2024 Commercial Market Outlook Executive Summary

Over the last five years, the commercial insurance market has been contending with a hard marketplace which has made conditions difficult for insurance buyers. These conditions have pressed on for multiple years, prompting most carriers to implement reduced capacity, stringent underwriting standards, and rising premiums. It's essential to keep aware of these and other trends that will impact your insurance brokerage in 2024 and the years that follow.

In order to make sure you and your clients stay protected and informed, it's essential to have a thorough understanding of the market and forces shaping it. Read on to learn more about what events influenced the insurance market in 2023 and what you can expect in 2024.

Please note: This is a high-level summary. A full copy of the report, complete with an analysis into individual lines of coverage, is available within the Zywave Content Cloud.

A COMPLEX MARKET

Throughout 2023, the commercial insurance space became an increasingly complex environment and experienced volatility throughout the year. The increased frequency and severity of claims, growing social inflation issues, evolving cyberthreats and worsening natural disasters have contributed to reshaping the market.

While 2023 saw the federal government mark the end of the COVID-19 Public Health Emergency, pandemic-related trends have continued to be a driving factor in various workplace adjustments and associated operational difficulties.

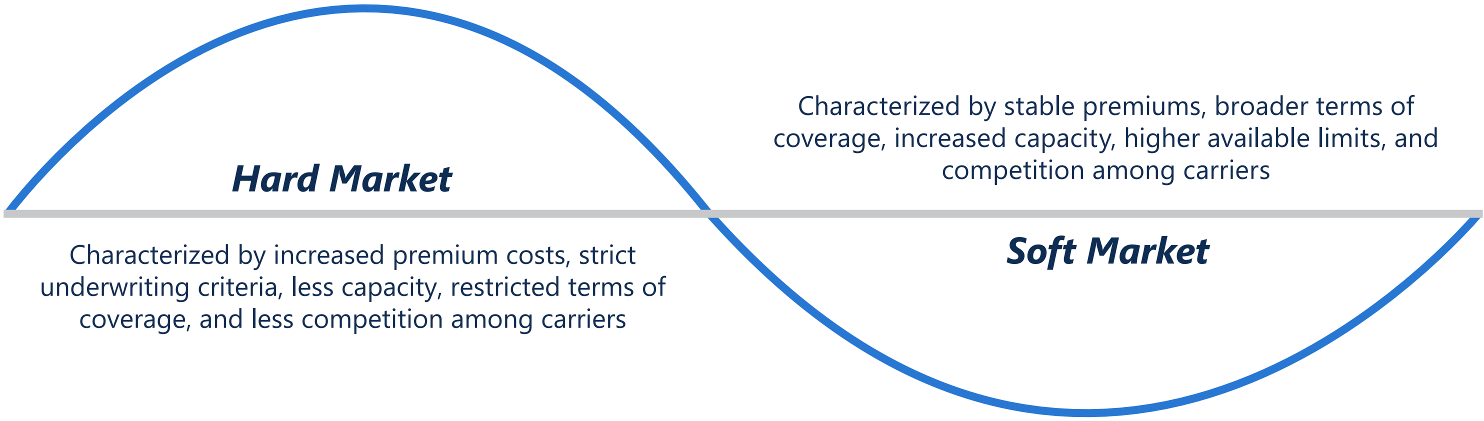
The continuation of supply chain disruptions, labor shortages, economic pressures, and inflation struggles for businesses across industry lines have ongoing effects for the market.

Complicating matters further, certain geopolitical events, advancements in AI and a fluctuating reinsurance market have exacerbated companies' commercial exposures.

Looking ahead, industry experts expect the commercial insurance sector to still carry challenges in 2024; however, it may present more favorable conditions than it has in previous years for some insurance buyers and in certain lines of coverage. It's essential for businesses to take a proactive approach to bolster their risk management efforts and secure adequate coverage.

THE INSURANCE MARKET CYCLE: HARD VERSUS SOFT MARKETS

The commercial insurance market is cyclical in nature, fluctuating between hard and soft markets. These cycles affect the availability, terms, and price of commercial insurance, so it's helpful to know what to expect in both a hard and soft insurance market.



During a hard market, some businesses may receive nonrenewal notices from their insurance carriers. What's more, hard market cycles may prompt carriers to stop writing coverage in high-risk locations or even exit certain unprofitable lines of insurance.

Many factors affect insurance pricing, but the following are some of the more common contributors to the hard market:

Catastrophic (CAT) losses - Floods, hurricanes, wildfires and other natural disasters are increasingly common and devastating. Years of costly disasters like these have compounded losses for carriers, driving up the cost of coverage overall, especially when it comes to commercial property policies.

Inconsistent underwriting profits - When an insurance company collects more in premiums than it pays out in claims and expenses, it will earn an underwriting profit. Conversely, an insurance company that pays more in claims and expenses than it collects in premiums will sustain an underwriting loss. The company's combined ratio after dividends is a measure of underwriting profitability.

Mixed investment returns - When interest rates are high and returns from other investments are solid, insurance companies can make up underwriting losses through their investment income. But when interest rates are low, carriers must pay close attention to their underwriting standards and other investment returns.

The economy - During periods of economic downturn and uncertainty, some businesses may purchase less coverage or forgo insurance altogether. Additionally, a business's revenue and payroll may decline and create an environment where there is less premium income for carriers.

