

Property & Casualty Insurance Market Update and Outlook

Thursday, May 15th | 2:15 PM

Property Insurance Market Update

- 2024 – A Look Back
- Historical Perspective
- California Wildfire Review
- 2025 Market Trends and Forecast
- Future Predictions and Considerations



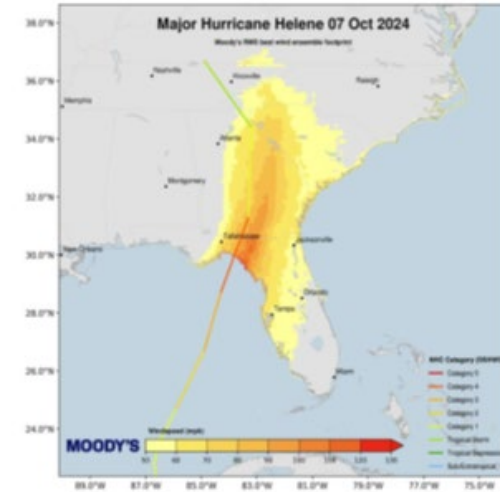
May 15, 2025 @ 2:15pm

**Sheraton Sand Key Resort
Clearwater, Florida**

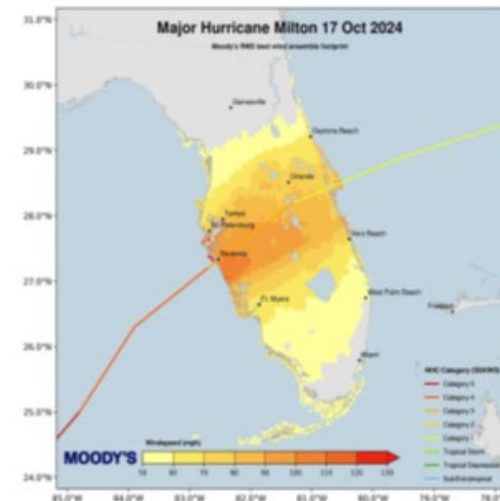
2024 Property Market – A Look Back

- \$140 billion global insured catastrophe losses in 2024, the 3rd highest in history (less than 2022's \$165 billion, more than 2023's \$106 billion, and historically high)
- Largest U.S. insured catastrophe losses were Florida Hurricanes
 - Helene – September 27th landfall
 - Max. 140 mph sustained winds = Category 4
 - \$16 billion insured loss estimate
 - Milton – October 9th landfall
 - Max. 120 mph sustained winds = Category 3
 - \$26 billion insured loss estimate
- Despite continuing losses, property insurance marketplace is now better positioned to withstand catastrophe losses. Contributing factors include:
 - Higher premium base to absorb losses, following sizeable rate increases in recent hard market
 - Higher Total Insurable Values (TIV) due to insurers and reinsurers requiring insured to report values that keep up with recent inflationary trends
 - Larger deductibles for insureds, in particular for challenging risk areas (e.g., coastal exposures and areas susceptible to convective storm and winter freeze)

Hurricane Helene



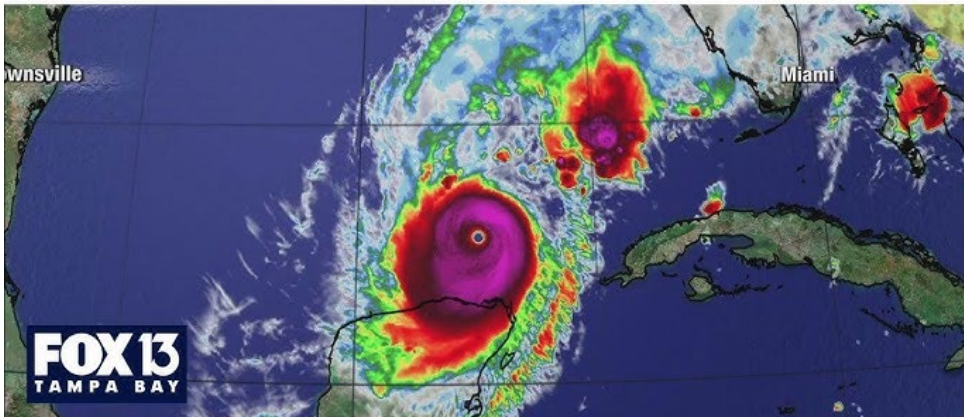
Hurricane Milton



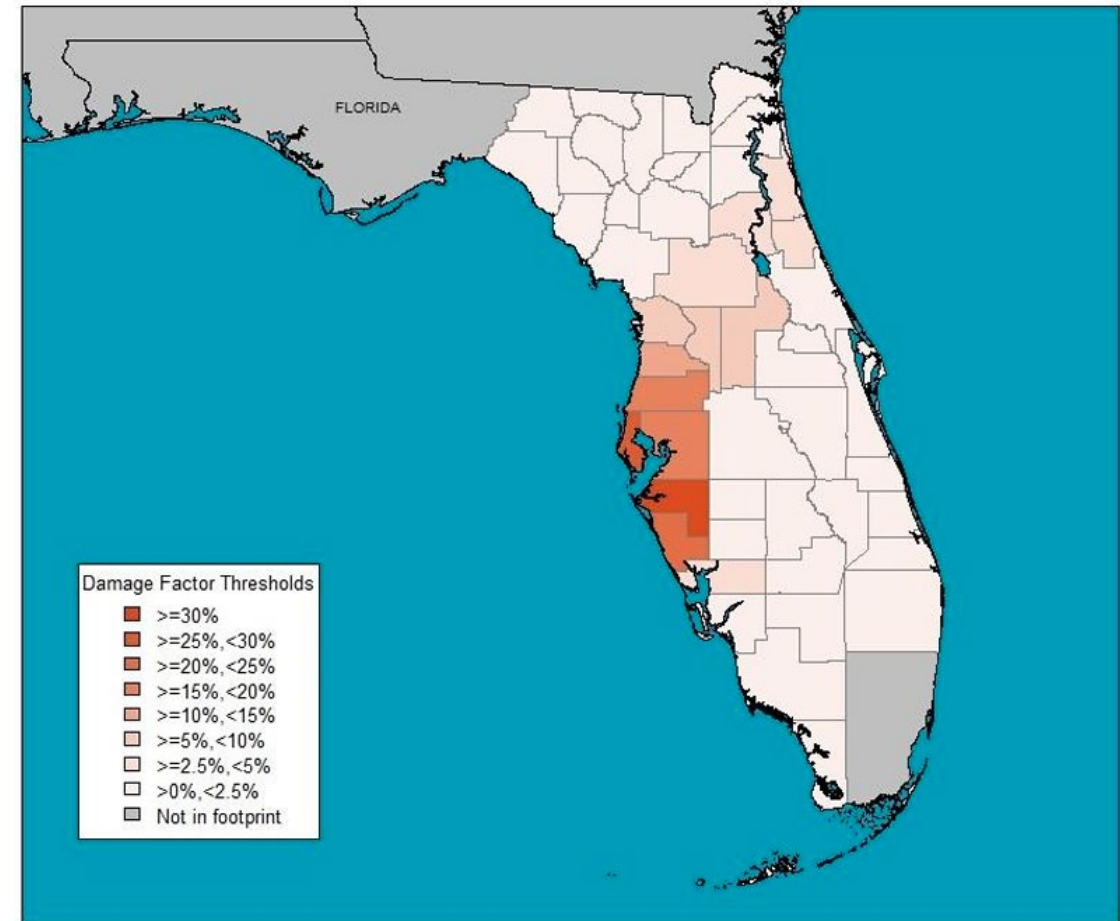
If Milton took a different path...

