

HUB 2024

Outlook

Mid-Year Rate Report

Business

In perilous times, insurance and risk management offer the opportunity for better results



Risk & Insurance | Employee Benefits | Retirement & Private Wealth



Climate change has accelerated the frequency and intensity of natural disasters. Insurers were on the hook for \$108 billion in damages from catastrophes in 2023, down from \$125 billion in 2022 but above the 10-year average of \$89 billion. The long-term trend of increased catastrophes from climate change will show up in rising insurance rates.¹

The “new normal” of recurrent and severe weather events represents an unpleasant reality for insurance companies and their policyholders. Climate change-driven catastrophes will continue to plague the U.S. in 2024 and beyond, and will have an outsized effect on insurance rates and availability. While there are signs of some relief for insureds, those acknowledging a new reality will have an edge on controlling risk and obtaining rate relief.

¹ Swiss Re Institute, “Natural disasters in 2023,” March 26, 2024.



Will catastrophic weather be the new normal?

The numbers are concerning: Worldwide losses from natural catastrophes amounted to \$280 billion during 2023.² That figure doesn't help U.S. business owners and managers trying to get their insurance costs under control.

Globally, there were 143 insured natural disasters in 2023, the most ever. That included 30 disasters with losses between \$1 billion and \$5 billion, compared to an average of 17 such catastrophes of similar proportions in the 10 previous years.²

The U.S. had a record number 28 disasters totaling \$1 billion or more of damage. While the wildfires in Hawaii and hurricanes generated the most headlines, severe convective storms, flooding and hailstorms resulted in enormous damage.³

Climate change has been identified as the culprit for more frequent and destructive storms and wildfires. Severe convective storms accounted for \$64 billion in losses in

2023 — and 85% (approximately \$54 billion) of those losses were in the U.S. In fact, insured losses from severe convective storms have risen an average of 8% each year since 2008.⁴

These disasters have contributed to the challenges of the commercial insurance market, in which rates rose consistently for the past 25 quarters. In the first quarter of 2024, property rates increased 10.5%, compared with 10.3% in the fourth quarter of 2023. Similar increases have been seen for business owners, commercial auto, umbrella coverage and general liability policies.⁶

However, there is hope on the horizon. Reinsurers, often seen as a predictive measure for primary insurance carriers, reported strong profits in 2023 due to higher rate hikes and tight terms. Those margins are expected to peak in 2024, leading to an influx of capital and a softer market in 2025.⁷

Catastrophic Floods in the Desert

An April 2024 downpour dropped as much as 10 inches of rain in the desert climate of the United Arab Emirates and Oman, causing widespread flooding. Experts identified climate change as the reason for the intensity of the storm.⁵

²Swiss Re, "New record of 142 natural catastrophes accumulates to USD 108 billion insured losses in 2023," March 26, 2024.

³National Oceanic and Atmospheric Administration, "U.S. struck with historic number of billion-dollar disasters in 2023," January 9, 2024.

⁴Swiss Re Institute, "Natural disasters in 2023," March 26, 2024.

⁵Reuters, "What caused Dubai floods? Experts cite climate change, not cloud seeding," April 18, 2024.

⁶Business Insurance, "Insurance rate increases accelerate in Q1," April 15, 2024.

⁷Fitch Ratings, "Reinsurers' Underwriting Margins to Peak in 2024," January 23, 2024.

Simply put, the enormous rate increases in 2023 reflected a terrible 2022. A milder-than-expected hurricane season last year resulted in a positive year for insurers despite massive payouts for other disasters because rates were high. As a result, capacity is increasing, which is expected to result in stability and, in some cases, rate decreases. But a difficult Atlantic hurricane season this year could disrupt rate stabilization.

Strong risk management continues to be an essential component for organizations to keep rates in check and keep themselves adequately insured.

How the changing nature of catastrophic weather events affects businesses

In the past few decades, in addition to hurricanes, the U.S. has faced baseball-sized hail, unprecedented flooding and devastating wildfires. While these events are not uncommon, climate change has increased their frequency and severity.

Despite a mild hurricane season in 2023, perils once considered moderate risks had an outsized impact on the U.S., resulting in billions in insured losses. A combination of these events — plus hurricanes and wildfires — proved devastating for some businesses and their insurers.