The inflation factor - Prolonged periods of inflation can make it challenging for insurance carriers to maintain coverage pricing and subsequently keep pace with more volatile loss trends. Unanticipated increases in loss expenses can result in higher incurred loss ratios for insurance carriers, particularly as inflation affects key cost factors.

The cost of reinsurance - Reinsurance helps stabilize premiums for regular businesses by making it less risky for insurance carriers to write a policy. However, reinsurers are exposed to many of the same events and trends affecting insurance companies and make pricing adjustments of their own.

ADDITIONAL FACTORS INFLUENCING INSURANCE RATES

In addition to the above, here are other key factors that may influence your insurance rates:

- *The coverage you're seeking*
- *The size of your business*
- *The industry in which you operate*
- *The location of your business*
- *Your claims history*
- *Your risk management practices*

TRENDS TO WATCH IN 2024

Social Inflation Concerns

Social inflation refers to societal trends that influence the ever-rising costs of insurance claims and lawsuits above the general economic inflation rate. The factors currently driving social inflation include third-party litigation funding, tort reform, and plaintiff-friendly legal decisions and large jury awards. Compounding social inflation is an increasing public perception that businesses can afford the cost of any damages. As the commercial insurance sector shifts, it's essential to understand what's currently driving social inflation.

Economic Pressures

Surging inflation has been a persistent concern over the last few years, resulting in eroding investment income and higher administrative costs among carriers, greater underwriting uncertainty, increased claim expenses and rising premiums. The costs to repair, replace or rebuild structures and their contents following losses have increased, prompted by rising labor and material expenses. The workers' compensation and liability insurance segments are also being affected by other forms of inflation such as medical and wage inflation.

Extreme Weather Events

Extreme weather events continue to make headlines as they become increasingly devastating and costly. What's worse, these events aren't limited to one geographic area, impacting businesses across the United States. 2023 kicked off with severe cold waves and immense snowfall, producing the most frigid wind chill the country has ever recorded and costing $1.8 billion in losses. A series of hailstorms, heavy winds and tornadoes wreaked havoc, and in the summer, more than one-third of the country experienced prolonged drought and heat waves, resulting in widespread crop damage, reduced river commerce and diminished national water quality. Tropical Storm Hilary and Hurricane Idalia were some of the most devastating weather events of the past year. In addition to these large-scale disasters, secondary perils have been on the rise and have averaged $70 billion throughout the past decade.

Supply Chain Disruptions

Dating back to the beginning of the pandemic, the United States and much of the world have faced supply chain disruptions. Most of these issues stemmed from increased demand for various items and materials amid a slowdown in production and subsequent lack of availability during pandemic-related closures. Even though businesses have since resumed their normal operations and increased production levels, demand for certain items and materials continues to outweigh inventory. With this in mind, it's vital for businesses across industry lines to prepare for and minimize potential supply chain disruptions. One emerging tactic to accomplish this is utilization of automated supply chain technology and other digital solutions.

AI Developments

AI technology encompasses machines and devices that can simulate human intelligence processes. Applications for this technology are widespread, but some of the most common include computer vision solutions, natural language processing systems, and prescriptive analysis engines. AI systems can potentially improve loss control measures and claims management practices for several lines of commercial coverage, but AI technology also carries risks. In particular, since this technology still relies on human algorithms, any inaccuracies or mistakes made during the initial input process could perpetuate companywide biases and produce serious errors amid corporate decisions, exposing businesses to various lawsuits and related claims.

Geopolitical Upheaval

2023 saw the continuation of severe geopolitical upheaval and international disruptions, particularly those relating to the ongoing Russia-Ukraine conflict, shifting trade dynamics between China and the United States, rising tensions amid the Israel-Hamas war and growing nation-state cyberthreats. One of the most significant concerns associated with geopolitical upheaval is the extent to which losses stemming from international disruptions are covered by commercial insurance policies. Businesses should prepare for potential disruptions by closely monitoring evolving global trade policies and considering domestic production solutions to ensure business continuity.

Reinsurance Challenges

The reinsurance sector plays a valuable role in the overall insurance landscape, allowing carriers to effectively allocate their risks and offer more capacity. In recent years, however, the reinsurance segment has faced substantial challenges such as increasing market demand and large-scale losses forcing reinsurers to make significant payouts that threatened their overall profitability. The commercial property reinsurance space has been hit hardest by these trends, largely due to the increased frequency and severity of extreme weather events and associated CAT losses.

E&S Shifts

The E&S insurance segment provides coverage to policyholders seeking protection that's unavailable to them from the standard insurance market. As a growing number of carriers operating in the standard insurance market reduce their risk appetites and either exit the sector or no longer provide coverage to policyholders in certain industries or locations, the E&S environment has flourished. As the E&S market continues to evolve, it's important for policyholders to stay up to date on the latest developments.

2024 MARKET OUTLOOK FORECAST TRENDS

Price forecasts are based on industry reports and Zywave surveys for individual lines of insurance. Forecasts are subject to change and are not a guarantee of premium rates. Insurance premiums are determined by a multitude of factors and differ between businesses. These forecasts should be viewed as general information, not insurance or legal advice.

Line of Coverage	Price Forecast
Commercial property	CAT-free: +5% to +15% CAT-exposed: +15% to +25%
General liability	+1% to +10%
Commercial auto	+5% to +30%
Workers' compensation	-5% to +2%
Cyber	0% to + 15%
Directors and officers liability	Private/nonprofit companies: 0% to +5% Public companies: -10% to +5%
Employment practices liability	0% to +10%