- Lloyd's Realistic Disaster Scenario (RDS) are storm simulations used to stress test insurers' ability to withstand large catastrophes
- Example on right is a simulated event similar to Milton that makes a direct hit on Tampa
- Insured loss estimate of \$134 billion

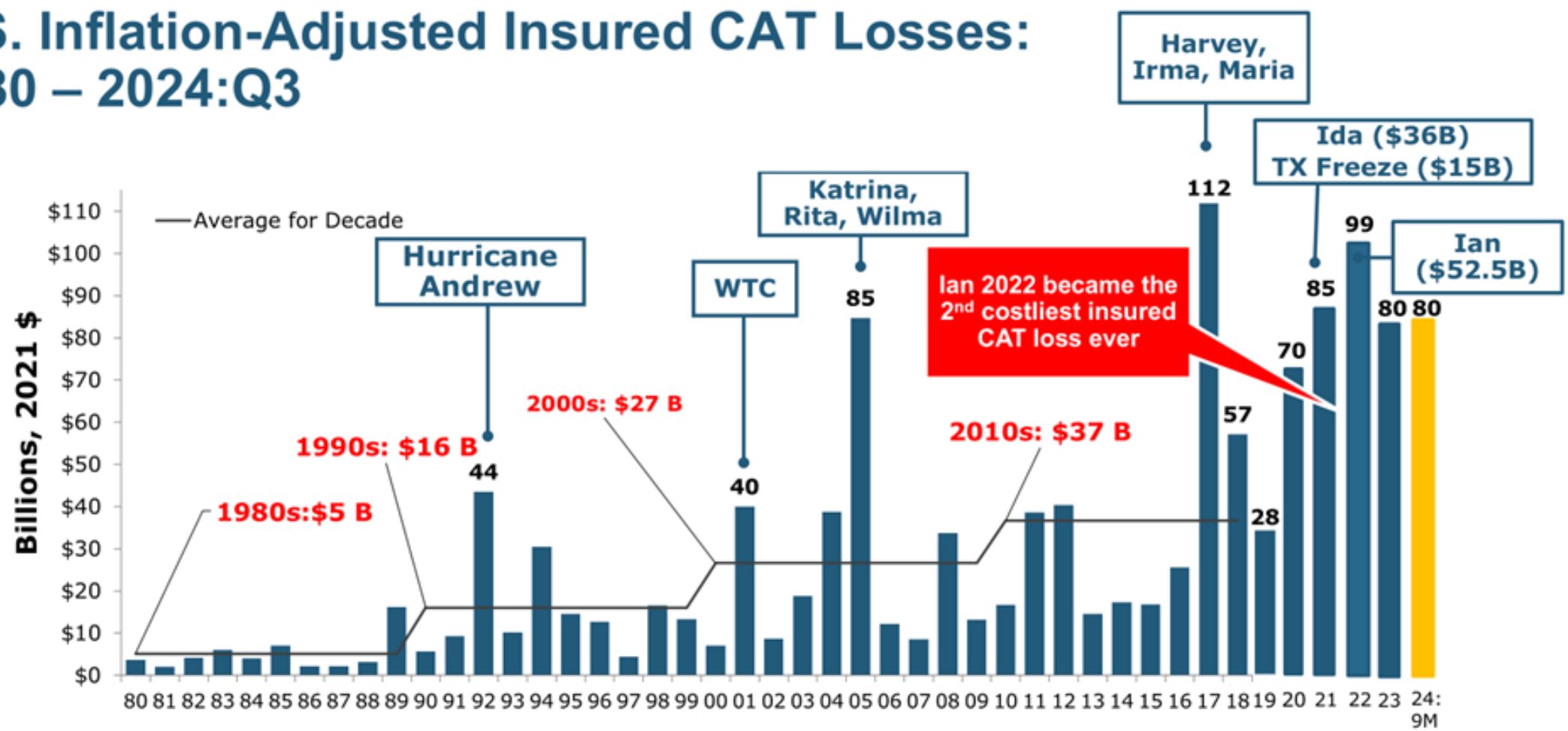
HURRICANE MILTON GAINS STRENGTH; CAT 5 STORM



Lloyd's RDS



U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2024:Q3



Average Insured Loss per Year*
1980-2021: \$23.8 Billion
2012-2021: \$44.1 Billion

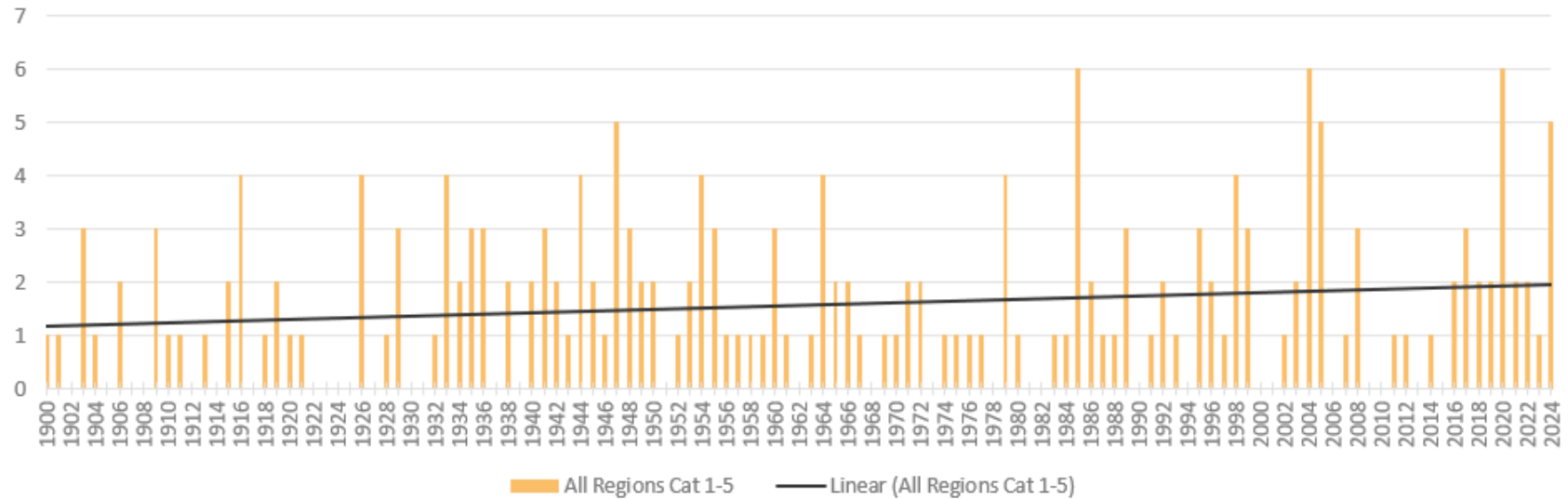
The 2020s are off to an ominous start with \$83.5B in average annual insured losses (2020-23)

*Stated in 2021 dollars except 2022 -2024 (in current dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-22 figures from Munich Re; 2023 and 2024:9M figure from Aon. Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

