THE PEO PERISCOPE: A LOOK UNDER THE INSURANCE MARKET

BY PAUL HUGHES

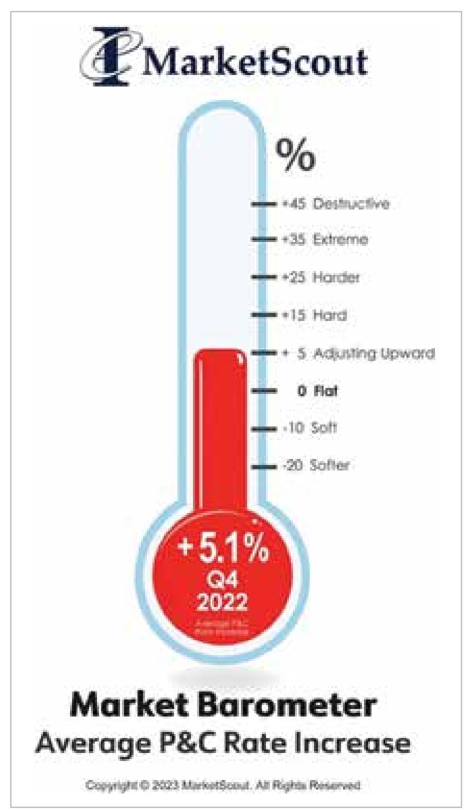
By utilizing the most current and credible information available, *Insurance Trends* provides quarterly feedback and insights on the insurance industry and its impact on the PEO community. It provides current analysis and futuristic expectations on the terms and conditions that should be anticipated for property and casualty lines of business insurance that impact a PEO and its client companies.

2023 OUTLOOK

Our friends at MarketScout see an overall 5.2% increase in the sector with CEO Richard Kerr saying, “If there is a slowdown in the economy and/or the Federal Reserve continues to increase interest rates, we may well see moderation in insurance rates.

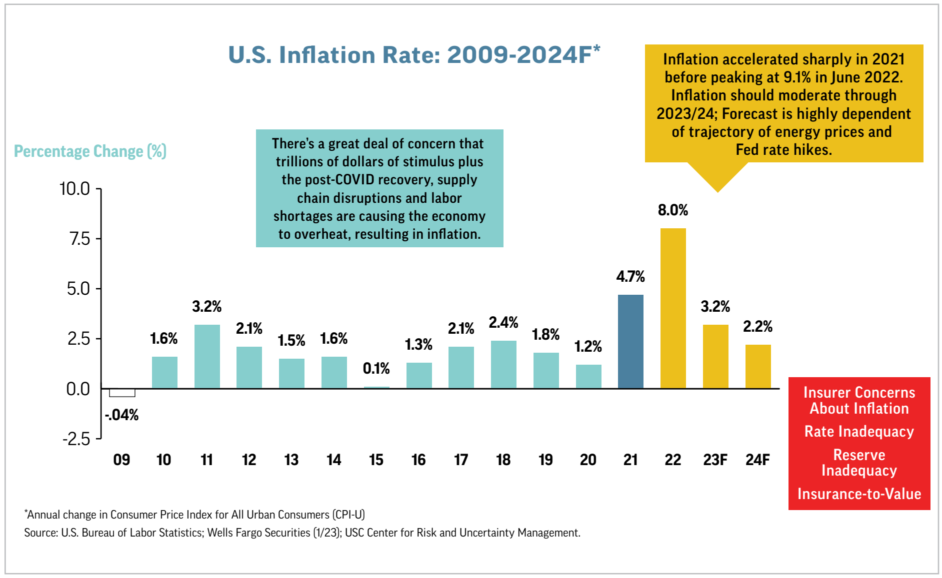
In the early 1980s, insurers did account for an interest income float on premiums received, better known as cash flow underwriting. This concept was mostly applied to longer tail casualty lines. Arguably, an insurer could write at a 100% combined loss ratio because the interest they received on booked premiums was 12% to 20%.”