Fortunately, there may be some relief for catastrophe-prone regions in terms of insurance pricing and availability. U.S. insured property losses reached \$79.6 billion in 2023, which is an enormous amount but 43% lower than the \$114 billion paid out in 2022 and 33% less than the \$106 billion in losses in 2021.^{8,9}

In addition to these enormous losses, the costs of rebuilding have risen. In the last five years, material, equipment and labor costs for industrial and office building construction rose 46%, not including the expense of financing or insurance.¹⁰ Costs are expected to rise as much as 6% in 2024.¹¹

The light after the storm

Although catastrophes will strike the U.S. at a higher rate with greater intensity in the future, as noted above 2023 was less catastrophic than previous years due to a less active hurricane season than anticipated.

And, as also noted above, expanded capacity in the insurance market will result in insureds in most of the U.S. likely seeing rate stability and greater availability of coverage options — which could change with a worse-than-average hurricane season.

Insurance for properties with exposure to catastrophic perils may not experience the same level of relief. Rates will depend on factors including a property's occupancy, exposure to natural catastrophe, age, construction and protection against loss.

Underwriters will continue to pay close attention to insureds' loss experience, valuation methodology, risk control and geographic footprint in determining premiums. Organizations with strong risk management programs that make the effort to mitigate their exposures will be the most likely to reap the benefits.

⁸ Insurance Information Institute, "Facts + Statistics: U.S. catastrophes," accessed May 2, 2024.

⁹ Amounts adjusted to reflect 2023 dollars.

¹⁰ Federal Reserve Bank of St. Louis, "Producer Price Index by Industry: New Industrial Building Construction" and "Producer Price Index by Industry: New Office Building Construction," accessed May 2, 2024.

¹¹ Currie & Brown, US construction market overview Q2 2024, accessed May 2, 2024.

Keep insurance costs in check through risk management

While finding adequate insurance for commercial properties will remain difficult, we expect market instability will level off throughout the rest of 2024.

To improve insurability and reduce risk in the short term, business owners and managers should consider the following:

- ✔ **Build resiliency against disasters.**
Short of moving a business out of a catastrophe-prone area, it's impossible to remove all exposure to disasters. However, upgrading roofs, plumbing, electrical systems and other at-risk elements will reduce the risk of a claim. In areas prone to wildfires, buildings should be in "defensible" positions with non-combustible landscaping; in geographies with severe convective storms and hurricanes, property must be secure and stored when possible.
- ✔ **Implement emergency response plans for catastrophes.**
With catastrophes more common than ever, underwriters will look favorably on insureds that have an emergency response plan for a catastrophic event. Plans for evacuation, protecting property and business continuation in the event of a ruinous weather event will help secure appropriate coverage at an affordable rate.
- ✔ **Seek insurance coverage from nontraditional sources.**
Consider coverage from excess and surplus (E&S) insurers, captive insurance options and shouldering additional risk. With climate change leading to less insurance availability, remember that a single insurer will be unlikely to fulfill all your needs.
- ✔ **Work with your broker early on renewals.**
Start the planning for insurance renewal as much as 150 days before the deadline. While that's a lot of time compared with the 60 to 90 days before renewals that companies have allotted in the past, the realities of today's evolving insurance landscape mandate extra time to obtain adequate coverage.



Rate Outlook

HUB International analyzes proprietary national survey data and interviews commercial insurance brokers and risk services consultants throughout North America each quarter to bring you our Mid-Year 2024 Business Lines Rate Report for the U.S.

Discuss your business exposures with your HUB insurance broker to understand what to expect in advance of your next renewal.

Coverage	U.S. Rate Guidance	Insights
Commercial Automobile: 5 Vehicles or Less	↑ 5% to 15%	While rates continue to rise, hikes are often not as high as feared, particularly where there is competition and insureds have a favorable loss experience. In addition, underwriters may offer more favorable terms if auto coverage is part of a multiline or package program.
Commercial Automobile: 6 or More Vehicles	↑ 5% to 15%	Variances in rate hikes are due to different vehicle weights and radius of operations, loss experience and program structure. Insurance programs with small deductibles or guaranteed cost programs are more vulnerable to rate volatility. Higher deductibles tend to result in more moderate increases.
General Liability	Flat to ↑ 10%	General liability risk is industry and customer specific. Rate increases also vary by carrier and program structure including deductible level, limits of coverage and loss experience. Organizations with large deductibles or self-insured retentions are seeing moderate or no rate increases and may even have rate decreases.
Workers Compensation	↓ 3% to ↑ 3%	The market for workers' compensation coverage continues to be highly competitive. Insurers will often offer more favorable terms on other lines when workers' comp is included.
Package	Flat to ↑ 10%	Insurance packages tend to be more stable because of the bigger pot of premium, with one carrier offsetting losses on any one line.