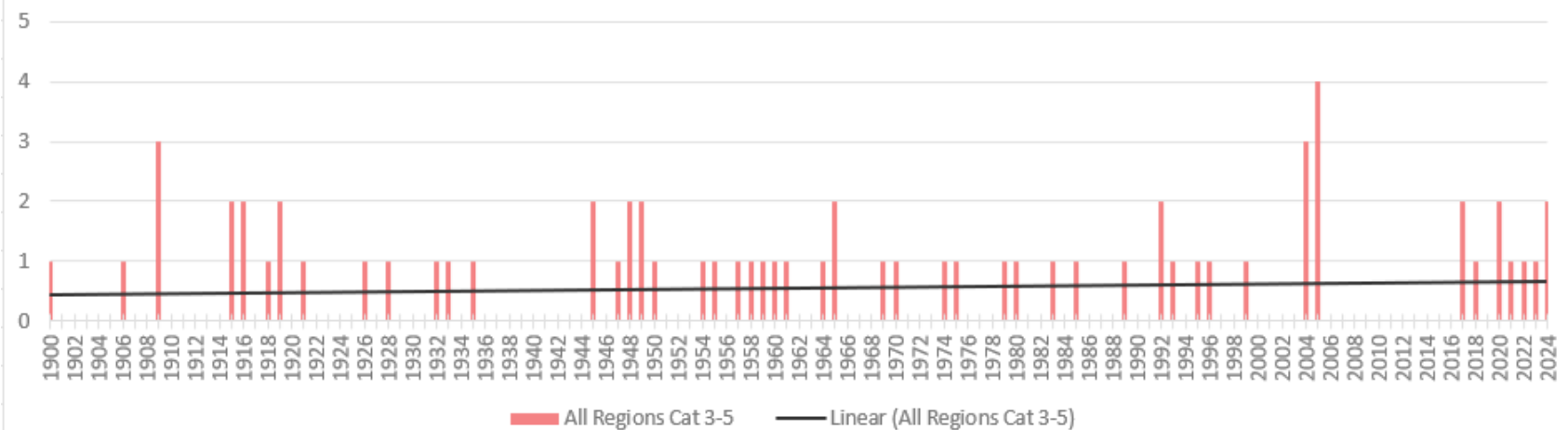
U.S. Historical Hurricane Landfall Trends

- North Atlantic averaged 2 landfalls per year 1970 - 2022
- Modest trend in landfalling hurricanes since 1900
- No trend in major hurricane landfalls
- Exposure growth is driving larger hurricane claim dollars

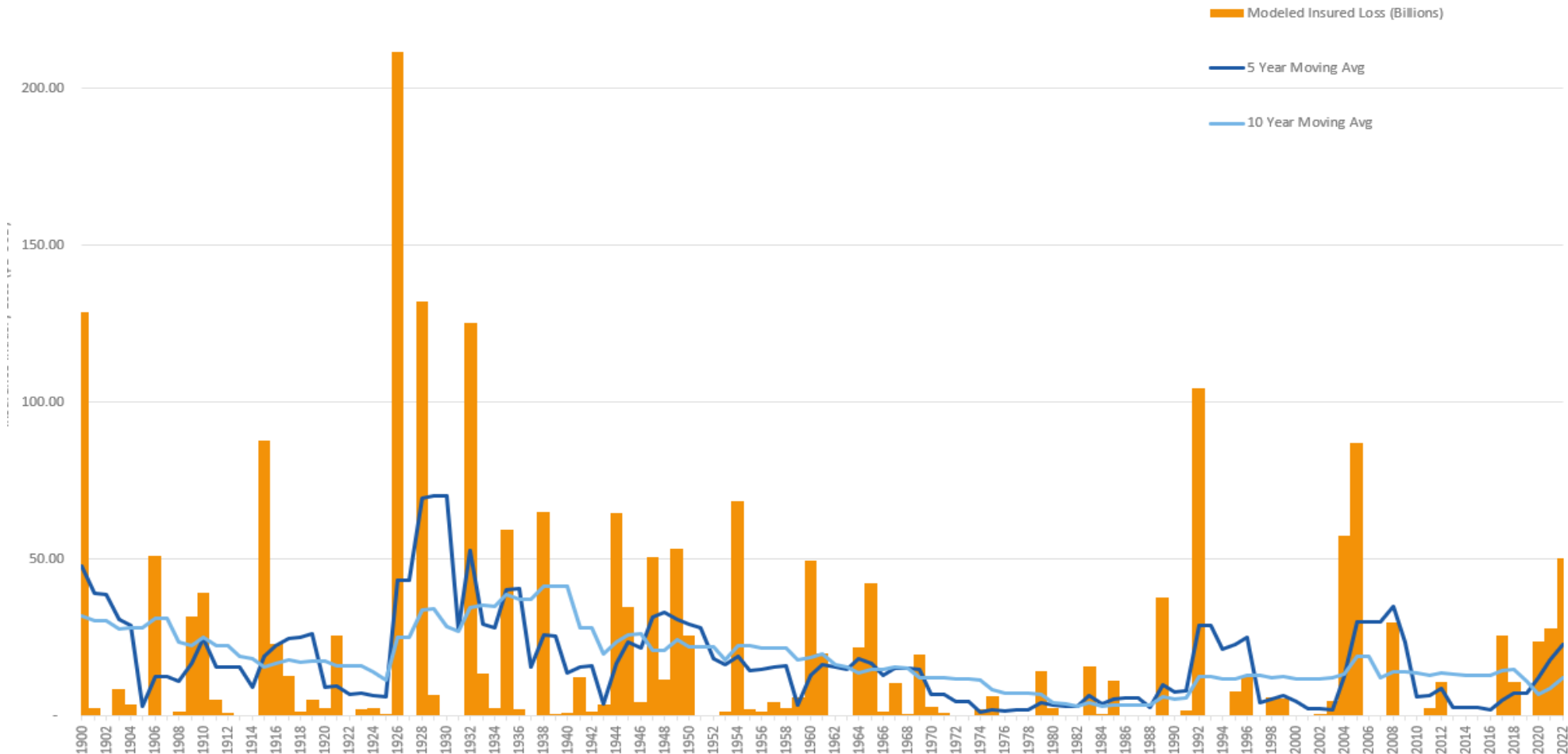
All Regions Landfall Count Cat 1-5



All Regions Landfall Count Cat 3-5



U.S. Historical Model-Adjusted Losses



- 1926 Great Miami hurricane models as \$200 billion+ event today
- Second-largest modeled event is Lake Okeechobee Hurricane in 1928
- 1930 – 1960 time period saw notable frequency and severity of hurricanes

2025 Wildfire Review

California Fires (as of Jan. 21)

- ~17,000+ structures destroyed/damaged
- ~40,000 acres burned across all fires
- 27 confirmed fatalities
- ~170,000 residents were under evacuation orders
- ~\$32.5B: Insured Loss Est. (midpoint)
- ~\$1.9M per claim!
- \$250B - \$275B: Econ Loss Est.
- CA FAIR Plan: Largest Exposure
- Has \$2.63B reinsurance, co-reinsurance, assessments



THE WALL STREET JOURNAL.

California Was Already in Home-Insurance Crisis Before Los Angeles Infernos

Industry officials warn of widespread economic damage on par with some of the biggest fire disasters in recent memory

By Jean Eaglesham [Follow](#) and Joe Flint [Follow](#)
Updated Jan. 9, 2025 1:06 pm ET

