PUBLIC MEETING AGENDA

Risk Management Trust Board

In Person Meeting

Wednesday, March 13, 2024

5:00 p.m.

Members of the Board will attend in person.

Meeting Location:
Tempe Public Library
Second Floor Small Conference Room
3500 S Rural Rd
Tempe, AZ 85283

Other way to connect: **Microsoft Teams**
Join on your computer, mobile app or room device
Click here to join the meeting
Meeting ID: 284 361 012 250
Passcode: r6UivC
Download Teams | Join on the web

Or call in (audio only)
+1 480-498-8745,,404149280# United States, Phoenix
Phone Conference ID: 404 149 280#

Written comments regarding agenda items may be submitted via email to alex_chin@tempe.gov no later than 5:00 p.m. on Monday, March 12, 2024.

1. **Call to Order**

2. **Approval of the June 27th, 2023, Board Meeting Minutes**

3. **Annual RMTB Report**

4. **Workers' Compensation Full & Final Settlement**

5. **State of the Market – Alliant Insurance Services**

6. **Board Member & Staff Announcements**
   Board members and staff may make announcements regarding current events that are not listedon the agenda. No discussion or legal action will be taken regarding these announcements.

7. **Public Appearances**
   The Risk Management Trust Board welcomes public comment. According to the Arizona Open Meeting Law, the Board may only discuss matters listed on its meeting agendas. Matters brought-up by the public under public appearances that are not listed on the meeting agenda cannot be discussed by the Board. A three-minute time limit per person will be in effect.

The City of Tempe endeavors to make all public meetings accessible to persons with disabilities. Special assistance is available at public meetings for sight and/or hearing-impaired persons. To request an accommodation, please contact the City Clerk's Office within 72 hours' advance notice to ensure availability at 480-350-4311 (voice) or 7-1-1 (relay users) or at clerk@tempe.gov .

Minutes
Risk Management Trust Board
June 27, 2023

Minutes of the Risk Management Trust Board meeting held in person at the Tempe City Hall and virtually via Cisco Webex on June 27, 2023, at 4:00 p.m.

Board Members Present:
Robin Arredondo-Savage
Heather Bilodeau
Jerry Hart
Corey D. Woods
Tom Duensing, Deputy City Manager – Chief Financial Officer

Board Members Absent:

City Staff Present:
Chris Hansen, Risk Manager

Lisette Camacho, Financial Services Director

Nichole Martinez, Workers' Compensation Program Specialist
Alex Chin, Executive Assistant

Guests Present:
Pamela Dominguez,
Alliant Insurance Services, Inc.
Shawn Kraatz,
Alliant Insurance Services, Inc.

Agenda Item 1 – Call to Order:
Chair Tom Duensing called the meeting to order at 4:03 p.m.

Agenda Item 2 – Approval of May 10th, 2023, Board Meeting Minutes:
Motion by Heather Bilodeau to approve, second by Corey D Woods.
Ayes: Chair Duensing, Board members Arredondo-Savage. Bilodeau, Hart, and Woods.
Nays: None
Motion passed on a vote of 5-0.

Agenda Item 3 – Alliant 2023/24 Insurance Renewal Marketing Status Update:
Shawn and Pamela from Alliant presented the following excess insurance coverages for approval by the RMTB. The total premium for all programs in the fiscal year 2022/2023 was $2,674,239. The fiscal year 2023/2024 insurance premium for coverages is estimated at $2,949,962.

23-24 Policy Type	Insurance Carrier	Amount
Property	Travelers Indemnity Company	$ 465,500.00
Inland Marine – Dam & Mill Avenue Bridges	Illinois Union Insurance Company	$ 130,838.00
Auto Physical Damage	Lexington Insurance Company	$ 68,324.00
Commercial General Liability – Primary Layer ($2M xSIR's) - General Liability	Safety National Casualty Corp	$ 418,217.00
Excess Liability – Layer 2 ($3M x $2M x SIR's) - Included	Safety National Casualty Corp	$ -

Excess Liability – Layer 3 ($5M x $5M x SIR's) - General Liability	Homesite Insurance Co.	$ 202,464.00
Excess Liability – Layer 3 ($5M x $5M x SIR's) - Law Enforcement Liability	Indian Harbor Insurance Co.	$ 104,898.00
Excess Liability – Layer 4 ($5M x $10M x SIR's)	Upland E&S	$ 216,844.00
Excess Liability – Layer 5 ($5M x $15M x SIR's)	Gemni Insurance Company	$ 212,841.00
Excess Liability – Layer 6 ($5M x $20M x SIR's)	Arch Specialty Insurance Company	$ 178,020.00
Excess Liability – Layer 7 ($5M x $25M x SIR's)	Great American Assurance Co	$ 142,500.00
Workers Compensation	Safety National Casualty Corp	$ 560,255.00
Foreign Package	Ace American Insurance Company	$ 2,500.00
Pollution Policy	Ironshore Specialty Insurance	$ 39,316.00
Cyber	Houston Casualty Company	$ 133,603.00
Fiduciary – 1st Layer	Hudson Insurance Company	$ 31,254.00
Fiduciary – 2nd Layer	RLI Insurance Company	$ 17,100.00
Aviation/Drones	Global Aerospace	$ 15,495.00
Crime	National Union Fire Ins. Co.	$ 9,993.00
	Total Premiums	$ 2,949,962.00
	General Liability - Subtotal	$ 1,475,784.00
	All Other - Subtotal	$ 1,474,178.00

The board had a general discussion regarding the renewal. There was a concern regarding the overall increases in premiums, but the board acknowledged the difficulties within the current insurance market. Jerry Hart asked about the specific reasons for the increase in the cyber insurance premium. The increases were due to the evolution of cybersecurity threats and new loss control requirements that must be in place to protect entities and businesses. There was a general discussion regarding Self-Insured Retention (SIR) for excess workers' compensation.

Motion by Robin Arredondo-Savage to approve, second by Jerry Hart.
Ayes: Chair Duensing, Board members Arredondo-Savage, Bilodeau, and Hart.
Nays: None.
Absent: Woods.
Motion passed on a vote of 4-0.

The insurance renewal will be administratively approved by the Interim City Manager then ratified by Tempe City Council at the first Regular Council Meeting in July 2023.

Agenda Item 4 - Board Member and Staff Announcements
There were no announcements.

Agenda Item 5 – Public Appearances
There were no public appearances.

The meeting adjourned at 4:57 p.m.

Minutes prepared by: Alex Chin
Reviewed by: Chris Hansen

City of Tempe
Financial Services
Mail Stop 02-07
20 E. 6th Street
Tempe, AZ 85280
www.tempe.gov

Date: March 13, 2024

To: Risk Management Trust Board

From: Chris Hansen, Risk Manager – Financial Service Department

Subject: Annual Claim Trends Report

Background
City Code, Section 2-505(b), states that the duties of the Risk Management Trust Board include submitting "an annual report to the City Council through the City Manager relating to the status of the trust fund and making other recommendations that the board deems necessary and appropriate."

Analysis
Attached is a draft Annual Claims Trends Report, with information through December 31, 2023, which provides an overview of the Risk Management and Workers' Compensation Funds, provides trend information, and summarizes the funds status or amounts available for future unforeseen expenditures.

Staff is seeking feedback from the RMTB and approval of the draft Annual Claims Trends Report, with any noted changes. This report would then be included in a future City Manager's Friday Information Packet distributed to the City Council.