Rate Outlook

Coverage	U.S. Rate Guidance	Insights
Umbrella & Excess Liability	Flat to ↑ 10%	Rates for umbrella and excess insurance are less volatile than in recent years. Lead umbrellas can still be challenging, but new market entrants have made excess liability limits more competitive. With increased competition, rate relativity to the underlying layer is increasing.
Commercial Property	↓ 5% to ↑ 5%	<p>The property market continues to show rapid signs of improvement. Reinsurance renewals for Jan. 1 and April 1 were orderly in process and were flat on average. The additional capital into commercial property insurance represented a major improvement from the year prior.</p> <p>Many insurers are realizing profits on their property portfolio, with several underwriters reporting record results and favorable combined ratios. This has created greater capacity and competition, with some renewals having several viable options on single carrier placements and additional capacity on shared and layered programs.</p> <p>The net result has been an average of flat to low single-digit increases. There are also rate reductions, particularly for programs with an optimal structure. Underwriters will continue to judge insureds individually, examining valuation methodology (both PD & BI), loss experience, risk control, geographic footprint and overall premium volume.</p>
Residential/Habitational Property	↑ 5% to 7.5%	Construction and location remain important differentiators in pricing residential-habitational risks. Location protection and loss experience are major factors in determining insurer availability and price competition.
Catastrophic Perils	↑ 5% to 10%	Rates are heavily dependent on the location of property in relation to a CAT zone, construction type, year built, the type of protection and type of business. Windstorms and earthquakes remain a concern, but risks from severe convective storms and wildfires are having the greatest effect on rates. The 2024 wind season will be a major factor in determining the stability of the property insurance market.
Environmental	↓ 10% to ↑ 5%	<p>Rates for pure environmental risks have ranged from falling to slight increases. Exclusions for PFOAs and related conditions have caused significant pressure on renewals; risks are being remarketed for coverage, regardless of price.</p> <p>Pricing for environmental coverages that are packaged with other casualty lines are firm as well.</p>

Rate Outlook

Coverage	U.S. Rate Guidance	Insights
Directors & Officers: Private	↓ 5% to ↑ 5%	Pricing and retentions have trended favorably, with strong competition for new and existing business. Insurers are continuing to focus on growing their private company D&O business. Ample capacity has resulted in higher limits, flat rates on excess and coverage improvements.
Directors & Officers: Public	↓ 10% to ↑ 5%	Companies that have completed a recent IPO or secondary offering may see firmer pricing, but overall the market is relatively soft. There is plenty of capacity in the U.S., London and Bermuda markets. The public company D&O market is likely to remain soft for the foreseeable future.
Cyber Liability	↓ 10% to Flat	Significant carrier competition in cyber liability coverage has resulted in incumbents aggressively retaining business. Rates for renewals are flat or with an initial decrease on certain accounts. However, carriers remain vigilant in requiring cybersecurity controls.
Professional Liability: Architects & Engineers	Flat to ↑ 2.5%	Despite the increased cost of claims from higher legal costs and materials, rates for A&E and contractors professional/pollution remain competitive.
Professional Liability: Medical Malpractice	↑ 5% to 10%	The frequency and severity of claims continue to have a direct impact on overall pricing. Nuclear verdicts and overall uncertainty are also pushing rates upward.
Professional Liability: Misc. Errors & Omissions	Flat	On average, E&O rates are flat, but there's a considerable difference between specific types of risks. For example, underwriters seek business consultants and other favorable professions while tougher classes such as appraisers and collection agents face a tougher rate environment.

