation following major breaches of some of Australia's largest organizations.

Canada

PROPERTY

Property rates across Canada appear to be stabilizing throughout the first half of 2023. Riley Croke, Canadian Real Estate practice leader, observed average rate changes ranging from flat to increases of +10% on accounts with good loss history. The top end of this range is largely reserved for insureds with losses or significant exposure to British Columbia (BC) earthquake risk. While the magnitude of rate increases seems to be tapering off for most policyholders, we are cautious to say that this downward trend will continue throughout 2023. Insurers have taken note of record wildfires and remain vigilant towards earthquake risk.

In addition to natural catastrophe perils, underwriters are committed to pushing adequate insurance to value. On average, we are seeing +5% to +10% adjustments for inflationary cost increases to property values.

In consideration of both rate and TIV increases, we observed average year-over-year premium changes of +11.2%. Clients who received increases of +17.6% in the first quarter of 2023 were among the 75th percentile.

CATASTROPHE STATISTICS

Primary insurers facing increased reinsurance costs are passing those costs along to policyholders in the form of elevated pricing and drastically higher deductibles. We have observed BC earthquake deductibles of 10% and some carriers are mandating deductibles as high as 20% to 25%. For a handful of insureds, achieving the same capacity at renewal has become cost-prohibitive and insureds are electing to purchase less limit.

2022 INSURED LOSS[3]	WILDFIRES[4]	SYSTEMIC EARTHQUAKE RISK[5]
• Top three worst years on record all occurred in the last decade. • 2022 = third worst, CA$3.1 billion • 2013 = second worst, CA$3.87 billion • 2016 = worst year on record, CA$5.96 billion	• As of June 30, 2023, fires have consumed 20 million acres, a new all-time record. • Canadian wildfires have triggered hazardous air quality alerts across Canada and into the US. • 3,056 wildfires have been documented across Canada in 2023 alone.	• Canadian Property and Casualty Insurance Compensation Corporation (PACICC) stated “there is only one risk… that represents true systemic risk for Canada in our industry — and that is quake.” • A 2016 study noted that quake losses greater than CA$30 billion “would exceed the existing capacity of Canada’s insurance industry.”

CASUALTY

In the casualty market, real estate insureds with a clean loss history can expect a stabilization of rates. Many carriers are seeking nominal rate increases. As more competition enters the marketplace for casualty risks, we are seeing several instances of rate decreases in the primary layers. This is beginning to bleed up into excess layers on select risks.

MANAGEMENT LIABILITY

Similar to other areas of the globe, management liability lines of cover have moderated due to increased competition. Flat renewals and decreases are available in the market.

CYBER

Those who have taken note of carrier demands for multifactor authentication and various cyber best practices are seeing their efforts pay off. Pricing for cyber coverage has moderated and stable renewal results are achievable.