City of Tempe
Financial Services
Mail Stop 02-07
20 E. 6th Street
Tempe, AZ 85280
www.tempe.gov

Date: March 14, 2024

To: Mayor & City Council

From: Chris Hansen, Risk Manager

Through: Risk Management Trust Board

Subject: Risk Management Trust Board - Annual Claim Trends Report

Background

City Code, Section 2-505(b) requires the Risk Management Trust Board (RMTB) to "submit an annual report to the City Council through the City Manager relating to the status of the trust fund and making other recommendations as the Board deems necessary." This report fulfills this requirement and was reviewed by the Risk Management Trust Board on March 13, 2024.

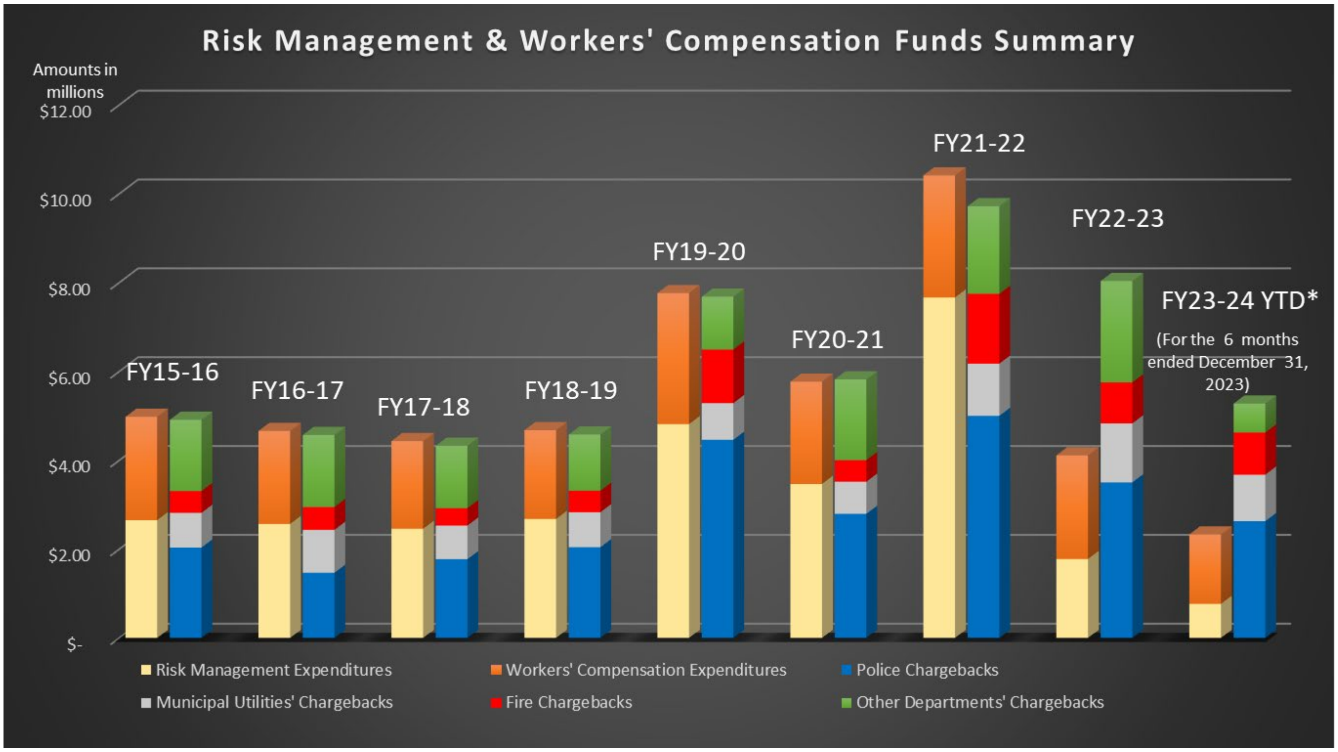
The Risk Management Trust Board is established through Article VII, Division I of the Tempe City Code. This section establishes the Risk Management Trust Fund, which provides "for the payment of benefits, losses and claims as set forth in A.R.S. § 11-981(A) which shall include legal defense costs, administrative costs, claims adjusting costs, losses (including those related to workers' compensation, personal injury or property damage), reserves for anticipated losses and lawsuits, insurance costs (including premiums), external audit and other expenses related to the operation of the city's self-insurance program."

Currently, two operational funds are established to account for the Risk Management Program activities: 1) the Risk Management Fund and 2) the Workers' Compensation Fund. Each program is considered self-insured with excess insurance, which provides a level of city protection for large or unexpected trends in claims.

- The **Risk Management Fund** accounts for general, automobile, and property liability self-insurance program costs. Actual claims costs are directly allocated to each City department. Administrative-types costs such as premiums, safety program costs, legal defense costs, administrative costs, etc. are allocated based on historical claims history by each department. Therefore, at the end of any fiscal year, all Risk Management Fund expenses are funded through departmental "chargebacks" to the appropriate department/fund, and departments' budgets are increased accordingly. These department chargebacks are considered revenue to the Risk Management Fund.

- The **Workers' Compensation Fund** accounts for costs associated with medical and wage benefits for city staff injured at work or who become ill due to a work-related cause. Actual workers' compensation claims cost, such as medical expenses, wage benefits, and legal expenses, are directly allocated to each city department. Any additional administrative-type costs or revenues, such as premiums, administrative costs, reimbursements, etc. are allocated based on historical claims history by each department. Therefore, like the risk management charges, all costs incurred are funded through departmental "chargebacks" to the appropriate department/fund, other than interest earnings, which remain in the fund. These department chargebacks are considered revenue to the Workers' Compensation fund.

Program Summary
The chart below summarizes the total Risk Management Fund and Workers' Compensation Fund expenditures (claims, excess insurance premiums, and program administration) and the departmental chargebacks (contributions or revenues to the funds) based on the expenditures incurred. Please note that program earnings somewhat offset the chargebacks to departments.



Fund Activity
The table below summarizes program expenditures for the past seven fiscal years and year-to-date expenditures through December 31, 2023, for the current fiscal year. FY23-24 **Total Risk Management Program** year-to-date expenditures through December 31, 2023, for risk management and workers' compensation activities are $5.6 million or 67% of the annual budget. In FY22-23, **Total Risk Management Program** expenditures totaled $8.4 million, a decrease of $2.0 million from the prior year.

FY23-24 Risk Management Claim year-to-date expenditures through December 31, 2023, are $769,000 or 60% of the annual budget. In FY22-23, Risk Management Claim expenditures totaled $1.8 million, a decrease of $2.6 million from the prior year. Generally, Risk Management Claim expenditures have remained between $1.0 and $1.5 million per year; however, in FY21-22, expenditures were $2.8 million higher than the previous year at $4.4 million. In FY19-20, Risk Management Claim expenditures totaled $3.1 million. This is due to a $2.0 million settlement agreement with Sandra Gonzalez and Juan Antonio Arce approved by Council on June 25, 2020.

FY23-24 Workers' Compensation year-to-date expenditures through December 31, 2023, are $1.6 million or 71% of the annual budget. In FY22-23, Workers' Compensation expenditures totaled $2.3 million, an increase of $545,000 from the previous fiscal year. The increase in Workers' Compensation expenditures in FY19-20 is due to a cancer presumption claim from FY18-19 and a low back claim from FY94-95, both claims were allocated to the Fire Department. These two claims, coupled with an increase in the severity of claims arising out of the Police Department, directly contributed to an overall increase in the medical and indemnity costs.