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The Economist

The world in brief

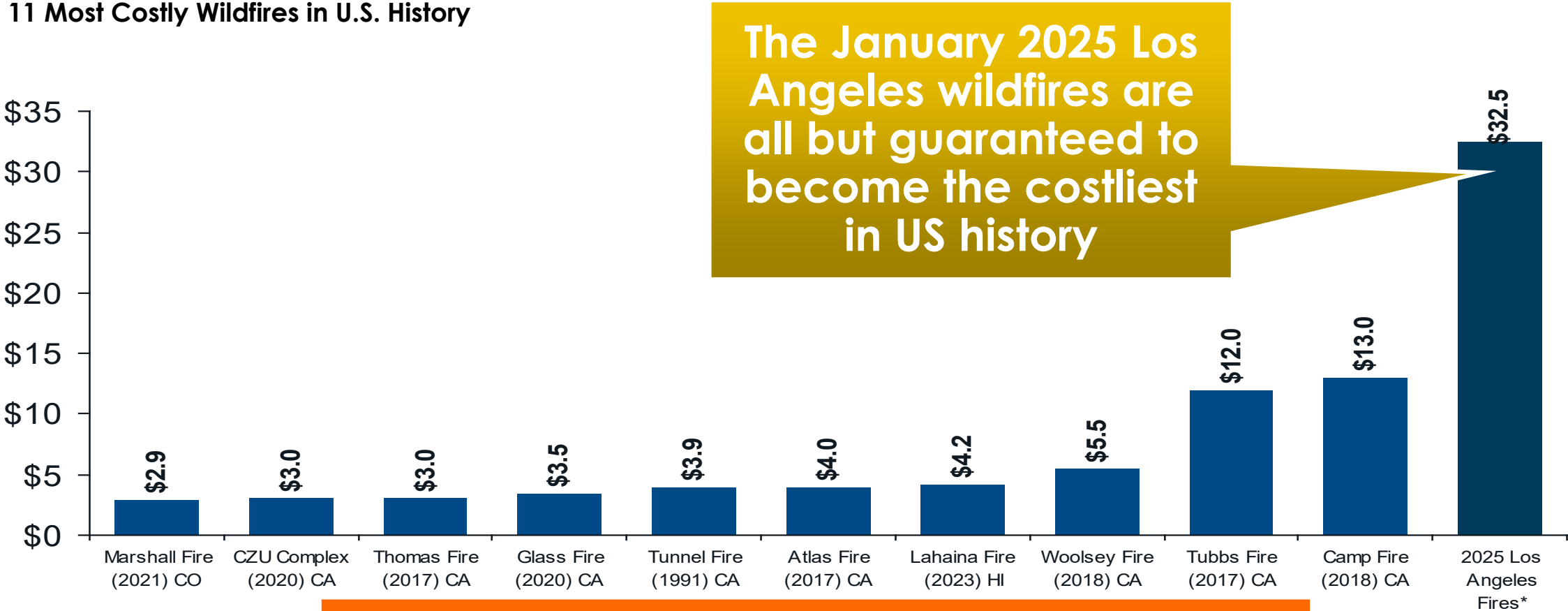
Uninsurable California?



Jan 9th 2025 · 1 min read

California Wildfires in Perspective

Top 11 Most Costly Wildfires in U.S. History



9 of the 11 Most Expensive Wildfire Events Occurred in California. All but One Occurred Since 2017.

*Midpoint of modeller estimates as of Jan. 21, 2025 (Artemis).
Sources: Artemis.bm from Gallagher Re at: <https://www.reinsurancene.ws/insured-la-wildfire-losses-to-notably-exceed-10bn-gallagher-re/>; USC Risk and Uncertainty Management Center

2025 Property Market Trends and Forecast

- Property catastrophe treaty reinsurance is stable, with single-digit rate reductions the norm at January 1, 2025 renewals
- Insurance capacity has flowed back into the industry due to elevated rates and premiums, leading to a more competitive marketplace
- Rate reductions are now common, to varying degrees depending on exposures and loss experience
- Less scrutiny of terms and conditions, with most policies renewing with no change in limits, deductibles, sub-limits, etc.
- Model-driven, analytics-based industry continues to push importance of accurate replacement cost valuations
- Challenging Q1, with January 2025 California wildfires now estimated at \$40 – 50 billion, by far the largest wildfire losses in U.S. history
- \$200 billion of insured global catastrophe losses a realistic possibility in 2025
- Stable and competitive marketplace and outlook, though property market can shift quickly following major events



Predictors of Future Market Conditions



Record wildfire losses to start 2025. What will the rest of 2025 entail?



2025 Atlantic hurricane season forecast to be above average. Colorado State University is predicting 17 named storms, 9 of which will become hurricanes, and 4 reaching major hurricane status (Category 3 or higher)



Despite significant insured losses, the insurance market is well-capitalized and property insurers continue to chase business. As premiums continue to fall, it could become more challenging to profitably underwrite property risk



Inflation has eased from its peak in 2022, however impact of tariffs could drive up cost of building materials, equipment, and other goods, leading to higher insurable values and higher premiums



January 1 Treaty reinsurance pricing is predicated on loss experience and overall economic conditions, and it tends to drive insurance pricing

Future Predictions and Considerations



Casualty Insurance Market Update

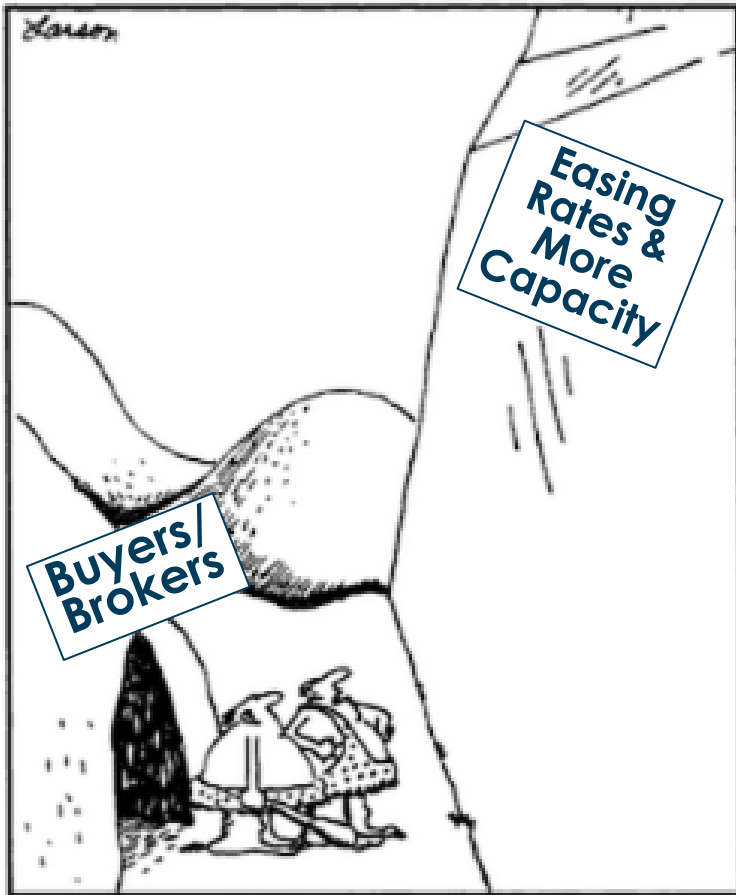
- State of the Casualty Insurance Market
- Nuclear Verdicts
- Impacts from Inflation & Tariffs
- How Is the Industry Reacting?
- Looking Ahead 2025 and Beyond



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**Sheraton Sand Key Resort
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Introduction and General State of the Casualty Market

