

# CURRENT MARKET CONDITIONS

## KEY FACTORS IMPACTING THE REINSURANCE MARKETPLACE

*Public entities across the country are facing the same challenges when it comes to the impact of market conditions and risks - from a rise in cyber incidents and climate-related losses to decreasing capacity and increasing costs in a hardening insurance market.*



### PROPERTY

- Increase in **frequency** and **severity** of claims
- **Worldwide insured natural catastrophe losses at \$100B in 2023**
- **First half of 2023:** insured losses 190% more than the annual average
- Inflation and supply chain issues drive up claim costs
- **Capacity constraints:** reinsurers/carriers leaving the market and/or reducing limits
- **Coverage restrictions/reductions:** reinsurers/carriers reducing coverages and adding coverage restrictions

## KEY INSIGHTS

- **ECONOMY:** Inflation, supply chain issues, high interest rates and labor shortages have continued to disproportionately impact the public entity sector.
- **INCREASED CLAIMS COSTS:** Social inflation, third-party funded litigation, nuclear verdicts and inflation have driven claims costs higher.
- **BUDGET MANAGEMENT:** Rapidly increasing costs have led to increasing budget deficits. Many public entities have not recovered from the increased costs and reduced income caused by COVID-19.
- **CAPACITY:** While not yet improving, the public entity marketplace has begun to stabilize; however, new capacity is *highly* selective in terms of the lines of business and types of risk they will consider.



### CYBER

- **Ransomware** continues upward trend: 101.84% increase from August 2022 to May 2023
- **Increases in average initial ransom** demand: \$1.4M in 2021 to \$2M in 2023
- **Cyber-attacks** in the US up 57% in 2022 vs 2021; 2023 figures expected to show further increase
- **Ransomware** and **business e-mail compromise** leading causes of loss
- **War** and **systemic risks** a concern; carriers add exclusions and/or sublimits to reduce their risk
- Increased/continued focus on insured's security controls



### CASUALTY

- **Casualty claims:** YOY 11% growth rate (~\$8B to ~\$23B)
- Social inflation
- Nuclear verdicts and jury disconnect
- Unregulated third-party lawsuit funding
- **Capacity constraints:** reinsurers/carriers leaving the market and/or reducing limits
- **Coverage restrictions/exclusions:** reinsurers restricting/excluding coverage for PFAS, communicable disease and cyber