Caribbean

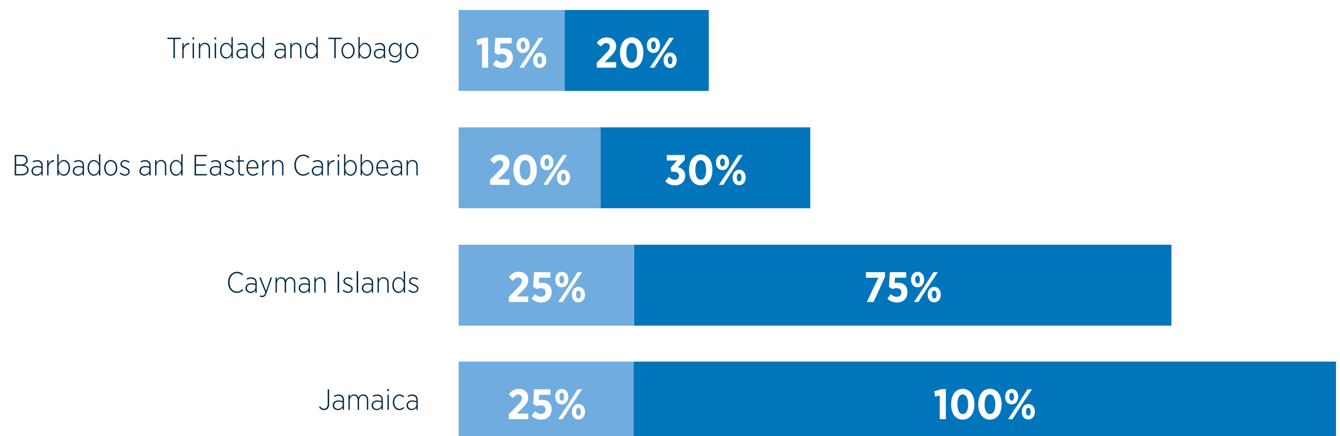
PROPERTY

Property insurance costs across the Caribbean have been heavily influenced by the difficult reinsurance market. Many primary insurers experienced difficult reinsurance treaty renewals this year. Primary insurers whose book of business contained catastrophe-exposed, loss-affected business saw reinsurance renewals as high as +45%.[6] Primary insurers with a book of business free of losses and with minimal catastrophe exposed risks even saw renewal increases as high as +15%.[6] Capacity remained strained across the Caribbean, and these renewal conditions were passed along from primary insurers to clients.

The extent to which these difficult market conditions will be felt by insureds will largely depend on which territory their risks are located in and the amount of exposure they have to windstorms. We have observed some of the most difficult renewal conditions in northern islands like the Cayman Islands and Jamaica. Southern territories like Barbados, the Eastern Caribbean, and Trinidad and Tobago have been able to maintain expiring capacity and are seeing more mild renewal conditions.

Scott Wallace, who leads Gallagher's Real Estate and Hospitality in the Caribbean, has noted that a handful of domestic insurers have been hoarding capacity. They have adopted direct-to-consumer models and in some cases, are cutting brokerage commissions in an effort to shore up their books of business. Insurers have maintained steady pressure on adequate, up-to-date valuations and the consequences of underinsurance.

We have observed rate increases for insureds ranging anywhere from +15% to +100%. The nature of these dramatic increases has caused those without insurance requirements, such as mortgage-free high-net-worth clients, to self-insure and seek other alternatives.



Source: Gallagher Caribbean Clients

MANAGEMENT LIABILITY

Management liability renewals in the Caribbean have leveled off after successive years of aggressive rate increases. The heightened pricing environment has attracted new capital and market entrants. Similar to other parts of the world, this heightened competition has put downward pressure on pricing increases. Single-digit rate increases can be expected.

CYBER

Cyber placements in the Caribbean have been an area of targeted growth for a number of insurers. We have observed rate increases losing steam and beginning to plateau. Carriers remain focused on the implementation of proper cyber controls as a precursor for coverage. In some cases, insureds with the appropriate cyber risk management practices in place have been able to achieve price reductions.

Colombia

PROPERTY

Renewals

Property market conditions in Colombia have hardened considerably due to a variety of factors. The renewals we have observed are some of the most challenging we have seen in decades. We predict that a number of insureds may need to seek out alternatives to traditional locally placed coverage. We have seen some insureds who are unable to obtain coverage in traditional markets find coverage via the facultative reinsurance market, which has led to increased premiums and deductibles.

Recently, a troubling trend has begun to develop in which insurers are withdrawing from well-performing accounts mid-term. In certain cases, the insurer has provided notice that they will be non-renewing the account with six months advance notice. The most common rationale that insurers have provided is that the insured's activity/operations fall under a total exclusion within their reinsurance treaty. As a result, they must cease writing these types of business. The stringent nature of these reinsurance treaties means that certain mildly hazardous operations no longer fit their risk appetite. Scenarios like these are the ones that require facultative reinsurance support. Insureds who have historically been able to secure coverage with reasonable premiums, terms and conditions are now facing difficult market conditions.

Property risks that remain within the appetite and capacity of local insurance companies are experiencing a +10% to +25% increase in rate. This has become a typical trend, even for those with a clean loss history. Insurers willing to write these risks are requiring far more information including detailed property inspections.