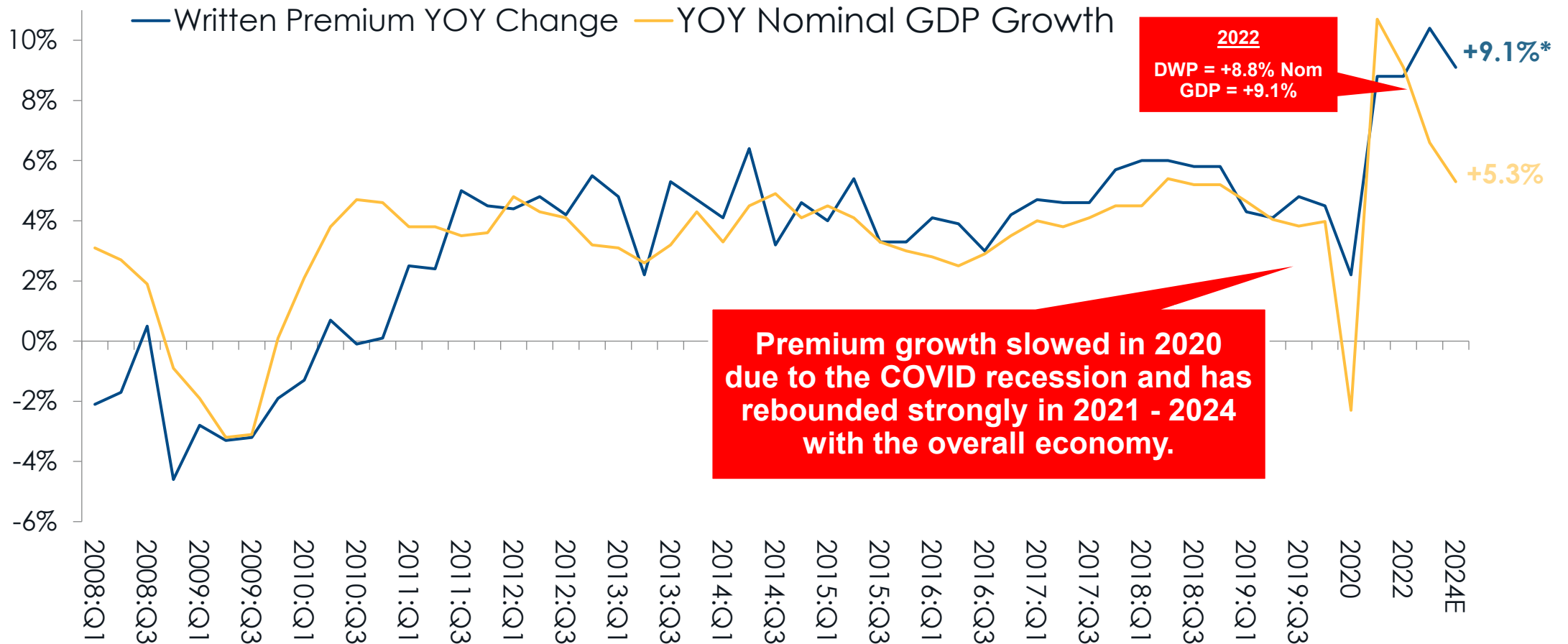


"Say, Thag ... wall of ice closer today?"

- The years-long **non-Auto casualty** hard market is softening, but at a glacial pace.
- **Auto** rates continue to increase.
- **Workers' compensation** continues to experience relief even in the face of medical inflation.
- Economic Challenges
 - General inflation & tariffs
 - Nuclear verdicts & legal system abuse
- Public Entity Specific Challenges
 - Tort cap erosion
 - Aging infrastructure
 - Budget constraints
 - Presumptive claims
 - Law enforcement liability
 - Abuse and molestation & reviver statutes

The Economy Drives P/C Insurance Industry Premiums

Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly YOY % Change Since 2008



Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects are linked to economic performance.

*2020-24E figures are annual.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; Swiss Re (2024E) I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Liability Claim Trends: Higher Verdicts, Higher Costs



U.S. Chamber of Commerce: Record number of “Mega Nuclear” or “Thermonuclear” verdicts (\$100M+) in 2022...only to be broken in 2023!

Average Cost

Since 2018, the average cost of a bodily injury claim has risen by over 50%, nearly double the rate of inflation.

Up >50%

Nuclear Verdicts

Of all jury verdicts exceeding \$10M in the last 10 years, 23.2% have been from automobile accidents and 14.2% from premises liability cases.

Auto: 1 in 4

Median Verdict

The median verdict exceeding \$10M increased from \$21M in 2020 to \$44M in 2023.

2023: \$44M

Source: Insurance Business Magazine, “Will nuclear verdicts impact the insurance industry in 2025?”, Jan. 9, 2025

The Industry's Explanation...

Social Inflation!

A trend of dramatic increase in claim costs that surpass general economic inflation without a corresponding change in legal or factual bases to support them.