FY23-24 year-to-date total Premium expenditures through December 31, 2023 are $2.2 million or 71% of the annual budget. In FY22-23, total Premium expenditures are $2.5 million, a decrease of $161,000 from the prior year. The Risk Management Trust Board took a proactive approach of evaluating the City's excess insurance program through its insurance broker to ensure insurance premiums are balanced with the types of coverage necessary in the City.

City of Tempe
Risk Management Program Expenditure & Revenue Analysis

	Actual										
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	Budget	FY23-24 YTD Actual *	% Budget
Risk Management Program Expenditures											
Risk Management Claim Expenditures	1,063,191	1,009,931	1,012,568	1,230,605	3,142,007	1,551,543	4,378,245	1,779,584	1,275,000	769,246	60%
Workers' Compensation Expenditures	1,957,313	1,788,966	1,698,351	1,688,274	2,618,811	1,931,224	1,787,741	2,332,706	2,200,000	1,562,874	71%
Total Direct Program Expenditures	3,020,505	2,798,897	2,710,918	2,918,879	5,760,818	3,482,767	6,165,986	4,112,290	3,475,000	2,332,120	67%
Risk Management Insurance Premiums	779,242	716,673	688,565	741,680	872,525	1,028,679	2,242,819	2,012,296	2,577,400	2,141,155	83%
Workers' Compensation Insurance Premiums	303,991	246,198	245,968	257,660	267,712	304,245	386,965	456,965	500,000	33,381	7%
Total Premiums	1,083,233	962,870	934,533	999,340	1,140,237	1,332,925	2,629,784	2,469,261	3,077,400	2,174,536	71%
Admin & Med Phys Exams	876,428	900,219	788,684	760,938	864,674	955,721	1,619,054	1,854,349	1,803,128	1,051,127	58%
Total Risk Management Program	4,980,166	4,661,987	4,434,135	4,679,156	7,765,729	5,771,413	10,414,823	8,435,901	8,355,528	5,557,783	67%

* Actual FY23-24 data represents 6 months of activity.

The table below summarizes departmental chargebacks to the respective departments. Program chargebacks are considered revenue for the Risk Management Program. Actual chargebacks differ somewhat from Risk Management Program expenditures due to certain program revenues. Activity for the previous eight fiscal years and the first six months of the current fiscal year are summarized in the following table.

City of Tempe
Departmental Chargebacks/Revenue

	Actual										
	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23	Budget	FY23-24 YTD Actual *	% Budget
Departmental Chargebacks/Revenue											
Police	2,038,588	1,469,996	1,775,555	2,044,655	4,464,372	2,796,644	5,001,974	3,504,146	4,394,813	2,631,404	60%
Municipal Utilities	780,765	966,791	756,891	788,568	825,419	722,567	1,175,833	1,328,280	1,390,743	1,046,585	75%
Fire	489,534	510,434	391,452	482,869	1,205,307	485,609	1,570,267	923,141	1,584,048	947,428	60%
Community Development	259,535	585,238	476,490	475,543	491,611	608,560	558,396	232,722	82,342	76,909	93%
Community Services	600,477	365,453	251,568	332,138	262,346	204,895	306,197	402,066	230,892	118,435	51%
Engineering & Transportation	539,556	511,785	419,859	101,117	213,018	481,730	677,202	1,295,230	237,348	175,877	74%
Human Services	129,400	1,606	58,101	53,332	49,247	114,064	80,822	39,813	8,742	3,748	43%
Internal Services	19,522	87,673	97,330	41,484	112,406	99,788	-	-	-	-	0%
Financial Services	-	-	-	-	-	-	50,239	89,654	88,154	26,805	30%
Information Technology	-	-	-	-	-	-	-	1,416	-	-	0%
Other	56,063	72,175	102,303	261,945	61,408	308,085	300,279	220,091	338,446	250,913	74%
Total	4,913,439	4,571,150	4,329,549	4,581,650	7,685,134	5,821,942	9,721,208	8,036,559	8,355,528	5,278,104	63%

* Actual FY23-24 data represents six months of activity.

FY23-24 year-to-date chargebacks through December 31, 2023, are $5.3 million or 63% of the annual budget. This is primarily due to the annual insurance premiums being allocated in the first six months of the fiscal year.

In FY22-23, 60% of the charges are in the Police and Municipal Utilities departments. The charges to the Police Department are related to workers' compensation claims, general liability claims, and automobile liability claims. Charges to the Municipal Utilities Department are primarily associated with general liability and automotive liability.

Staff reviews workers' compensation claims with the Police and Fire Medical Rescue departments monthly to reduce indemnity costs, discuss potential issues, and address overall claim resolution.

Insurance Marketplace, Trends, Industry Issues and Outlook

Presented by:
Shawn Kraatz, First Vice President
Pamela Dominguez, Vice President

March 13, 2024

Market Conditions

Impactful issues for insureds:

Property

01

Property capacity reductions:
- Further reduction in capacity from incumbents
- Coastal, Earthquake and wildfire capacity continue to be especially difficult
- Very few new entrants into the commercial property sector

02

Insurers produced negligible profit in 2022 – Nearly **$125b in Global Insured CAT** losses in 2022 – **2nd** Worst Loss Year on Record.
- United States accounted for **75%** of global insured losses

03

Continued **increased pattern of major property catastrophes** such as hurricanes, severe convective storms, typhoons, wildfires, winter storms etc. over the past 6+ years

04

Consistent **increases in attritional property losses** (fires, water damage, tornados, hail, wildfires) – are secondary perils 'secondary' anymore?

05

Inflation continues to add to the issue of **valuation across all property classes**

Liability

06

Liability capacity pull back and withdrawals have been significant over the past two years

07

Social inflation & Litigation Financing driving up liability verdicts and settlements

08

Excess Workers Compensation **remains stable, but retained layer may be experiencing increased claims volume**