Political risks

Strike, riot, civil commotion, sabotage and terrorism coverage has become difficult to place as local insurers have drastically reduced their appetite for these coverages compared to previous years. These risks are also finding themselves in the facultative reinsurance markets. In many cases, this adds additional cost to the coverage.

CIVIL ENGINEERING COMPLETED RISKS

Infrastructure development in Colombia would benefit greatly from governmental support which has been historically sparse.[16] The lack of support has significantly slowed down the issuance of CAR/EAR projects. Therefore, the issuance of civil engineering completed risks will see a significant decrease in the coming months and years.

Persistently high inflation has led to a devaluation of the Colombian Peso, a rise in the cost of construction material costs, and strains on the cost of imported goods/commodities.[17] This has made transitioning from a course of construction coverage like Builders Risk to permanent coverages for a completed asset more difficult. We expect the pace of residential construction to slow.

CASUALTY

Although inflation and economic difficulties are present, this specific side of the market is perhaps the least affected. Local insurers appear to be maintaining their capacity and appetite for risk. Most renewals we observe are flat. Those receiving increases are experiencing rate changes in the +5% to +10% range. These increases appear to be largely driven by tightening reinsurance treaties for insurers and not the macroeconomic conditions of the country.

Overall, we believe the state of the casualty insurance marketplace in Colombia is rather healthy. We have observed a greater deal of competition as larger players in the reinsurance arena create new facultative products to meet demands for capacity. We believe this will lead to a greater number of insureds experiencing flat renewals and potentially even some decreases.

CYBER

We see increased demand for cyber insurance products as many large players in the Colombian market have experienced losses that were widely reported by the media. Many insurers require a higher standard of cyber protection than most Colombian insureds currently carry. Insureds seeking cyber coverage will have to comply with carrier demands for tighter security controls in order to obtain coverage.

New Zealand

PROPERTY

New Zealand's property market has been heavily influenced by an abrupt start to the year with two major events grabbing headlines:

Auckland Anniversary Day Flooding

On January 27, just before Auckland Anniversary Day, a state of emergency was declared in Auckland following severe torrential rains that brought widespread flooding to the city and the surrounding areas. This was the second time a national state of emergency was declared in the country's history. According to the National Institute of Water and Atmospheric Research, Auckland notched 40% of its annual average rainfall and over eight times the average rainfall expected in January.[7] The Insurance Council of New Zealand estimates that the 55,433 claims filed have totaled NZ$1.66 billion.[8]

Cyclone Gabriel

Just 15 days later, the third declaration of a national state of emergency in the country's history was declared as Cyclone Gabrielle made landfall. Cyclone Gabrielle arrived as a Category 2 cyclone as New Zealand was just beginning to rebuild and caused further flooding, landslides and ocean storm surge. The Insurance Council of New Zealand estimates that Cyclone Gabrielle added another 52,136 claims totaling losses of NZ$1.52 billion.[9]

Policyholders should take note that policies issued in New Zealand have not traditionally defined the perils of "flood" or "weather." As Gallagher's New Zealand Real Estate practice leader Steven Kuun noted, in New Zealand, "definitions for natural disasters relate to earthquake, tsunami and volcanic eruption. These two events were just standard perils covered by the policy. They were never underwritten for or priced."

We expect that changes will be coming to these defined perils in the near future. Insurers and the Insurance Council of New Zealand are evaluating formal definitions for "flood" and "weather." This would allow underwriters to properly limit and price in these exposures that led to one of the country's costliest natural disaster. As the market adopts these changes, each insurer appears to have its own definition. This has presented challenges in securing concurrent terms. Following Q1 2023, we observed average renewal changes of +20%. Q2 2023 is proving to be more challenging as insurers negotiate their treaty renewals. Insureds preparing for renewal should expect increases in excess of +20%.

Insurers are also closely monitoring higher fire risk occupancies. Risk management controls are being reviewed, and insurers are becoming more stringent in imposing adverse terms and conditions where risk controls aren't met in a timely manner.

