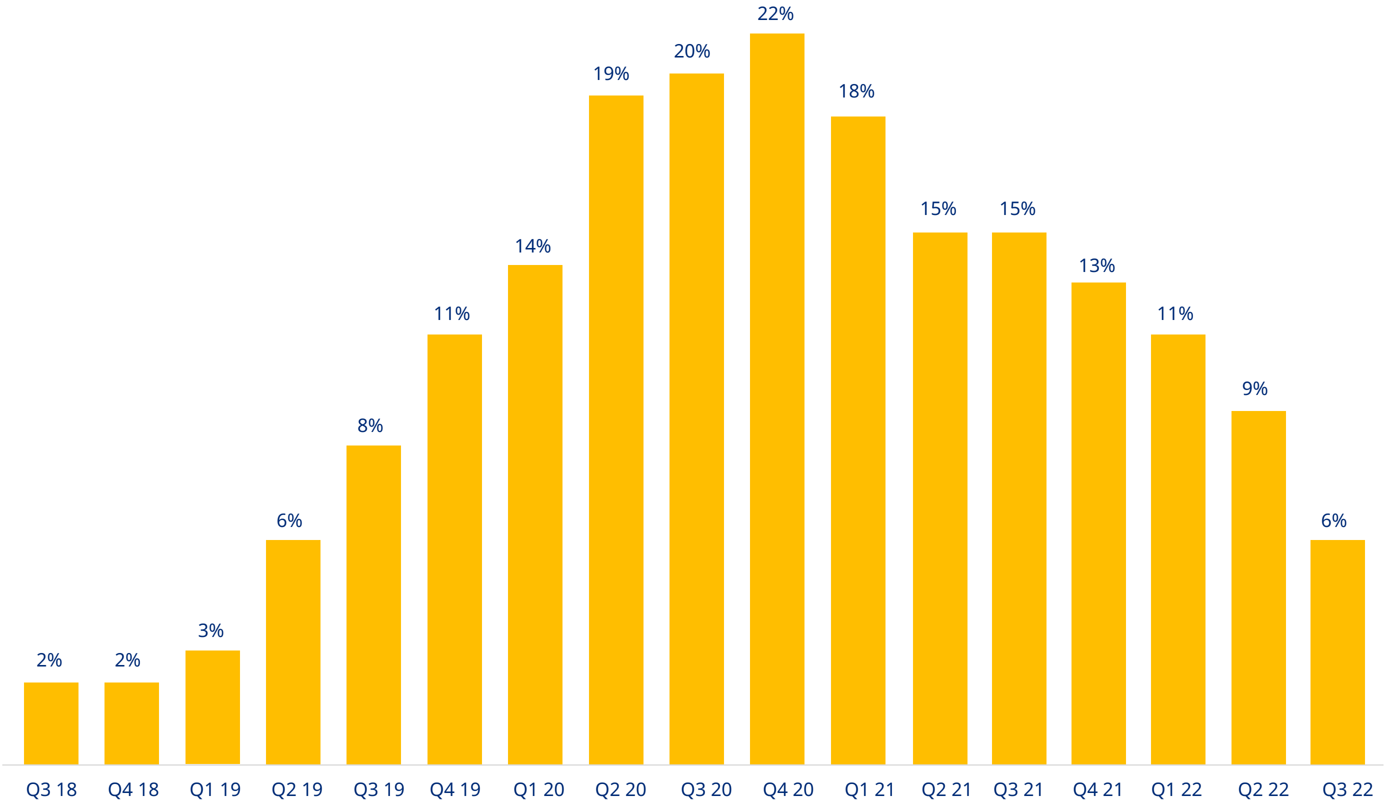
Global insurance markets Q3 2022: Financial and professional lines pricing declines

Global commercial insurance pricing rose 6% in the third quarter of 2022, according to the *Marsh Global Insurance Market Index*. The pace of rate increase slowed for the seventh consecutive quarter; global composite increases peaked at 22% in the fourth quarter of 2020.

01| Global insurance composite pricing change



Source: *Marsh Specialty and Global Placement*

The third quarter was the twentieth consecutive in which composite pricing rose, continuing the longest run of increases since the inception of the index in 2012. In the third quarter of 2022, composite pricing moderated in most regions, driven by the first decrease in financial and professional lines since the third quarter of 2017.