Cyber

09

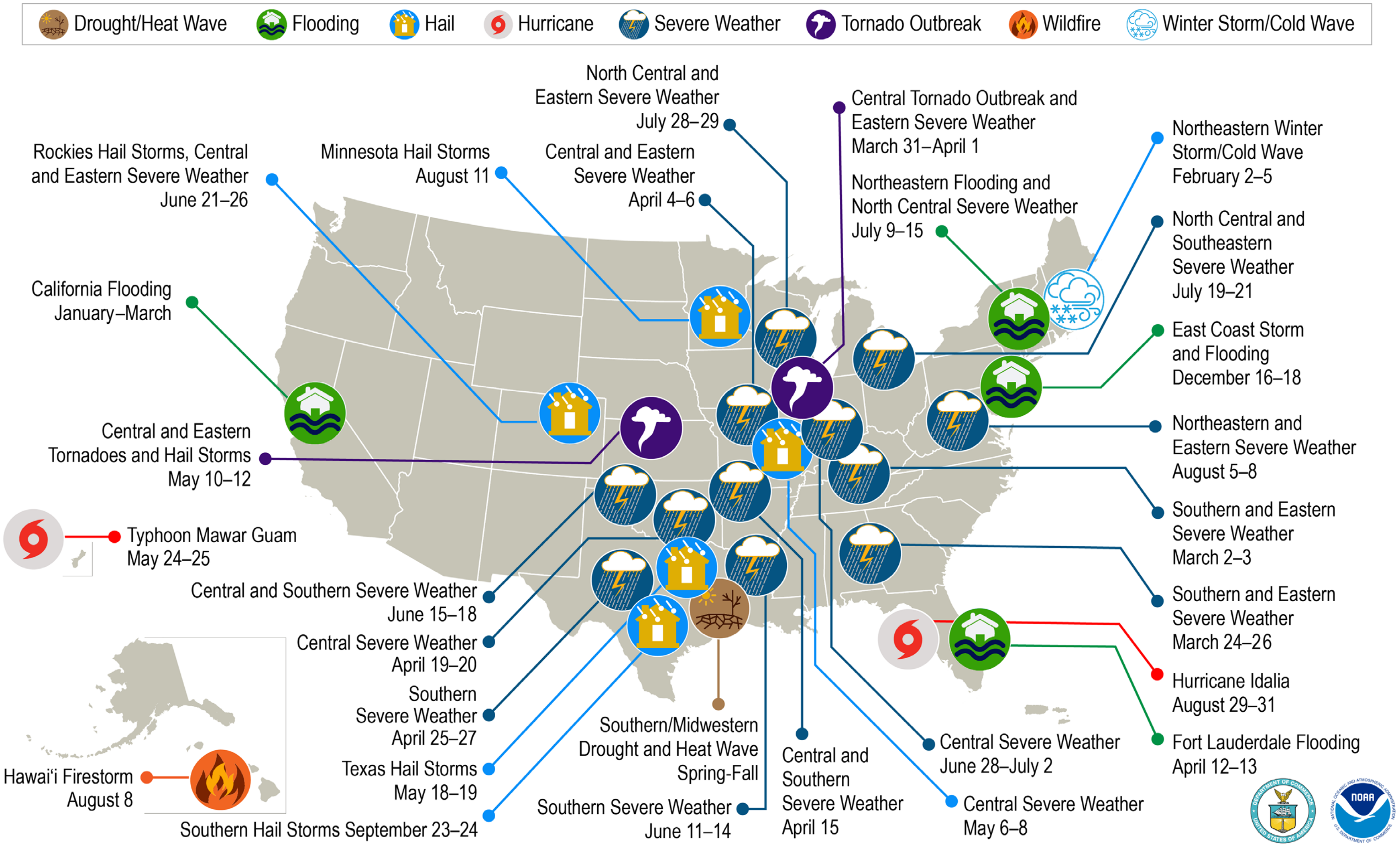
Cyber capacity has improved and creating stabilized terms and conditions

10

Ransomware cyber losses are systemic – **Expecting $10 Trillion by 2025**

Major U.S Losses in 2023

U.S. 2023 Billion-Dollar Weather and Climate Disasters



*This map denotes the approximate location for each of the **28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.***

- In 2023, there were 28 confirmed weather/climate disaster events with losses exceeding $1 billion each to affect United States.
  - These events included:
    - 1 drought event
    - 4 flooding events
    - 19 severe storm events
    - 2 tropical cyclone events
    - 1 wildfire event
    - 1 winter storm event.
- Overall, these events resulted in the deaths of 492 people and had significant economic effects on the areas impacted.
- The 1980–2023 annual average is 8.5 events (CPI-adjusted); the annual average for the most recent 5 years (2019–2023) is 20.4 events (CPI-adjusted).

Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024)

Casualty Market Major Disruptors

Auto Liability

- Cost of vehicles(inflation)
- Cost to repair (technology)
- Fatality Trends
- Distractive Driving – Cell Phones
- Claims Frequency **and** Severity Trajectory
- Social Inflation

Workers Compensation

- Opioids
- Mental Health
- Aging Workforce
- **Cost Inflation**
- Cancer & PTSD Presumptions
- Workplace Violence
- Medical Service Delays
- Out of State Exposure

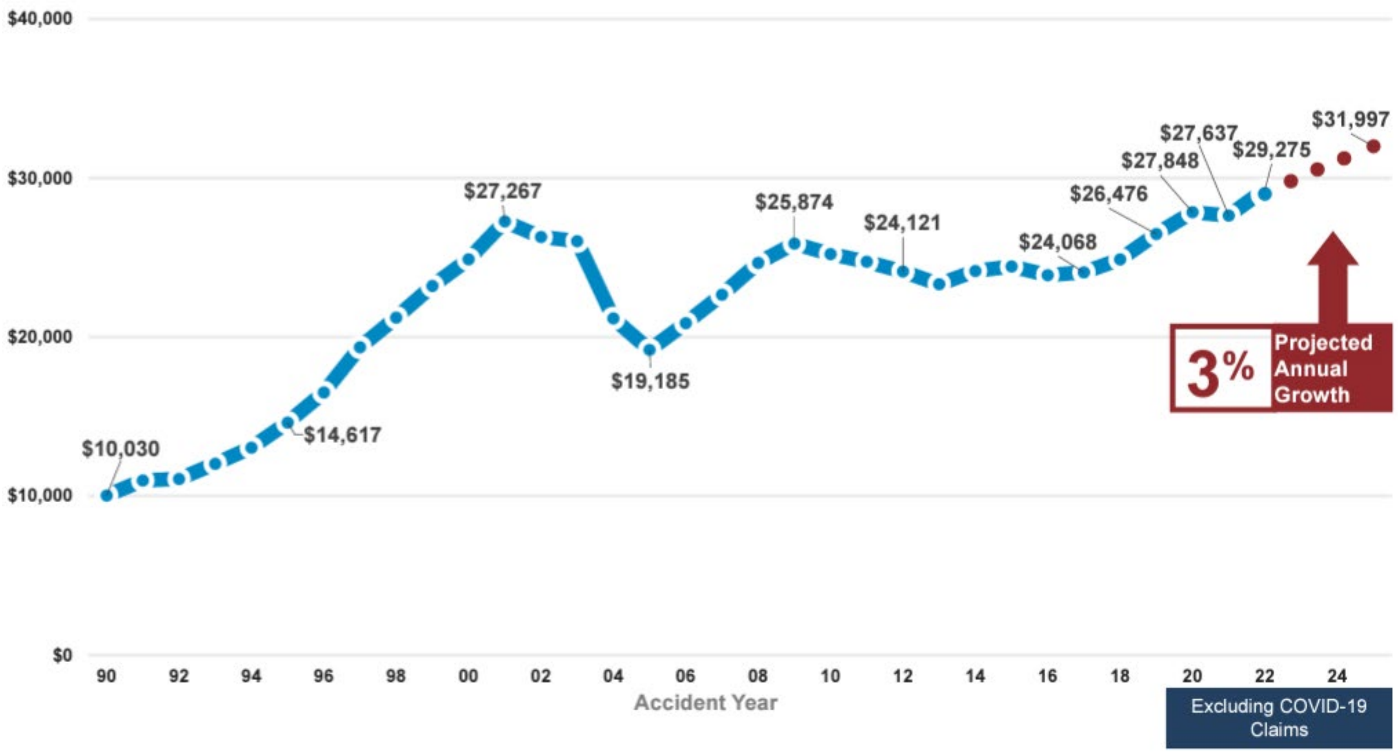
General Liability & Excess Liability

- **Increase in Catastrophic Losses**
- **Punitive Damage Awards**
- Organized Plaintiff Bar
- Personal Injury Trends
- Litigation Financing
- Aging Infrastructure
- **Sexual Misconduct (SAM)**
- Law Enforcement Liability

U.S. Inflation Rate: 2009-2025F*

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (1/24); USC Center for Risk and Uncertainty Management.