Finally, earthquake capacity in the Wellington region remains tight. Despite increased values due to inflation and increased demand for capacity, most insurers are not considering increasing their capacity offered in the region. Most insurers in New Zealand have indicated that they do not plan to write new business in the Wellington region, and are reserving any capacity for existing clients only.

LIABILITY

Fortunately, real estate insureds in New Zealand can rely on fairly stable liability markets. As the property market hardens, insureds are seeking relief on liability lines and this has caused clients to replace incumbent carriers in favor of premium relief offered by competition. In some cases, premium savings have been achieved by "packaging up" liability cover with property cover at the same insurer.

United Kingdom

PROPERTY

Property market conditions in the United Kingdom are beginning to turn a corner with signs of stabilization returning to the underwriting environment. Darren Ting, UK Real Estate practice leader, has observed increased competition for well-performing and well-managed risks. However, residential risks are lagging behind the other asset classes in terms of improved market conditions. We see increased competition for residential risks from insurers, but not to the same extent as other asset classes.

The return of long-term agreements (LTAs) to renewal conversation is one signal that the extremely hard property market conditions are beginning to abate. Real estate insureds in the UK who consider LTAs at renewal may encounter flat rates and in some cases, rate reductions. For residential asset classes, insureds considering LTAs are experiencing more targeted underwriting with low single-digit rate increases. This is in contrast to 2022, which still saw knee-jerk reactions from underwriters applying broad portfolio-wide increases to residential risks.

Also of concern for UK insurers is the development of adverse weather-related losses. Insurers are still digesting the European wind storms Dudley, Eunice and Franklin that occurred during February 2022 and tallied £1.9 million claims with a price tag of £3.3 billion[10] worth of insured losses. In 2023, underwriters are particularly concerned with the potential for flood-related losses. In response to surface water flooding, we have seen flood exclusions become prevalent in certain areas, such as N1 London Borough. Insureds looking to fill gaps created by these exclusions may want to consider parametric products.

Securing capacity remains challenging. Programs that were once single insurer placements are moving to split slip placements with multiple insurers needed to meet desired levels of capacity. Insureds have expressed greater interest in captive structures or alternative risk transfer mechanisms as an alternative to mainstream markets. Appetite remains strong for fronting arrangements with the appropriate level of retention built into the captive structure.

CASUALTY

Turning to the primary and excess casualty market, liability rates continue to be far more stable than property rates. Underwriters are less driven by marketplace conditions and are evaluating accounts on a case-by-case and claims-experience basis. We see very few insurers pushing increased rates, and LTAs are more readily available on a static rate basis. Increased competition has led to capacity returning, and most insurers are now able to quote £10 million limits on General liability as a standard offering. Some insurers have been willing to offer higher primary limits. Excess of loss terms can be secured at reasonable rates.

MANAGEMENT LIABILITY

Management liability lines of cover are also on an improving trajectory. Following years of market turmoil, we observe continued improvement in this sector of the marketplace. This is evidenced by the return of “Any One Claim” (AOC) wording in Directors and Officers liability markets where coverage had largely been written on an aggregate limit basis during more difficult market conditions.

CYBER

As for cyber coverage, rates have remained firm. Many UK insureds are falling behind other geographies in terms of cyber hygiene. Broader requirements for multifactor authentication (MFA) are being implemented to curb cyber incidents. The UK has seen a number of incidents affect broad populations in 2023.

UK APPAREL RETAILER[11]	ROYAL MAIL[12]	UK DERIVATIVES TRADING HOUSE[13]
• Retailer breached in January 2023. • Personally identifiable information of 10 million customers potentially exposed.	• LockBit ransomware group made demands ransom believed to be in the millions. • Royal Mail system brought to a halt.	• LockBit ransomware group impaired trading systems forcing US and European banks to conduct trades manually. • Estimated to have affected 42 clients in the US and Europe.