Juror
Agendas

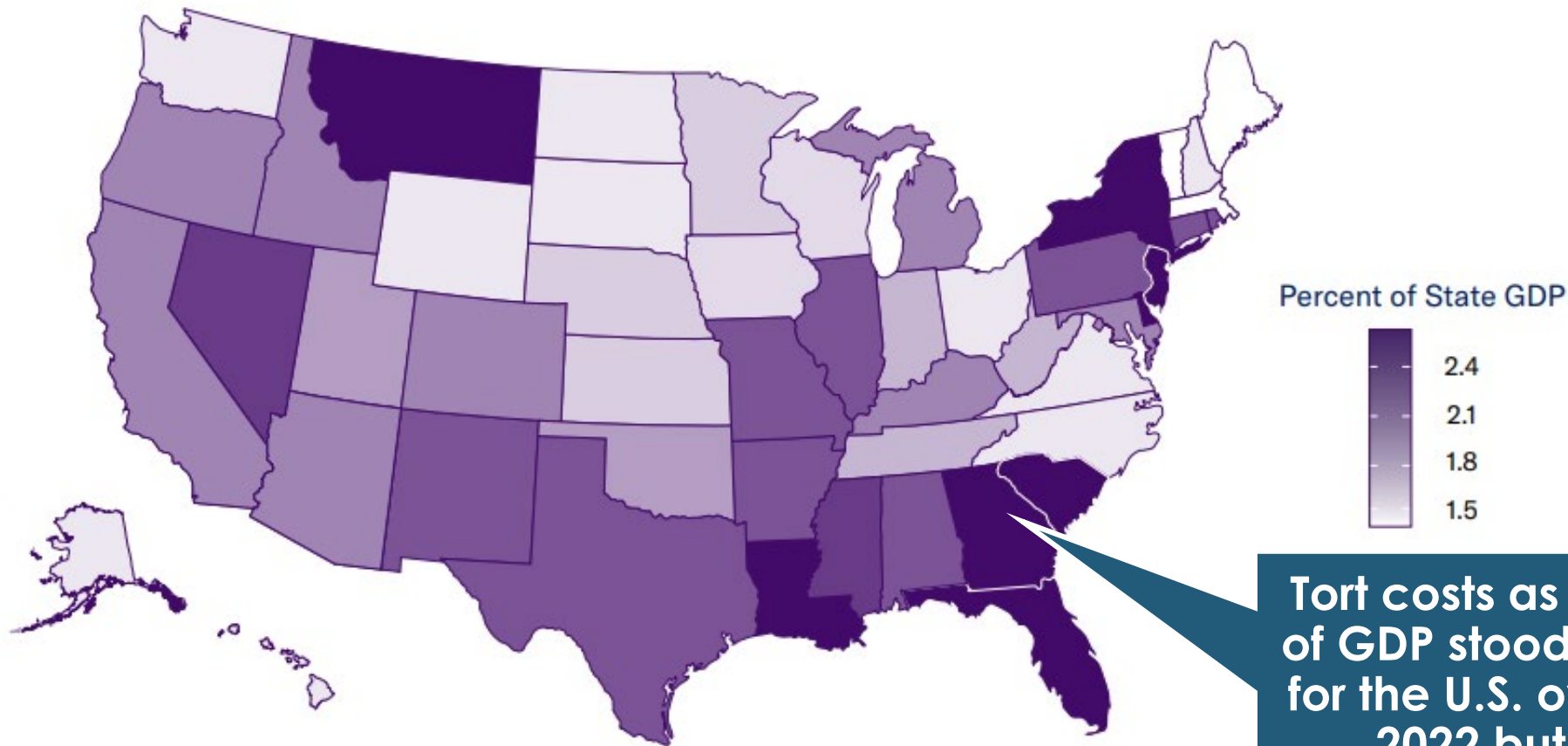
Eroding Tort
Reform

Reptilian
Plaintiff
Tactics

Nuclear
Verdicts

Litigation
Funding

Tort Costs as Percent of State GDP



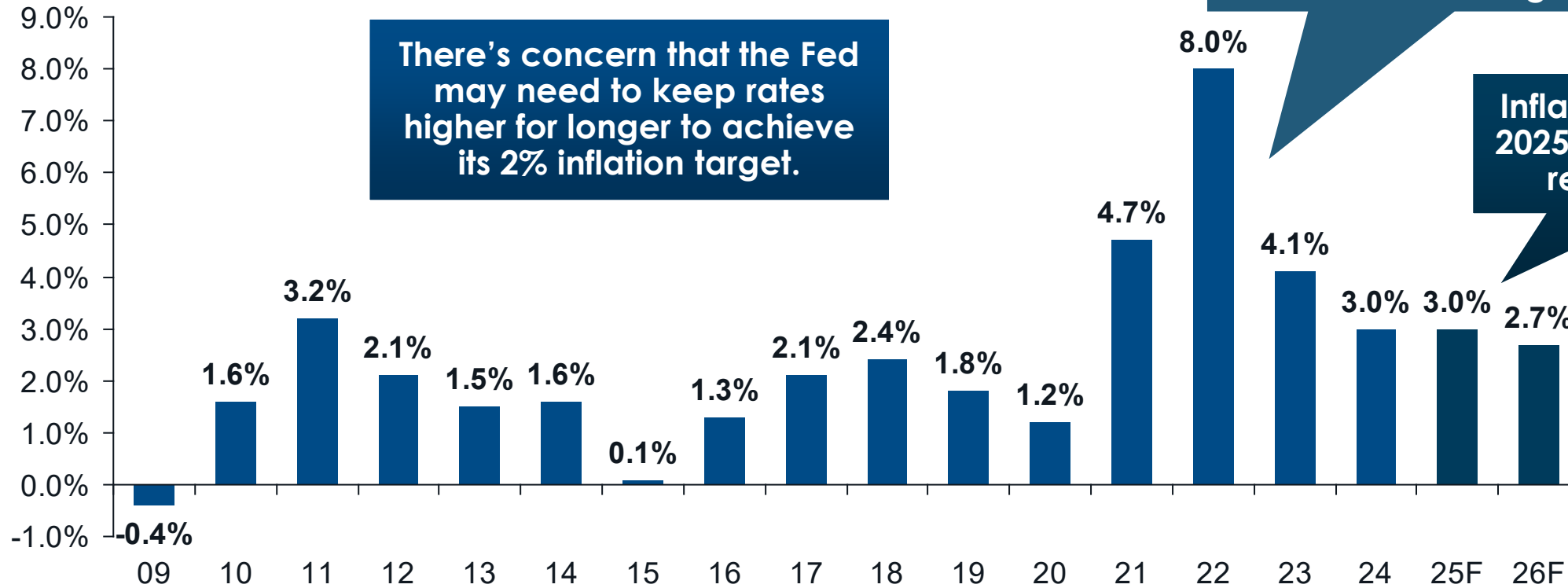
On a per household basis, the U.S. “tort tax” equated to \$4,207 in 2022.

Tort costs as a share of GDP stood at 2.1% for the U.S. overall in 2022 but are materially higher in the Southeast.

Source: US Chamber of Commerce Institute for Legal Reform (Nov. 2024), “Tort Costs in America: An Empirical Analysis of Costs and Compensation of the U.S. Tort System” (3rd Edition) accessed at: <https://instituteforlegalreform.com/research/tort-costs-in-america-an-empirical-analysis-of-costs-and-compensation-in-the-u-s-tort-system-third-edition/>. Risk and Uncertainty Management Center, Univ. of South Carolina.

U.S. Inflation Rate: 2009–2026 (Forecast*)

Percentage Change



There's concern that the Fed may need to keep rates higher for longer to achieve its 2% inflation target.

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation was nearly halved in 2023 and fell further in 2024, but likely to remain above the Fed's 2% target into 2026.

Inflation projections for 2025 & 2026 have been revised upwards.

Insurer Concerns About Inflation

Rate Inadequacy

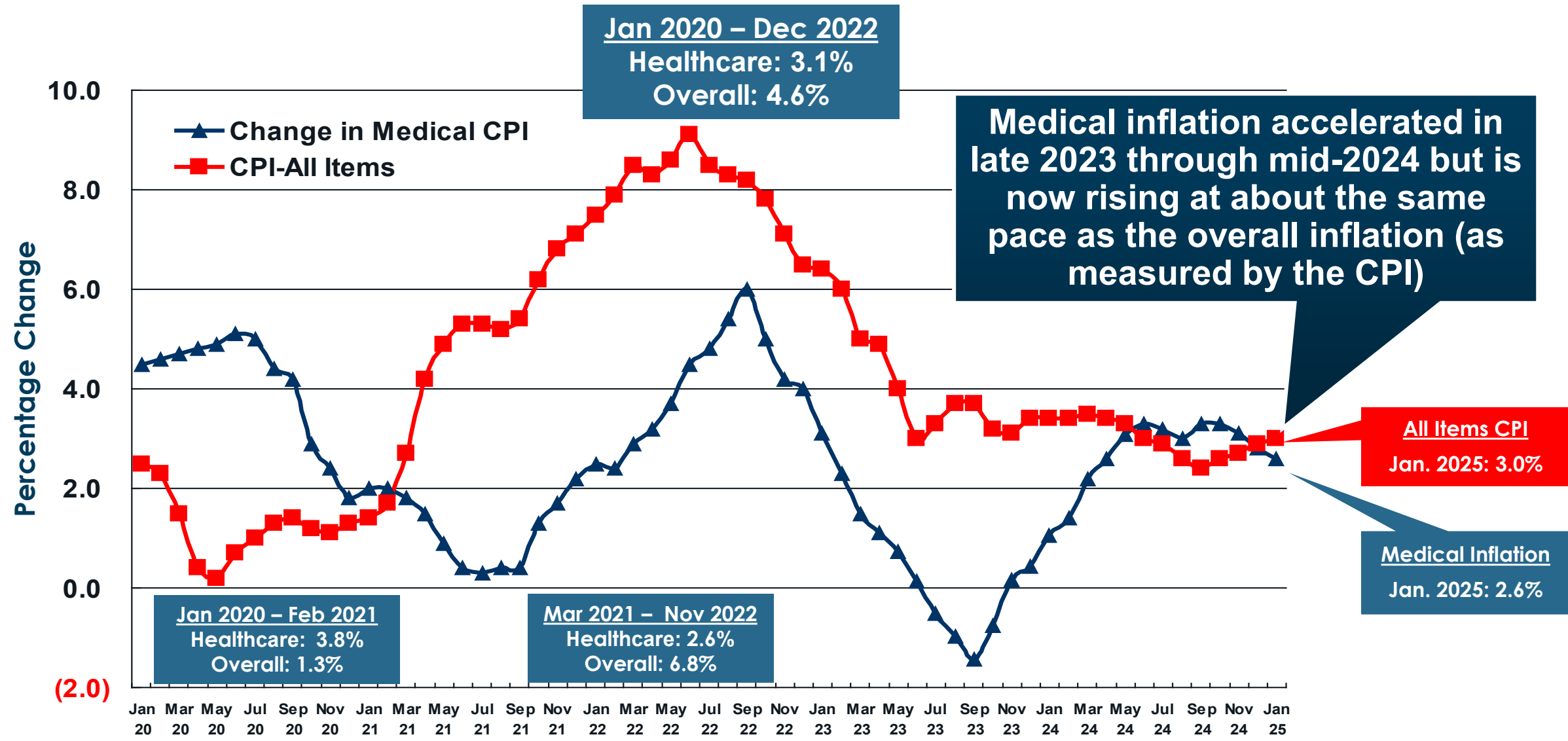
Reserve Inadequacy

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (Feb. 2025); USC Center for Risk and Uncertainty Management.