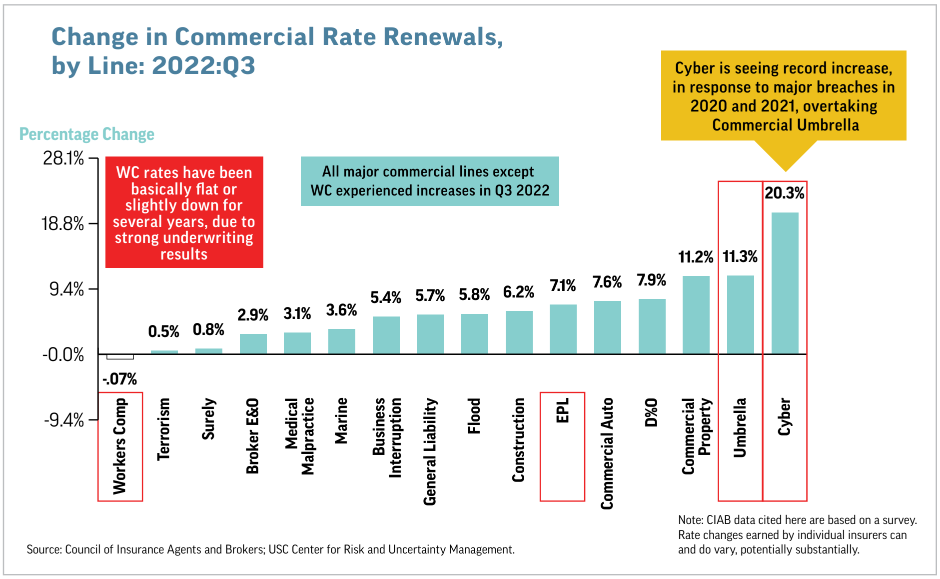
It should be noted that Kerr’s statements were made prior to the recent banking meltdown which could drastically impact further upward swing in interest rates. The insurance premiums that insurers charge are dramatically influenced by the economic conditions of the overall economy. Gross domestic product and inflation rates directly increase or decrease premiums in most part because of the cost to replace assets. An excellent example is the in personal and commercial property markets where the cost to rebuild a home has exponentially increased based on the surge in lumber costs over the pandemic.



MarketScout’s market barometer. Reprinted with permission.

Inflation rates and the Consumer Price Index are two core drivers of insurance rates. As the price of goods increases due to inflation, such as the cost to build, there is more value to insure and replace, and thus higher premiums to be charged. 2021 and 2022 inflationary results were both anomalies when considering the last 15 years of activity. Specifically, the rate was never above 3.2% going back to 2009 but hit 4.7% and 8% respectively in 2021 and 2022. While the expectation at this time was for the rates to taper off based on an increase in the Fed rates, the recent banking crisis, is now a very big unknown as to what the Federal Reserve





does next. Surprisingly, medical inflation is slower than overall inflation thereby holding health insurance trend on renewals generally under 5%.

While workers' compensation has had negative rate trends for almost a decade, other lines of insurance have not been as fortunate. Casualty insurance with a specific focus on areas of cyber and EPLI are most relative to the overall marketplace. There has also been a surge in "mega-claims" (>$2.5m) which has fueled rate increases in umbrella coverage.

Other drivers to understand the foundational increase in cost of casualty insurance policies:

- Increasing propensity/frequency of litigation
- Jury award size (2x over 5 years)
- Plaintiff-friendly courts
- Distrust of "Big Business" and "Great Resignation"
- Litigation financing
- Litigation advertising
- Venue shopping

CONCLUSION

Outside of workers' compensation, where rates are expected to continue to be flat or decreased in 2023, all lines should expect a 5% upward trend without considering individual performance. Double-digit increases and an extreme variance in terms and conditions will drive cyber and EPLI and umbrella layers in the higher limits. In storm-prone areas such as the southeast and California, property rate increases will be extreme, and deductibles continue to push upward. ■

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