Industry Perspective

Business	U.S. Rate Guidance	Insights
Agribusiness	↑ 5% to 15%	<p>Despite decreasing combined loss ratios, carriers are still holding their underwriting discipline and evaluating all property lines (property damage and business insurance). Wildfire/brushfire scoring, loss experience, risk control, geographic footprint and overall premium volume still dominate underwriting criteria. Valuations remain a primary concern on renewal.</p> <p>Although the property market has shown some signs of softening, there's been little movement to increase capacity.</p> <p>Auto, primary general liability, and shallow tower excess layers will face premium increases as pressure mounts for rate adequacy.</p>
Cannabis	Flat to ↑ 5%	<p>While rates have decreased on certain coverages like D&O and liability (including product liability), rates for property, auto, CAT coverage and other policies continue to rise. An increase in claims and other challenges, such as difficult mergers and acquisitions, have resulted in the divergence between insurance lines.</p> <p>New states legalizing cannabis for adult use represents industry growth, which will have an impact on specific risk exposures.</p>
Construction	↑ 10% to 15%	<p>Underlying inflationary factors (property and equipment repair costs, tight labor conditions and other conditions) are driving rate increases. Rates are broadly stabilizing overall as market conditions improve. However, property rates in CAT-prone regions continue to escalate, as do auto and primary GL rates. This is particularly true for difficult geographies including California, Florida, Texas, Arizona, New York, South Carolina and Colorado.</p>
Entertainment	↑ 5% to 10%	<p>The writers' and actors' strikes in 2023 slowed rate growth, but insurance carriers are incrementally raising rates. There is additional capacity in certain markets such as London, especially for film, and carriers are seeking to expand live events coverage. Nonetheless, underwriters are seeking higher rates, especially for general liability and excess coverage. Contract review and proper risk management will remain essential for obtaining the optimal coverage and price.</p>
Financial Institutions	↓ 5% to ↑ 5%	<p>Rates for reps and warranties (R&W) insurance remain at historical lows, between 2.3% and 2.7% of the limit of liability purchased, and will remain so lacking a significant increase in M&A volume. There is also significant downward pressure on retention; retention for deals with enterprise values of \$50 million to \$500 million are 40 to 70 basis points and falling to less than 50 bps 12 months after closing.</p> <p>Premiums for M&A tax insurance remain at all-time lows. Some placements have been made at 2% to 3% of the policy limits versus 4% to 6% two and three years ago.</p>

Industry Perspective

Business	U.S. Rate Guidance	Insights
Healthcare	Flat to ↑ 10%	On average, rates are running flat to increases of 10%. However, several factors can cause rates to fall outside this range, including the venue where care is rendered and the layer of coverage (primary or excess).
Hospitality	↑ 15% to 20%	Rates will vary, with some insureds seeing property rate increases slowing while businesses will see increases if they have construction, occupancy, protection and exposure (COPE) or CAT issues. The upcoming wind season will be a factor in property coverage and rates, and litigation issues will be a factor with hotels for casualty coverage.
Nonprofit	↑ 5% to 15%	Property is a major factor for overall increases; carriers are focused on replacement cost values, which can have a significant impact on premium and rate. Insurers are reducing catastrophic limits for wind, hail, flood and wildfire coverage. Social inflation has resulted in carriers reducing umbrella limits, leaving often expensive and extremely limited options for protection. Workers' comp, nonprofit D&O and cyber liability rates have stabilized, providing some relief to more challenging lines of business. Smaller, low-hazard nonprofits are experiencing 5% to 10% rate increases, while larger nonprofits with complex risk issues are seeing increases of 10% to 15%.
Real Estate	↑ 5% to 10%	General liability insurance rates are rising 5%, with coverage in large cities rising 10%. Primary property rates have slowed down to increases of 5% to 15%. Excess of probable maximum loss (PML) cover may see decreases.
Sports	↑ 5% to 15%	National governing body and association general liability is up 5% to 7%, but is higher with loss experience. Rates for excess on those lines have risen roughly 10%, but insureds without losses are seeing no rate increases or even decreases for D&O, E&O and cyber liability coverage. Due to loss history, rates for some intercollegiate athletic insurance are increasing to 25% due to loss history. Rates for motorsports event coverage is flat.
Transportation	↑ 5% to 10%	Trucking companies are likely to face significant rate increases, along with risk-selection restrictions and reduced availability among large insurance companies. However, insurtechs are pricing aggressively. As a result, rates and availability in transportation are likely to remain volatile.

NOTE: Rate is typically defined as the amount of money necessary to cover losses, expenses, and provide an insurance company with a profit for a unit of exposure. **Exposure** refers to a business' or individual's susceptibility to various risks encountered daily. Carriers evaluate the level of risk an insured faces in calculating insurance premiums.



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