Average Workers' Compensation Indemnity Cost per Indemnity Claim



- Average indemnity costs per claim were generally flat from 2009 to 2017, driven by SB 863 reforms reducing the duration of temporary disability and acceleration in the rate claims were settling.
- From 2018 to 2022, average indemnity costs increased as wage levels increased and claim settlement rates were plateauing.
- The WCIRB projects a steady increase in average indemnity costs through 2025 primarily driven by continued increases in average wages.

Market Trends

By Product Line

Product Line	Pricing	Capacity	Retentions	Coverage
PROPERTY				
Challenged Exposures	↑	↓	↑	↓
Non-Challenged Exposures	↑	↔	↔	↔
Standalone Earthquake	↑	↓	↔	↓
Builder's Risk (Project Specific)*	↑	↔	↑	↓
CASUALTY				
General Liability	↔	↔	↔	↓
Automobile Liability	↑	↓	↑	↔
Workers' Compensation	↓	↔	↔	↔
Umbrella Liability	↔	↔	↔	↔
Excess Liability	↔	↔	↔	↔
Pollution Liability*	↔	↔	↔	↓
MANAGEMENT & PROFESSIONAL				
Cyber	↓	↑	↔	↔
Employment Practice Liability	↔	↔	↔	↔
Fiduciary	↑	↔	↑	↔
Fidelity/Crime	↔	↔	↔	↔

*Denotes Construction-Specific Product Line

Color Key

As a buyer, is that movement positive, neutral, or something that could present a challenge during my renewal?

- Positive change
- Neutral/No change
- Potential Challenge

Arrow Key

What direction are pricing, capacity, limits, deductibles and coverage moving?

- ↑ Increasing
- ↔ Stabilizing/No change
- ↓ Decreasing

Alliant

Property (As of Q4 2023)

CAT Property with Poor Loss History or Risk Quality:	25% ++
CAT Property with Good Loss History or Risk Quality:	10% to 20%+
Non-CAT Property with Poor Loss History or Risk Quality:	15% to 20%+
Non-CAT Property with Good Loss History or Risk Quality:	5% to 10%

Capacity

- 1/1/2024 Treaty Renewals were more orderly and stable due to increased availability of capacity. However, treaty underwriters still practiced underwriting discipline
- Most carriers are messaging that the re-underwriting of their books is complete, and they will be looking to maintain line sizes from 2023. Many carriers are reporting an increased appetite for new business in 2024
- Difficult geographies (California, Florida and Texas) should expect to continue to face some challenges, particularly those Insureds that have sustained losses in recent years
- There are limited new insurer entrants for 2024 with many experts anticipating a need for at least one additional year of profitability before investor capital expands into the Property (re)insurance market
- Excess layers on large programs may continue to be toughest to find capacity, but should be more readily available than in the previous year(s)

Coverage

- Following years of limit reduction(s) as part of larger book re-underwriting and limited reinsurance capacity, many insurers are not reducing coverage limits for 2024.
- On select accounts, natural catastrophe coverage will continue to undergo scrutiny
- Valuations remain topical for all Insureds. Carriers expect for insureds to have a proactive valuation narrative and philosophy. Ideally, insureds can demonstrate that there is a valuation process in place that ensures valuations will continue to be appropriately adjusted over time, most preferably via a 3rd party appraisal firm
- Without a compelling narrative or adequate valuation metrics, expect carriers to again push for Occurrence Limit of Liability or Margin Clause provisions (even with valuation increases/trending)

Retentions

- Following years of cat and non-cat deductible increases, many insurers are finally putting less pressure on retentions
- Exceptions to this include insureds that continue to report attritional loss activity. Insureds will look to correct this by increasing All Other Perils retentions, especially for Water Damage
- In the same vein, CAT-deductibles which have not been re-underwritten or adjusted recently will be reviewed
- Severe Convective Storm and Winter Weather losses that hit the industry hard in recent years will continue to be singled out as perils that could require a separate, increased retention

Pricing

- Pricing (and more broadly, overall renewal results) will be very dependent upon individual loss experience, industry class, carriers' viewpoint of the specific account's rate adequacy and changes that have been implemented at the account level
- Rate increases will continue to be the norm for 2024, albeit not near the levels we saw in 2023
- Carriers are eager to work with insureds to restructure/layer programs in an effort to avoid "trading dollars" and want to reward those buyers that are making efforts to put more "skin in the game" which should lead to greater long-term rate and pricing stability

Source: Allianz Global Corporate & Specialty

Alliant

Trend and Valuation

Construction Inflation & Claims

Construction Cost Trends

Inflation has subsided some this past quarter and the nation is gearing up for the CHIPS/Science Act and the Infrastructure Investment and Jobs Act. Still, concerns remain about construction costs, with one of the biggest issues in the US being the extreme labor shortage (roughly 650,000 workers) slowing completion of construction projects from residential homes to infrastructure to hospitals.

Inflation & Claims

Property insurance, which is sensitive to inflation and rising construction costs, had an estimated 6-13% increase in claims payouts in 2022, with an additional 3.5-10% hike expected for 2023.

Construction Cost Trends

Property insurance, which is sensitive to inflation and rising construction costs, had an estimated 6-13% increase in claims payouts in 2022, with an additional 3.5-10% hike expected for 2023.

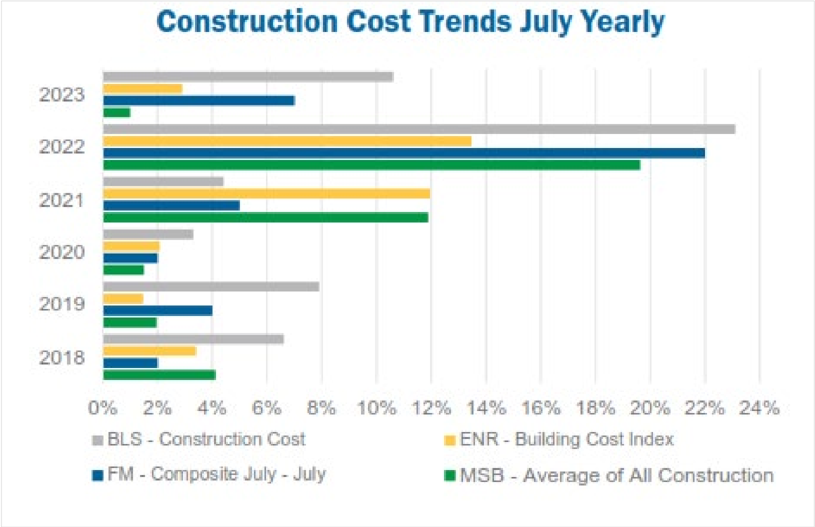
July 2023 Construction Cost Trends

10.6%
BLS: Construction Cost

2.9%
ENR - Building Cost Index

7.0%
FM – **Composite** July – July

1.0%
MSB - Average of all Construction



- Inflation has created new challenges for insureds and carriers
- The insurance industry is faced with record increases in property claim costs, combined with increases in the time required to resolve claims.
- Not indexing for inflation impacts the delta between replacement cost and property claims costs

WWW.cbiz.com/valuation

Casualty (As of Q2 2023)

Rate Trends	"Low End"	"High End"
General Liability	0%	10%
Automobile Liability	5%	25%
Workers' Compensation	Flat	5%
Umbrella Liability	0%	20%
Excess Liability	0%	25%
Pollution Liability (Contractor's & Site Liability)	Flat	10%

Capacity

- Capacity is readily available for less complex risks while new insurer capacity continues to emerge. Capacity is still constrained for difficult risks. While many insurers are open to capacity for difficult risks, rate impacts will reflect the risk.
- Auto liability capacity will continue to be limited due to rising claim frequency & severity, nuclear verdicts, and regulatory pushback on proposed rate increases. More insurers will restrict capacity or exit the marketplace, particularly in California.