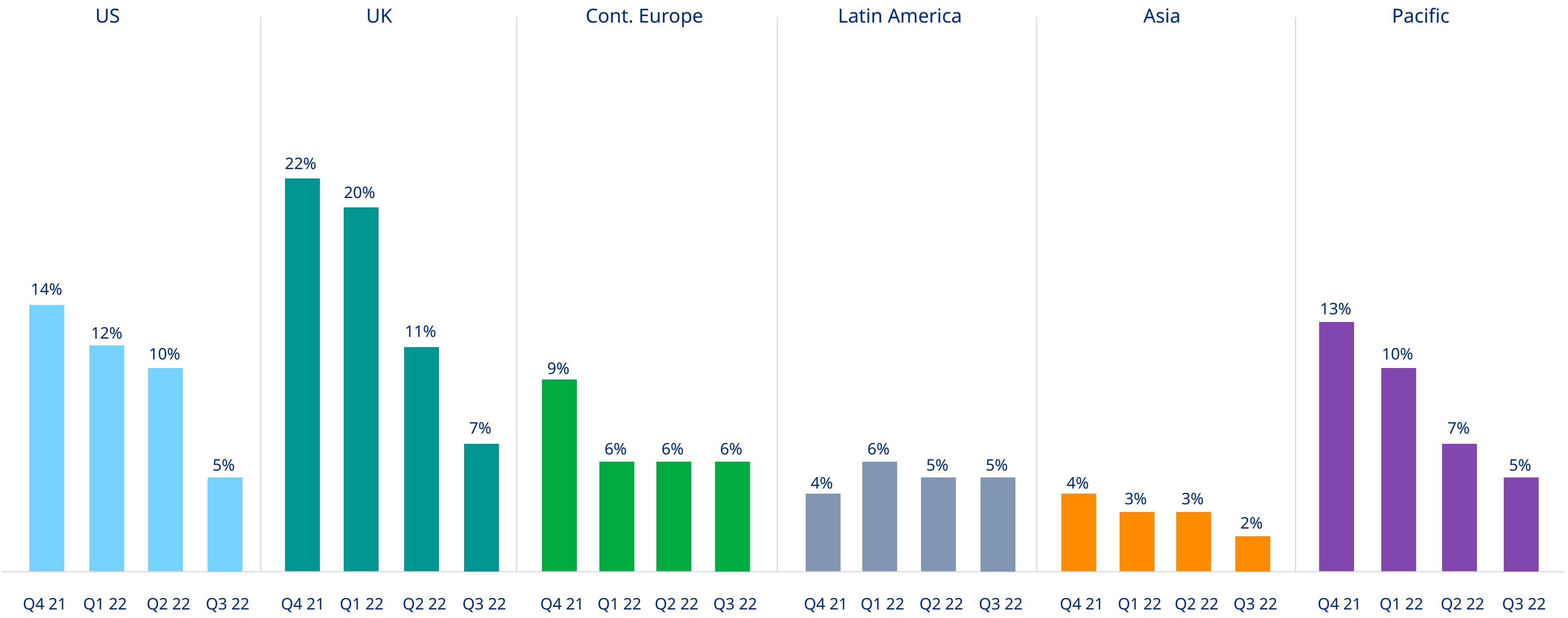
Cyber insurance pricing increases again outpaced other products; however, cyber insurance pricing increases also moderated, to 48% in the US and 66% in the UK.

Regionally, composite pricing increases for the third quarter were as follows (see Figure 2):

- US: 5%.
- UK: 7%.
- Continental Europe: 6%.
- Latin America and the Caribbean: 5%.
- Asia: 2%.
- Pacific: 5%.