United States

PROPERTY

Real estate insureds are all too familiar with the supply crisis affecting housing in the United States. The effects of which have driven up shelter costs to all-time highs. Similarly, the pricing that insureds will encounter in the property insurance market is a balancing act between supply and demand. The near-term primary factors influencing property market economics include persistently high inflation, elevated interest rates and massive industry losses.

Cost of Capital and a Look in the Mirror — Parallels Between Insurance and Real Estate

INFLATION = INCREASED DEMAND	RISING INTEREST RATES = DECREASED SUPPLY	INDUSTRY LOSSES = DECREASED SUPPLY
• Replacement cost of assets in a portfolio increase due to inflation, therefore more demand for higher limits. • Insurers must deploy more capital to cover the same asset they did one year prior. • Developers must pay higher costs for fuel, labor and materials to build the same buildings.	• Elevated "risk free returns" lure capital away from risky investments. Less capital available to offer limits and pay claims. • Real estate organizations dealing with decreased market value of assets and muted investor interest. • Insurers finding it more difficult to attract fresh capital.	• Paying losses decreases available capital and strains supply. Just as losses affecting the portfolio increase pricing for real estate insureds, major losses increases reinsurance costs for primary insurers. • 2021: Total global insured losses = US$116 billion • 2022: total global insured losses = US$140 billion

The simultaneous impact of these factors has created a hardened property market unlike any before. We expect these conditions will persist throughout 2023 and into early 2024 until inflation abates, the cost of capital subsides and insured losses mellow. Property insurers who operate in the United States wait with bated breath for the close of the Atlantic hurricane season (June 1 through November 30) as well as the passing of peak conditions for wildfire.

Insureds preparing for renewal should expect underwriters who are more committed than ever to achieving adequate insurance to value. Insureds must be prepared to supply up-to-date valuations inclusive of rent rolls to verify both building and business income limits. Showing the methodology by which values were arrived at will be key to building underwriter confidence. Large limits in excess of US$250 million will be difficult to come by especially if facultative reinsurance is required by the primary carrier.

Deductibles of any kind, including all other perils (AOP), wind/hail, and named storm are on the rise. The magnitude of the increase is heavily reliant on geography. Two percent (2%) wind/hail deductibles in the Midwest are standard and in rare-loss affected cases can be as high as 3%. Those in states with extreme exposure to hail-producing severe convective storms (SCS) like Texas may encounter wind/hail deductibles as high as 5% for loss-affected business. Worse yet, Tier 1 wind-exposed assets in Louisiana and Florida could see deductibles rise from 5% to as high as 10%–15%.

Builders Risk projects that require limits in excess of US$75 million are requiring shared and layered placements. This adds frictional costs in the form of minimum premiums required by carriers who may only be offering smaller limits to fill out capacity. Wood frame construction is the most challenging pocket of the market. Furthermore, carrier requirements for site security and other measures to safeguard project sites are more stringent than ever.

These conditions are the most pronounced for any type of habitational account such as hotels or multifamily assets. Large, dense, wood frame, multifamily and single-location assets with values greater than US$50 million are the most difficult for insurers who will likely need to secure facultative reinsurance.

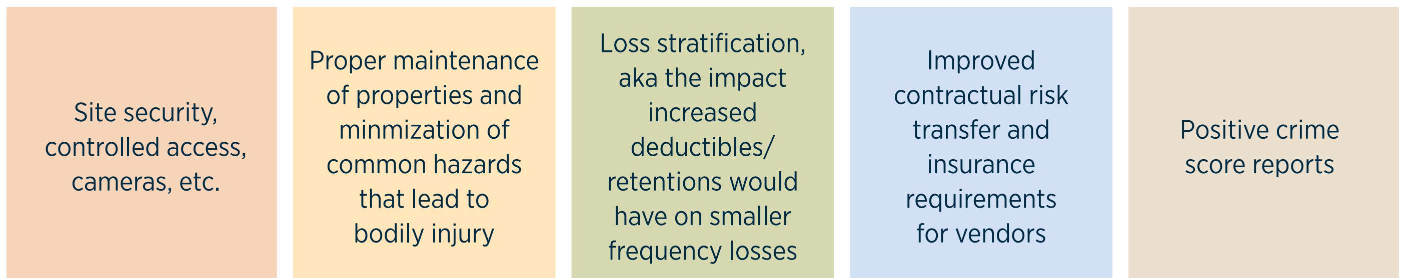
Finally, the California earthquake market has taken a turn for tougher conditions. Capacity has become scarce, pricing is on the rise and appetite is shrinking.