Coverage

- Increased focus on clarifying or excluding chemicals, Perfluorooctane Sulfonate/Perfluorooctanoic Acid (PFOS/PFAS) known as "forever chemicals", energy, communicable disease (COVID-19), abuse & molestation, assault and battery, per location capacity, territory restrictions, and wildfires.
- ESG/climate risk concerns continue to be on the rise, which may impact insurer underwriting decisions.

Retentions

- Retentions are generally consistent. However, retention adjustment and umbrella/excess attachment points will continue to shift as insurers seek out most profitable layers for the deployment of capacity.
- Risk retention analysis is key to designing optimally priced program.
- Underwriting discipline remains the imperative as insurers seek to make rational, reasonable decisions.

Pricing

- General liability (other than high-hazard industries, tough products exposures and habitational real estate) and Workers Compensation are seeing decelerated rate growth — slow increases driven mainly by loss experience and challenged classes of business.
- The unprofitability of Auto liability will force continued rate and retention adequacy. Workers' Compensation continues to be profitable, consistent, and stable.
- Umbrella and excess market pricing remains challenging for complex exposures, but high excess layers becoming more competitive.

Law Enforcement Liability – Troubling Trends

There has been a clear increase in LEL claim severity between 2016 and 2022:

01

Average indemnity paid in a LEL claim has **increased almost 2.5** times between 2016 and 2022.

02

The severity trend is driven by the highest exposure claims. While there is a steady increase in indemnity seen for the average LEL claim, the acceleration of severity trending is **much more pronounced in the top 10% of LEL exposures.**

03

Highest severity level claims has increased 5x between 2018 and 2023, representing 5% of the LEL book in 2017 and increasing to 25% in 2022.

04

The probability of experiencing a claim with **a payout of $500k or more is over 6x higher in 2022 than in 2016**, and there is a **50% increase in the likelihood of seeing a claim with a value of $1M or more.**

05

This increase in severity has had a significant impact upon umbrella/excess liability level claim activity

- Claim counts for resolved umbrella claims **doubled** between 2017 and 2022
- Average indemnity **paid increased over 9x** between 2017 and 2022

06

Attorney representation has **increased 7%** between 2016 and 2022.

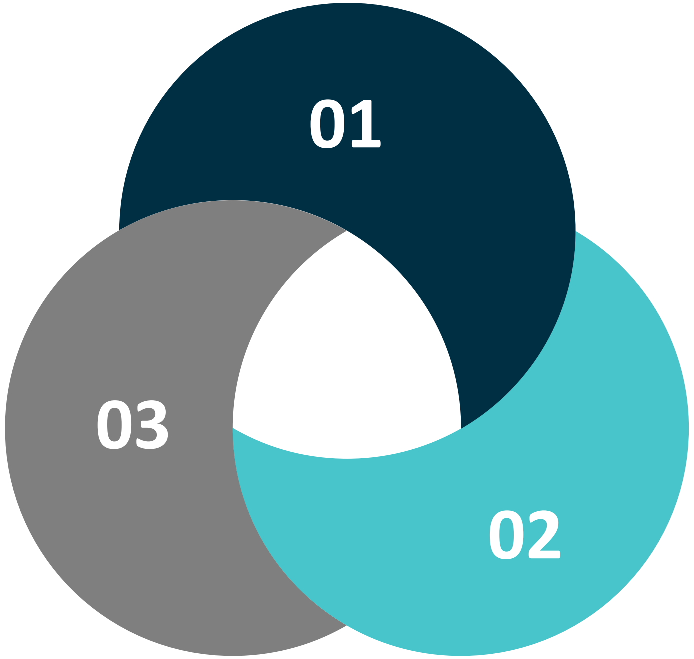
Three quarters of all LEL Claims are attorney represented matters

Source - Travelers Insurance Company

Source - Travelers Insurance Company

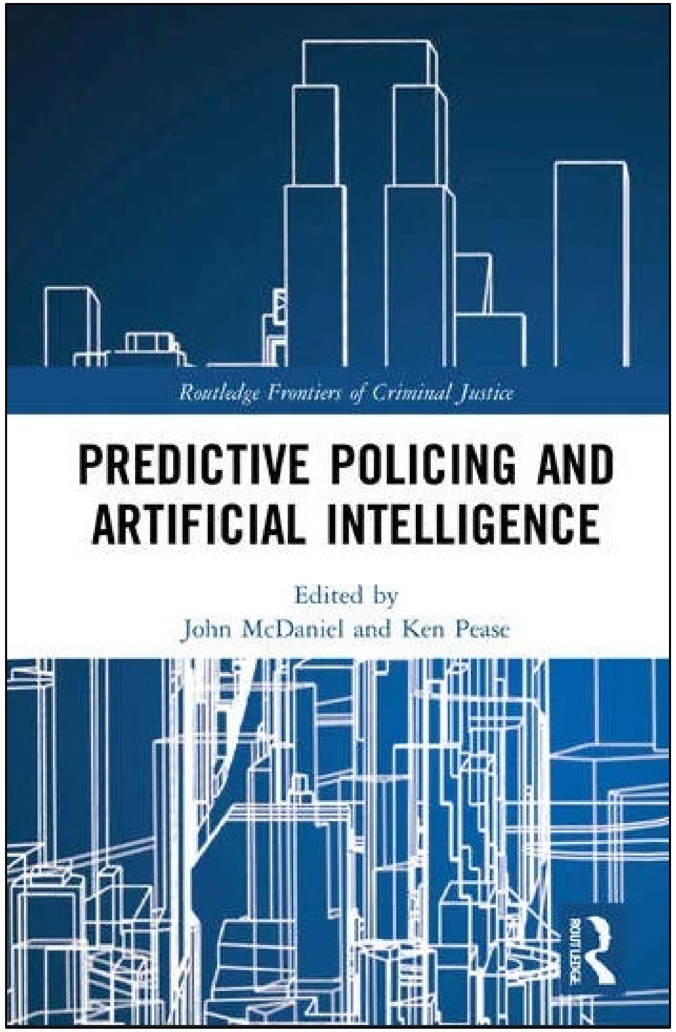
AI in Law Enforcement

"Man alleges wrongful arrest as a result of facial recognition mishandling | GMA[1]"



"For example, officers will need to know how to proceed if they pull over a vehicle being driven autonomously for a traffic violation.[3]"

"Past information about crime can be used as material for machine learning algorithms to make predictions about future crimes…[2]"



1. Randal Quran Reid, a Georgia man, is suing law enforcement after being wrongly arrested due to faulty facial recognition technology
2. Article: What Happens When Police Use AI to Predict and Prevent Crime?
3. Article: Study Highlights Complicated Relationship Between AI and Law Enforcement

Cyber (As of Q2 2023)

Rate Trends	"Low End"	"High End"
Cyber	10%	15%

Capacity

- More insurers are continually offering $10M limits for good risks. While total capacity available in the marketplace is not back to pre-2021 levels we are seeing it rise to north of $400M.
- Energy, manufacturing and critical infrastructure sectors are being watched closely, and avoided by some insurers, given the conflict in the Ukraine.