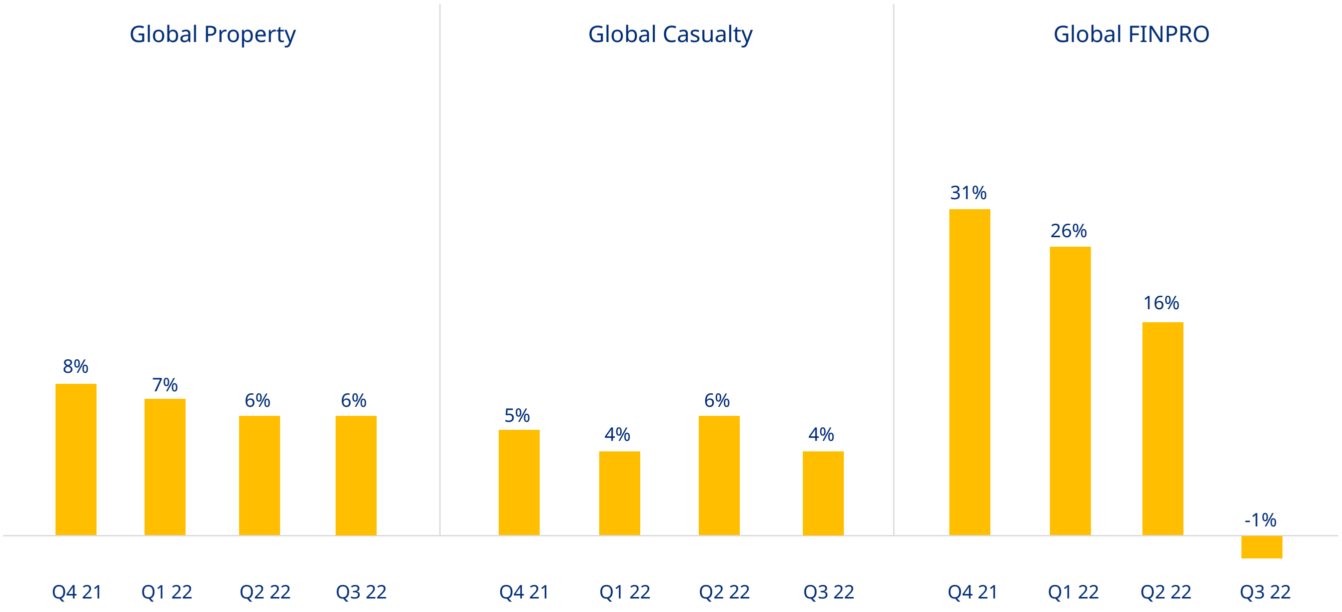
*Note: All references to pricing and pricing movements in this report are averages, unless otherwise noted. For ease of reporting, we have rounded all percentages regarding pricing movements to the nearest whole number.

02| Composite insurance pricing change — by region



Source: *Marsh Specialty and Global Placement*

03| Composite insurance pricing change — by major coverage line



Source: *Marsh Specialty and Global Placement*

Pricing in financial and professional lines decreased once cyber insurance rates were separated (see Figure 3). This is the first edition of our quarterly index that presents the cyber data separately from financial and professional lines data, giving a clearer picture of both.

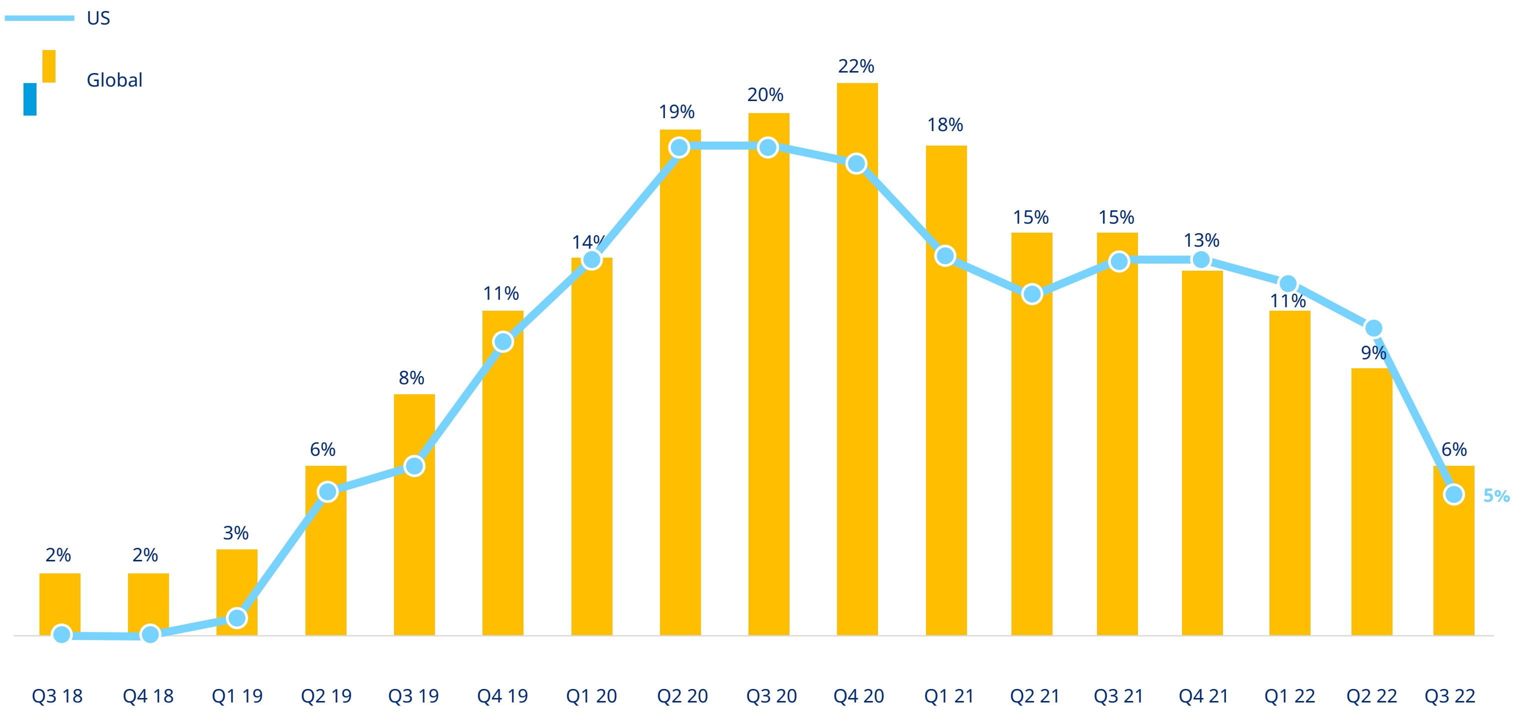
- Property insurance: 6%.
- Casualty insurance: 4%.
- Financial and professional lines insurance: -1%.
- Cyber insurance: 53%.