Medical Cost Inflation vs. Overall CPI Since COVID

Jan. 2020 – Jan. 2025



Impact of Inflation & Tariffs

Inflation

Inflation fears ebbed at the end of 2024 but have since increased in Q1 2025

- The U.S. rate of inflation dropped from 8% in 2022 to 3% by the end of 2024
- Inflation raises insurer concerns about rate and reserve inadequacy as well as insurance-to-value ratios

Potential Impact of Tariffs

Near-term equity losses within insurer portfolios

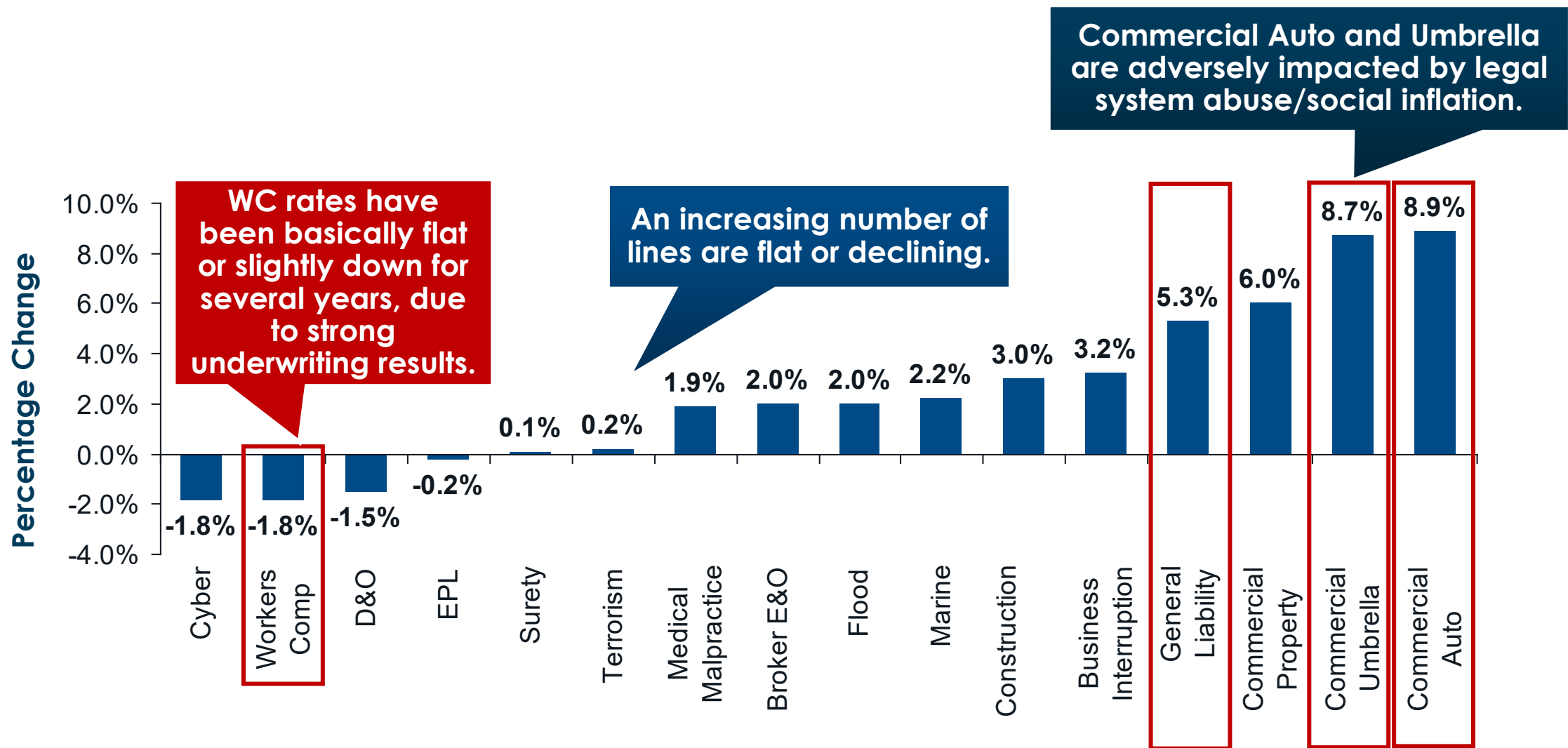
- Investments, which are conservative by design and regulation (lower risk/lower reward), have even lower returns
- Lower investment returns put pressure on underwriting results as the sole source of insurer profit

Loss-cost inflation anticipated for auto, in addition to property lines of coverage

- The U.S. imports the vast majority of auto parts used in repairs paid by insurers (Mexico 36%; Canada 13%; China 13% as of 2022 data)

Sources: Observatory of Economic Complexity (OEC); U.S. Bureau of Labor Statistics; Wells Fargo Securities (Feb. 2025); USC Center for Risk and Uncertainty Management; National Association of Homebuilders, *Import Data for Residential Construction Materials*, Dec. 13, 2024

Change in Commercial Rate Renewals in Q4 2024



Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

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How Is The Industry Reacting?

Insurance Carriers

- Reducing capacity
- Increasing retentions
- Restricting coverage
- Intensifying underwriting scrutiny

Actuaries

- Increasing development factors
- Assuming a continued upward trend

Third Party Administrators

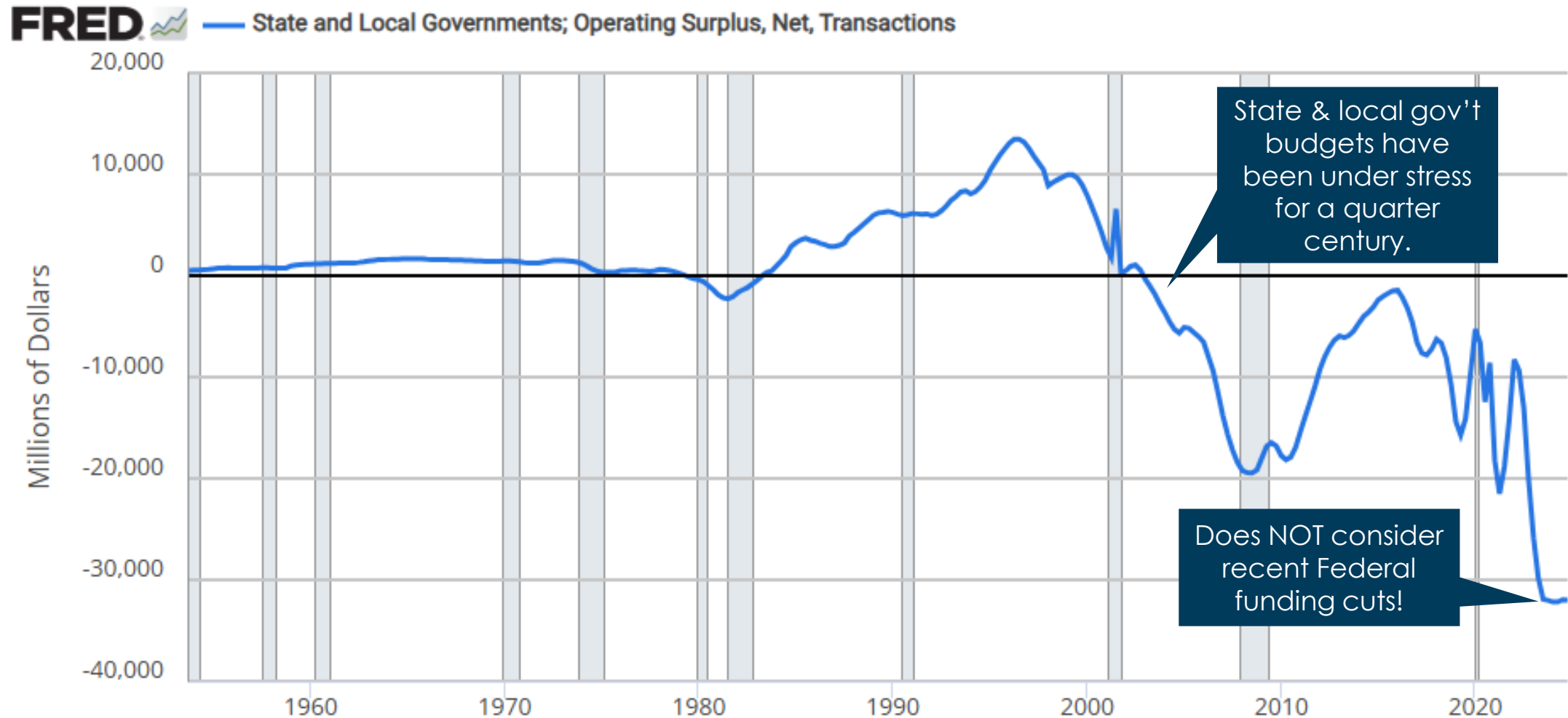
- Establishing higher benchmarking that redefines 'success'