Coverage

- Coverage generally intact for most classes of business with mature information security programs and strong controls.
- Coinsurance provisions and sub limits for ransomware losses strictly limited to less secure companies. Continued offering, on a sub-limited basis, for Dependent Business Interruption and Dependent System Failure coverage.
- Exclusions around Catastrophic and Systemic Risk along with more defined War Exclusions are being added to new and renewal business both domestically and in London, although application remains inconsistent in the U.S.

Retentions

- Retention levels and Waiting Periods are holding steady. Certain accounts with strong controls, lower retentions might be available.

Pricing

- First half of 2023 has seen the beginning of a softening marketplace for those Insureds that have gone through the necessary changes with respect to cyber security controls over the last 12 months.
  - Improved underwriting allowing for more competitive rates and increase in capacity offered by carriers.
  - Insureds who have strengthened their cyber-resiliency and made necessary changes required by Cyber Insurers, are experiencing more stable premiums with flat to 5% increases depending on the industry class and revenue growth; some clients have seen decreases.
  - Excess Cyber insurers have lowered their Increase Limit Factor ("ILF"), or the rate at which they charge over the primary pricing, from the 90-95% range down to 70-80%.

Cyber Loss Trends – Ransomware Activity

Ransomware Activity – Historical Review and Thinking Forward*

Ransomware Continues to Trend Up

- **101.84% increase** from August 2022 to May 2023
- 2023 brought mass exploitation vulnerabilities supporting this (ESXiArgs, CLOP data theft)

2022 Ransomware Activity is Abnormal

- Russian invasion of Ukraine had significant impact
- Ransomware frequency/severity in 2022 remains an abnormality

Increase in Severity of Ransomware Attacks*

Increase in Average Initial Ransom Demand

- 2023: $2 million ↗
- 2022: $1.04 million ↙
- 2021: $1.4 million

Increase in Average Ransom Payment

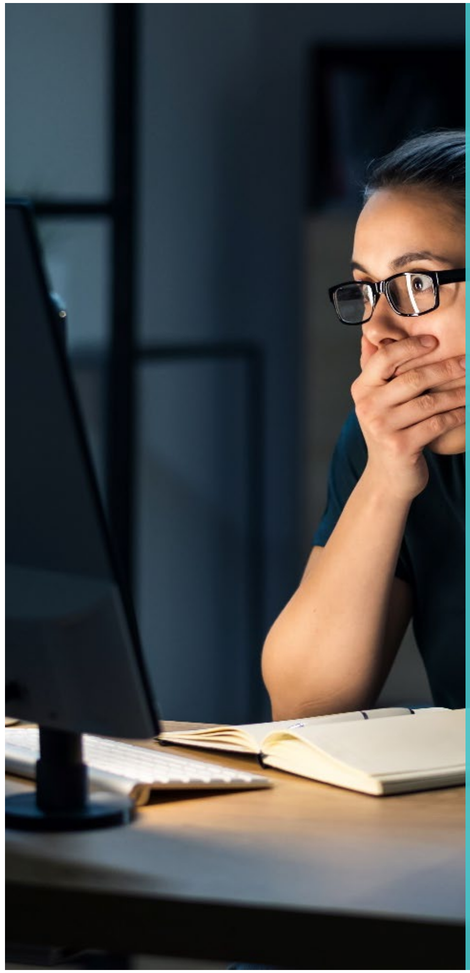
- 70% increase from 2022
- 36% increase from 2021
- Stable in 2023

Increase in Total Ransom Paid

- Record number of ransom amount paid to threat actors
- Total ransom amount paid mirrors the number of active leak sites.

*Sophos State of Ransomware 2023

The Ransomware Epidemic



Ransomware surged in recent years, and there is no foreseeable slowdown. All industry segments were impacted. Manufacturing and professional services were particularly hard hit, followed closely by healthcare, education, and **government entities**.

Estimated global damage from ransomware.

2018	2019	2021
$8 Billion	$11.5 Billion	$20 Billion
2024	**2028**	**2031**
$42 Billion	$157 Billion	$265 Billion

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Employment Practices Liability (As of Q2 2023)

Employment Practices Liability

Capacity

- Capacity remains plentiful in the United States and Bermuda following past cutbacks, although certain jurisdictions remain troublesome for insurers.

Coverage

Coverage offered remains broad; however, insurers are leery of the potential for cutbacks and resultant claims.

Retentions

- While they have largely stabilized, certain risks are still seeing upward pressure on retentions.
- The market continues to apply separate retentions for California claims, class actions and for “highly compensated” employees.

Pricing

- Pricing is stable and in some cases moderately improving for certain segments. Risks with historical claim activity are still seeing increases.

Fiduciary Liability (As of Q2 2023)

Fiduciary Liability

Capacity

- Insurers monitoring deployed capacity.
- Now layered programs are built in smaller blocks, adding incremental cost.

Coverage

Coverage is broad; but the application of certain standards of retentions make accessing said cover a taller hurdle.

Retentions

- Retentions continue to increase as claim activity has remained stable.
- Application of mass and/or fee claim retentions continue.

Pricing

- Given continued adverse claim development, expect continued increases in renewal premiums.

Fidelity & Crime (As of Q2 2023)

Fidelity & Crime

Capacity

- Insurers are closely monitoring aggregate exposure to social engineering fraud; however, some insurers are opening up the limit a bit more liberally for this cause of loss.
- Aggregate limit deployment remains stable.

Coverage

Insurers continue to underwrite social engineering via supplemental applications, Insurers will only consider offering broader coverage where the controls and procedures presented are best in class. Some insurers are offering full limits (at lower capacity) and providing certain enhancements to cover.

Retentions

- Carriers are standing firm on retentions/deductibles offered.

Pricing

- Premiums are largely stable, with some reductions granted for high-caliber risks. Some segments of the economy will continue to experience incremental increases due to historical sector losses.

Increasing Impact on Liability Market

Reduced Capacity
reinsurer withdrawals have been significant over the past two years

Litigation Financing
continues to drive large claims. Funding increased $3.5B in 2022.

Plaintiff Attorney Strategies
specialization and strategies have evolved to get larger verdicts and settlements.

Hyper Social Inflation
1.7b award given in Missouri on October 31, 2023 for conspiring to inflate real estate commissions and will triple to 5.3b under US antitrust law.

Labor Shortage
everyone is doing more with less

Reviver Legislation Amendments
A rise in Sexual Abuse and Molestation claims and settlements

Law Enforcement
Increased focus on policing policy and procedures
as well as pressure on Qualified Immunity

Auto Liability
Frequency & Severity of losses has returned to pre COVID figures

Underwriter Scrutiny
reinsurers are seeking to grow prudently and are maintaining a disciplined, conservative underwriter approach.