Please note that reported changes are averages and the data used to estimate them cover a wide range of clients in terms of size, industry, location, claims history, and other parameters. Many clients experienced pricing changes that deviated from the average.

US pricing: Property insurance rises at increased pace

Insurance pricing in the third quarter of 2022 in the US increased by 5%, compared to 10% in the prior quarter (see Figures 4 and 5).

04| US composite insurance pricing change



***Source:** Marsh Specialty and Global Placement*

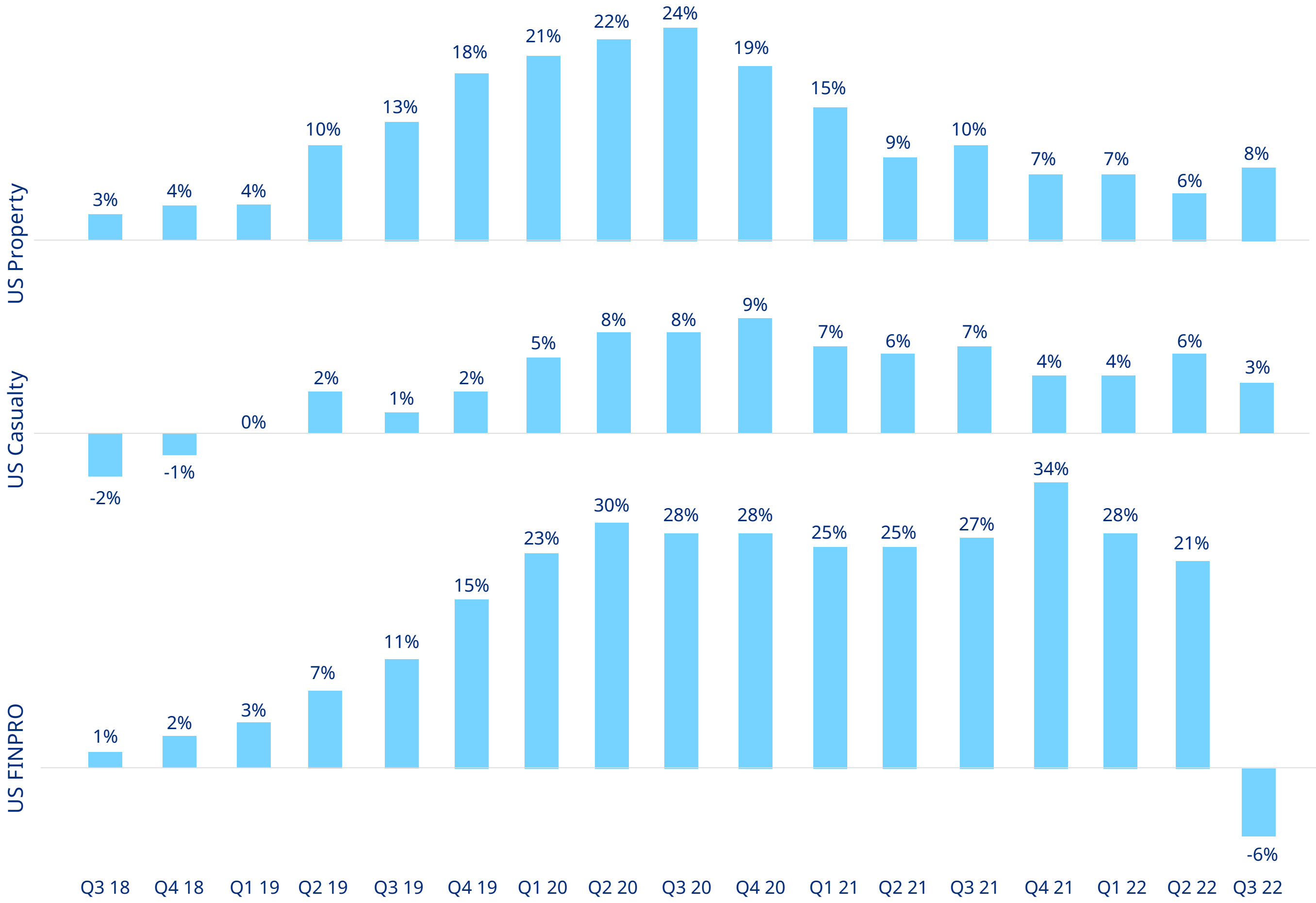
Property insurance pricing increased 8% in the third quarter, up from 6% in the second; this is the twentieth consecutive quarter in which pricing rose.