Plaintiff Attorneys

- Feeding into the fear and chaos while cashing in on the opportunity



State and Local Government Surplus Erosion...



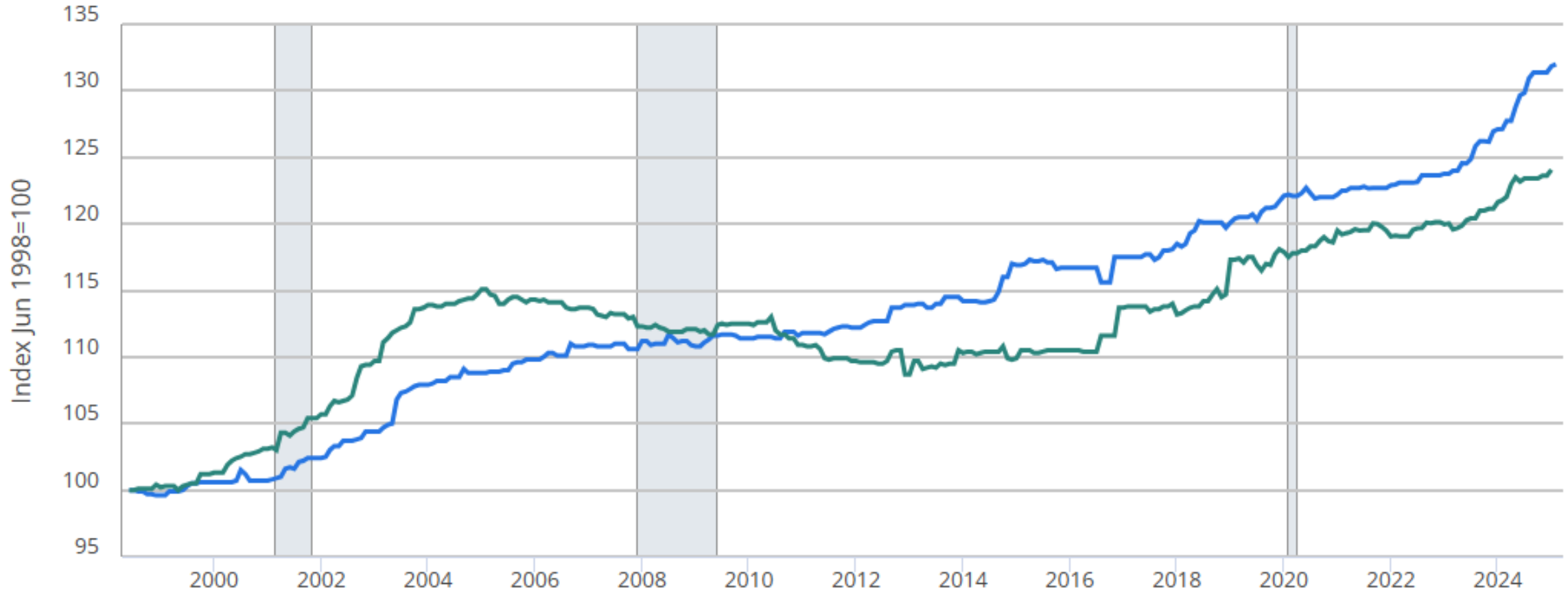
Source: Board of Governors of the Federal Reserve System (US) via FRED®

Shaded areas indicate U.S. recessions.

...Along With Rising Premiums...

FRED

— Producer Price Index by Industry: Premiums for Property and Casualty Insurance: Premiums for Product and Other Non-Auto Liability Insurance
— Producer Price Index by Industry: Premiums for Property and Casualty Insurance: Premiums for Commercial Auto Insurance



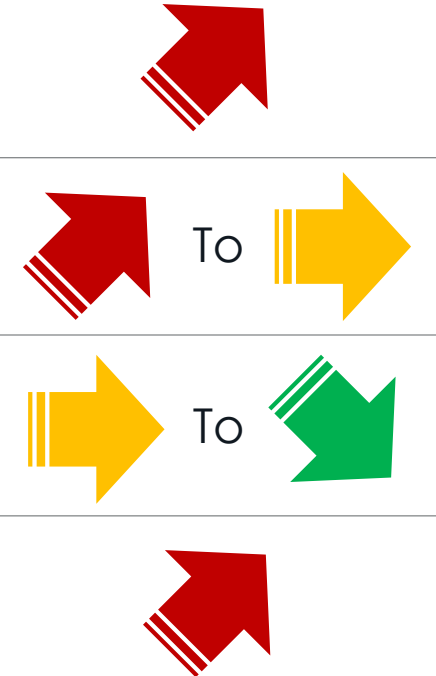
Source: U.S. Bureau of Labor Statistics via FRED®

Shaded areas indicate U.S. recessions.

...Mean More Pain & Higher Costs May Lay Ahead

Potential Future State

	Auto Liability *
	General Liability *
	Workers' Compensation
	Umbrella/Excess Liability *



*** Sovereign Immunity / Tort Caps Help!**
Erosion of existing caps puts more pressure on municipalities, and increases costs to both the municipality and their constituents (i.e. tax-payers).

Where Does That Put Us?



If the traditional market cycle is to be believed, we're moving in the direction of moderating rates, with some select reductions, and additional capacity entering the market...

The Industry Remains Strong, Stable and Secure... So, What's Next?

- **Loss Cost Challenges** have been easing, but changes in fiscal, trade, and labor policies in 2025 could exert inflationary pressures.
- **“Soft Landing”** had been achieved; however, **Recession** looks more possible in 2025 due to tariffs.
- **Asset Price Volatility** will persist with monetary policy, fiscal, and geopolitical uncertainty.
- **Higher Interest Rates** are providing a modest tailwind for investment income.
- **Inflationary Pressures** moderated in 2024, though persisting into 2025.
- **Legal System Abuse** issues remain a long-term challenge and major cost driver.





**Stay informed!
Stay resilient!
Stay positive!**

Thank you!