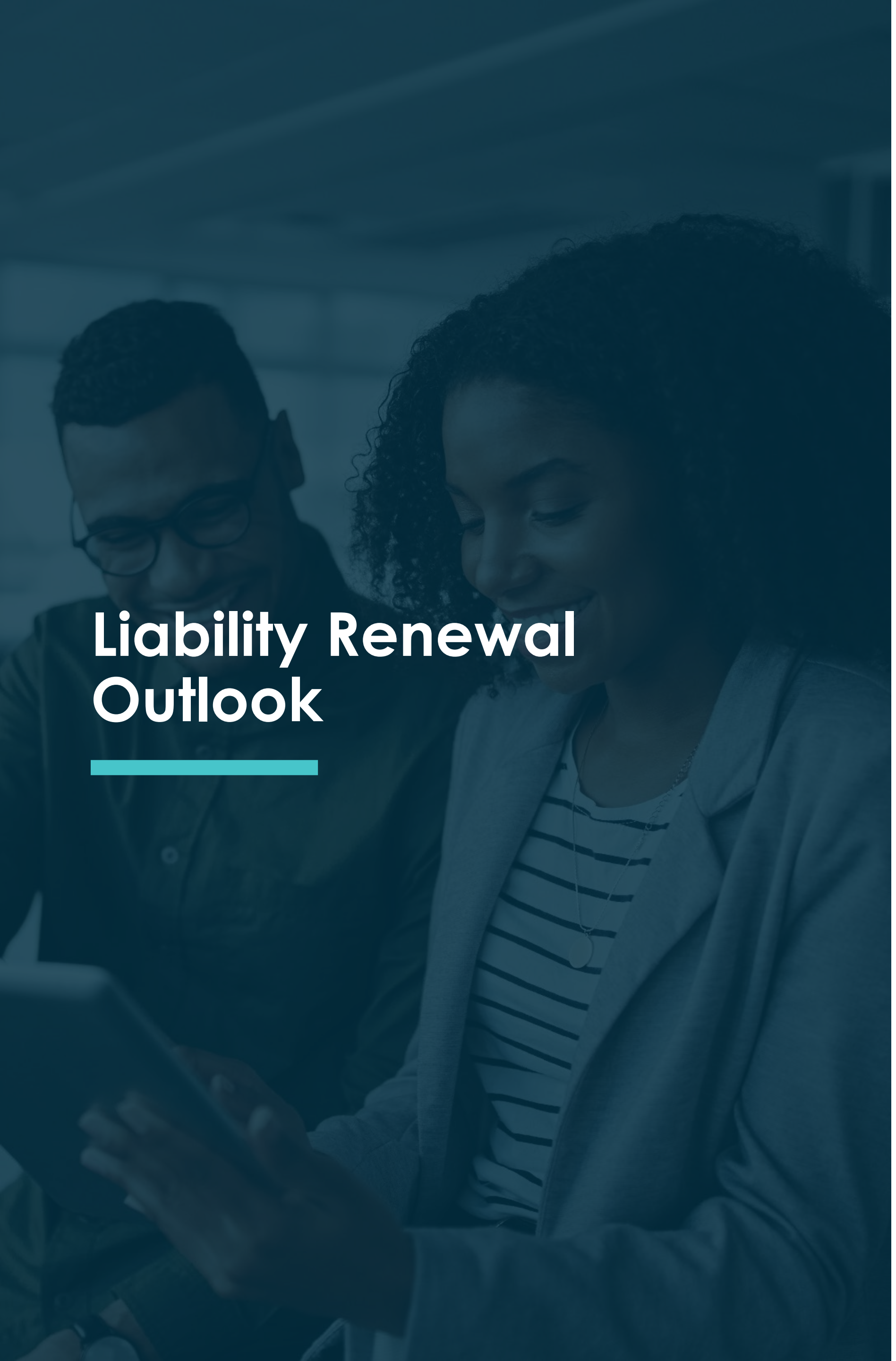
Inflation
Rising cost are increasing the size of claims

Exclusions
continued restrictions surrounding sexual abuse, Wildfire Exclusions, COVID, cyber, opioids, man made chemicals (PFAS) and Biometric Identifiers (new focus)

Emerging Risk
New Technologies such as AI, Telematics, Biometrics and machine learning systems risks are not fully understood given historical information

Environmental risks relative to climate change are substantial

Growing concerns around mental health impacts including impact on productivity, access to care, medical inflation and the steady rise of healthcare costs



Liability Renewal Outlook

Excess liability continues to be a challenge

Specific Problem areas:

- Aggregate limits – Many carriers are looking to cap their exposure on pool programs
- Attachment point/Retentions are being closely examined
- Underwriter scrutiny on Law Enforcement and Sexual Abuse/Misconduct coverages
- Emerging Exclusions: PFAS, Biometric Identifiers, Legislative

Insurers reporting loss cost increases in the 10-15% rate. Pricing will be based on losses and jurisdiction

Engage incumbent carriers early to gain commitment on renewal. Seeking face time with underwriters for complex risks.

Property Renewal Outlook

Continued scrutiny of data (SOV, COPE, ITV with Increased Construction Cost)
- *Must go to market with a compelling narrative*

Increased retentions and caps on certain types of exposure
- *Windstorm & Severe Convective Storm*

Rate increases expected and highly dependent on Wind Season, Reinsurance Market and individual client losses

Underwriter submission activity remains high – imperative to engage early and access global market
- *For the first time in a number of renewal cycles, there are a few new markets writing in the property sector*
- *Many London markets are targeting premium growth in the 20-30% range, including increased rate on renewal business and inflation*

Regional Underwriting: Property markets are affected differently across the nation.
- *e.g., West: Wildfire/Earthquake, East: Hurricanes, Midwest: SCS, etc.*

Unknown impact of RMS v23
- *Atlantic wind model expected to show an average 5%-10% uplift to aggregate industry modelled losses –for some areas, could be as much as 20-30%*
- *The most significant changes are to the Florida/Gulf/Southeast areas and commercial exposures*
- *Most carriers, however, are still testing/trialling this version*
- *Anticipated influence on insurer aggregates and pricing likely not fully realized until early 2024*

Public Entity Space dislocation – leaving buyers underinsured

Cyber Renewal Outlook

Leading insurers have indicated “We may have hit rate equilibrium”

2024 Forecast:

- 5 to 10% increases, at a minimum, for “good” risks; increases higher for “poor” risks with worse controls
- Overall capacity remains flat; no new entrants into the primary PE space
- Increased per-claim, self-insured retentions for poor security posture
- Potential coinsurance percentages added for ransomware if controls remain weak
- Ransomware limits holding steady

Requirement to evidence security posture:

- MFA
- Data Backups
- Endpoint Detection Response (“EDR”)
- Employee Education & Training Programs

Workers Compensation Leading Concerns

Rate Expectations: Account Specific

Trends to Watch:

- Increase in state legislative bills filed for Presumptive and PTSD benefits
- Opioid Epidemic
- Data analytics and AI emerging in claims handling
- Increased severity of workplace injuries
- Mental health exposures
- Medical marijuana
- Increasing Payroll's impact on premium

Wage Inflation's impact on premiums & Medical Expense Inflation

Underwriter Concerns: Per Occurrence exposure to CAT loss; rate adequacy; changes in the labor market

Remote Work: Out of State employees & impact on productivity and compliance

Investment Yield on Long Tail Coverage

Successfully Navigating the Market

- Information
- Meetings
- Relationships
- Start Early
- New Capacity
- Restructuring
- Placement Enhancements

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Thank you!

Questions?

Please contact us if you would like a copy of this presentation.