- Exposure growth, or total insured values, increased by 8% in the quarter.
- The rate increases experienced by clients in the third quarter were driven by changes in the treaty and facultative reinsurance markets at mid-year.
- Valuation was a focal point for property insurers on virtually every renewal, due largely to concerns about the current inflationary environment, supply chain challenges, labor shortages, and loss experience where adjusted loss amounts were well above the reported values.

Casualty insurance pricing increased 3% compared to a rise of 6% in the prior quarter; excluding workers' compensation, the increase was 5%.

- Insurers carefully monitored areas including inflation, court systems reopening, increased numbers of vehicles on the road, and recent hurricanes.

05| US composite insurance pricing change — by major coverage line



***Source:** Marsh Specialty and Global Placement*

- The primary casualty market remained generally competitive; however, insurers continued to seek increases in some areas.
- Casualty insurance pricing continued to be driven by workers' compensation, as well as a moderation of increases for umbrella and excess liability, which helped lower the average rate increases on auto insurance.
- Incumbent insurers typically offered terms aimed at keeping casualty clients from going to market at renewal.
- Excess liability rates increased 7%, compared to 16% in the second quarter as the market continued to benefit from new entrants and increased competition.
  - Insurers continued to monitor for loss trends moving higher as courts that were closed due to COVID-19 continued to reopen and cases moved at a faster pace through the system.
  - Underwriters expressed increased concern regarding latency risks, such as per- and polyfluoroalkyl/perfluorooctane sulfonate (PFAS/PFOS), so-called "forever chemicals."

Financial and professional lines pricing decreased 6% in the quarter — a decline from the second quarter increase of 21%.

- Pricing decreased by 9% for directors and officers (D&O) liability coverage for publicly traded companies, driven by new capacity and competition and following a 6% decline in the second quarter.
  - Carriers were generally willing to increase capacity on towers, eliminating the need to have as many insurers on a program.
  - In August 2022, 87% of renewals experienced a total program decrease.
  - Carriers looked to relationships on other, more challenging coverages — such as cyber and fiduciary liability — as they sought to win layers on D&O coverage.
- Fiduciary markets continued to be challenged by adverse judgements and ERISA 401k plan excessive fee litigation; insurers expressed concern regarding the product's pricing unpredictability.