CASUALTY

While economic inflation weighs more heavily on the property market, it does have some bearing on the casualty market. The cost to settle medical claims for liability associated with bodily injury has been rising steadily. Coupled with social inflation, carriers are paying out losses larger than they did just five years ago. However, given the pain in the property market, some insurers have sought to add additional casualty lines to round out their portfolio.

Best-in-class real estate insureds can expect to see more mild increases in the casualty market. Insurers are offering single-digit increases to insureds with excellent loss history, superior contractual risk transfer language and those who operate desirable asset classes like industrial or office. We have observed the highest degree of competition in layers excess of US$25 million. On the other hand, insureds with poor claims history and those experiencing adverse loss development will continue to receive increases in the double digits. The most strained corner of the market continues to be habitational real estate accounts. Less than favorable geographic jurisdictions such as the five boroughs of New York, Georgia, California, Illinois, etc. can further strain an insured's risk profile.

Painting an accurate picture of effective risk transfer can be done by evidencing a deep history of minimal losses or loss-free years. Underwriters will be happy to see seven to 10 years of loss history for long-tail liability lines. Insureds with past loss experience would be best served by showcasing strategies they are employing to minimize losses, such as:



MANAGEMENT LIABILITY

Management liability lines of business are the brightest pocket of the marketplace for US insureds. The road ahead for the rest of 2023 has a few speed bumps to be mindful of, but pricing changes should be the mildest portion of any renewal.

D&O

The past year has seen numerous new(er) market entrants competing for business. 2023 has been a relatively quiet year for IPOs and SPACs when compared to 2020–2022. This has meant fewer opportunities to compete and has driven decreases in pricing. The largest decreases we have observed have been for public company D&O. Private companies should expect D&O renewals that range from flat to slight decreases.

Real estate insureds who maintain large portfolios of office assets will likely face the most scrutiny. The Real Estate Roundtable estimated at their recent event that it may take as many as nine years for the office sector to recover to pre-pandemic levels, and therefore some insureds are experiencing increases in the range of +1 to +15%.

Cyber

The cyber market is stable due to successful client implementation of multifactor authentication and endpoint detection. Ransomware attacks have been on a general downward trend, and premiums are following suit. The average insured with proper controls can expect to see premiums in the range of flat to +25%. The days of 100% increases are long gone.

EPL

Employment Practices liability (EPL) insurance premiums are generally stable. We have observed an uptick in claims severity, and insurers raising retentions in response. However, the pricing element has been tempered by insurers who are witnessing the erosion of D&O pricing in their books of business and are attempting to replace premium volume with EPL. This added competition has kept on a lid on prices.

Crime

Crime cover is another area of stability within the management liability arena. However, the frequency of social engineering fraud remains high. Special attention should be paid to what limit the insurer is providing for these exposures, and negotiations related to increased limits may be warranted.

Fiduciary

The primary concern of underwriters offering coverage for fiduciary liability is claims related to “excessive fees.” Underwriters are responding by mandating larger self-insured retentions. Most clients are seeing premium increases in the range of +1 to +25%. However, for insureds with plan assets greater than US$500 million, increases may range from +25 to +100% or higher.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ESG remains a complicated issue for real estate organizations. Many organizations support a good corporate citizenship in the form of ESG initiatives. However, the presence of minority anti-ESG sentiment and the intricacies associated with shifting business strategy to an ESG focus have complicated the path forward. The most widely discussed element remains the "E", or environmental portion. A few areas worth noting for real estate insureds include operational carbon footprints, embodied carbon footprints, governmental pressure, management liability and carbon credits.

Operational Carbon Footprint

Property owners who operate large portfolios of assets must deliver power to those assets. As insureds elect to transition away from fossil fuel-based energy sources, they must consider the "transition risk" associated with doing so. For example, insureds considering the installation of photovoltaic (PV) panels for solar power or EV charging stations have new risks to address. Underwriters will have concerns about stored energy and heat sources that may act as ignition sources.

Embodied Carbon Footprint

Beyond operating assets, real estate owners are often constructing new assets. This has an entirely different environmental impact as modern buildings are constructed using carbon-intensive materials such as steel and concrete. Concrete alone accounts for 8% of global carbon emissions. If concrete were a country, it would be the third-largest emitter of carbon, behind China and the US.[14] This has caused developers to explore alternative building materials that store carbon rather than emit it, such as cross-laminated timber (CLT) and glue-laminated timber (Glulam). Underwriters lack the depth of loss data associated with steel and concrete, and struggle to appropriately underwrite something that is inherently combustible and susceptible to water damage.

Governmental Pressure

Certain US states have implemented laws restricting the use of ESG factors related to investment decisions. Frictional pressure is mounting on a federal level that encourages ESG investing. The US Senate Budget Committee recently launched an investigation into how major insurers evaluate climate-related risks and underwrite major fossil-fuel projects. Senator Sheldon Whitehouse from Rhode Island said, "Any new fossil fuel expansion is incompatible with our climate goals and economic stability."[15] These conflicting regulatory pressures create a complicated landscape for the insurance industry to navigate.

Management Liability

Anti-ESG pressure in various legislative geographies poses an increased risk for companies with existing ESG practices. Even in ESG-friendly environments, companies that are perceived to receive preferential treatment for meeting ESG targets are exposed to increased scrutiny. This adds D&O/E&O risk. Companies active on ESG issues are finding that they are the ones attracting litigation rather than ESG laggards. This trend has caused many organizations to engage in "greenhushing." These organizations are not announcing or making ESG-related statements and it is unclear whether activities are still being done, not being reported on, or whether mounting pressure has caused them to slow/pause the implementation of ESG initiatives.

Carbon Credits

It is impossible to totally eliminate a carbon footprint. As a result, some real estate owners are exploring the use of carbon credits or offsets that can be purchased. This opens an entirely different conversation regarding the long-tail delivery of these credits and the reputational risk for companies relying on these carbon offsets if something goes awry. The rapid growth of global carbon credit markets has spurred the creation of new MGA insurers and Lloyds markets that are developing new products for the validation and trading of carbon credits. These are extremely new, but early demand signals a positive growth trend.

REINSURANCE

Following recent reinsurance renewals, the marketplace has faced similar discipline seen during renewals completed on January 1, 2023. As the year has progressed, Gallagher Re has observed a more intense focus applied to pricing and contract improvements regardless of territory or line of business.

Capital constraints have remained with limited signs of new capacity entering the marketplace. Existing reinsurers are still facing mark-to-market investment losses and bond prices fall in response to rising interest rates. The relationship between supply and demand for capacity was finely balanced, but overall buyers managed to secure sufficient capacity. We have seen a gradual pick-up for Insurance-Linked Securities (ILS) issuance driven by capital constraints in the traditional market. The issuance of new ILS structures has come with a higher price tag than traditional indemnity pricing.

For casualty lines of business, the treaty market remained calm and logical similar to the January 1, 2023 renewals completed earlier this year. Continued concern surrounding US nuclear verdicts is looming over US casualty placements, as well as for placements with incidental US exposure.

The **CORE**360® Difference

CORE360 is our unique comprehensive approach of evaluating our clients' risk management program that leverages our analytical tools and diverse resources for customized, maximum impact on six cost drivers of their total cost of risk.

We consult with you to understand all of your actual and potential costs, and the strategic options to reallocate these costs with smart, actionable insights. This will empower you to know, control and minimize your total cost of risk, and improve your profitability.

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