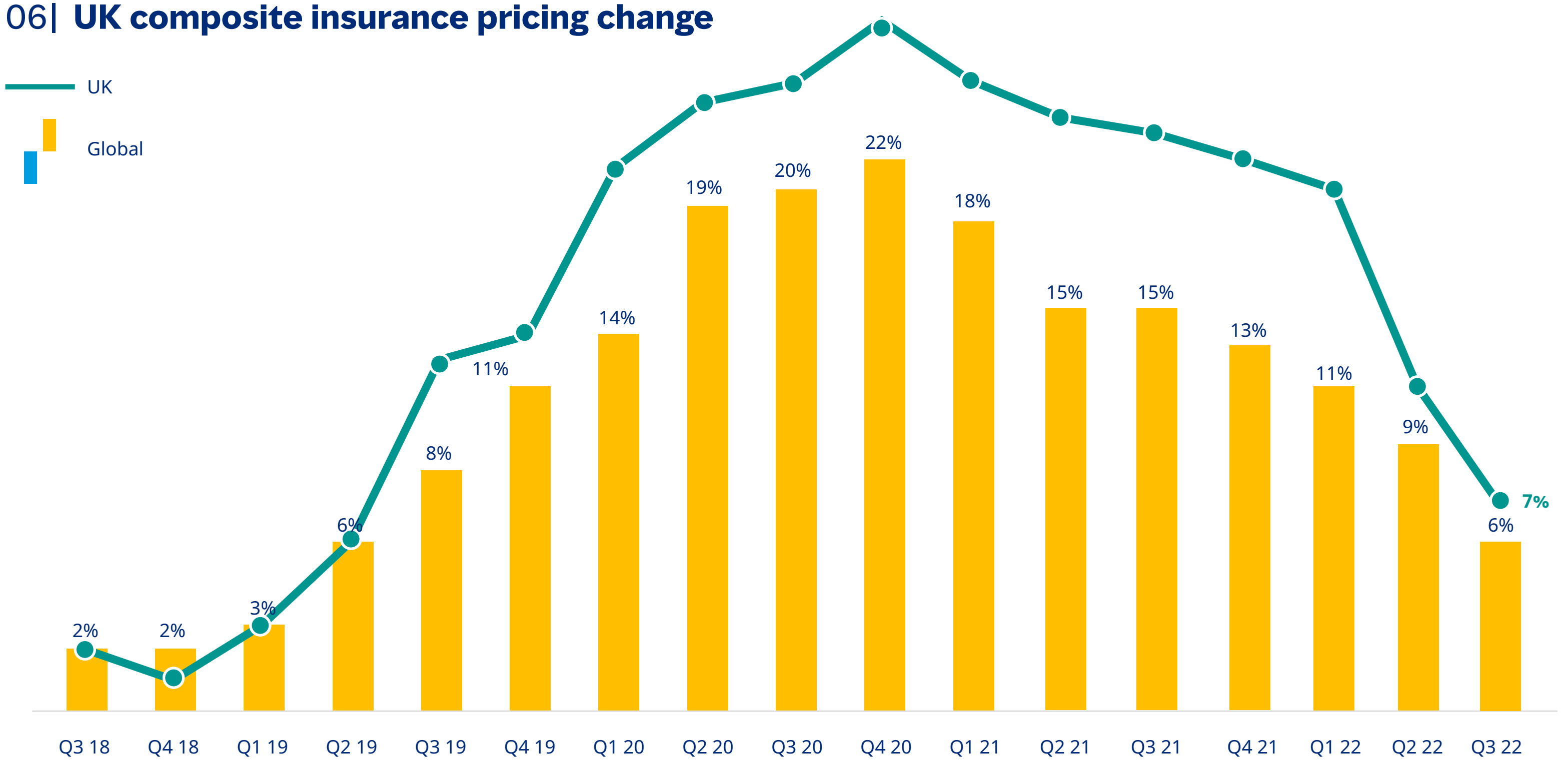
Cyber insurance pricing increased 48% in the third quarter, compared to 79% in the prior quarter.

- The cyber insurance market experienced increased competition; more insurers increased capacity for insureds with strong cybersecurity controls.
- Increased competition is due to many factors, including: improved cybersecurity controls, the effect of retention level increases and rate adjustments in 2021, reduction in claims frequency over the past six months despite no change in severity, according to many insurers, and higher interest rates leading to insurers seeking top line growth.
- Discussions continued in the industry and in government regarding systemic exposures and the correlated nature of cyber risk.

UK pricing: Financial and professional lines pricing flat

Insurance pricing in the third quarter of 2022 in the UK increased 7%, compared to 11% in the second quarter (see Figures 6 and 7).

06| UK composite insurance pricing change

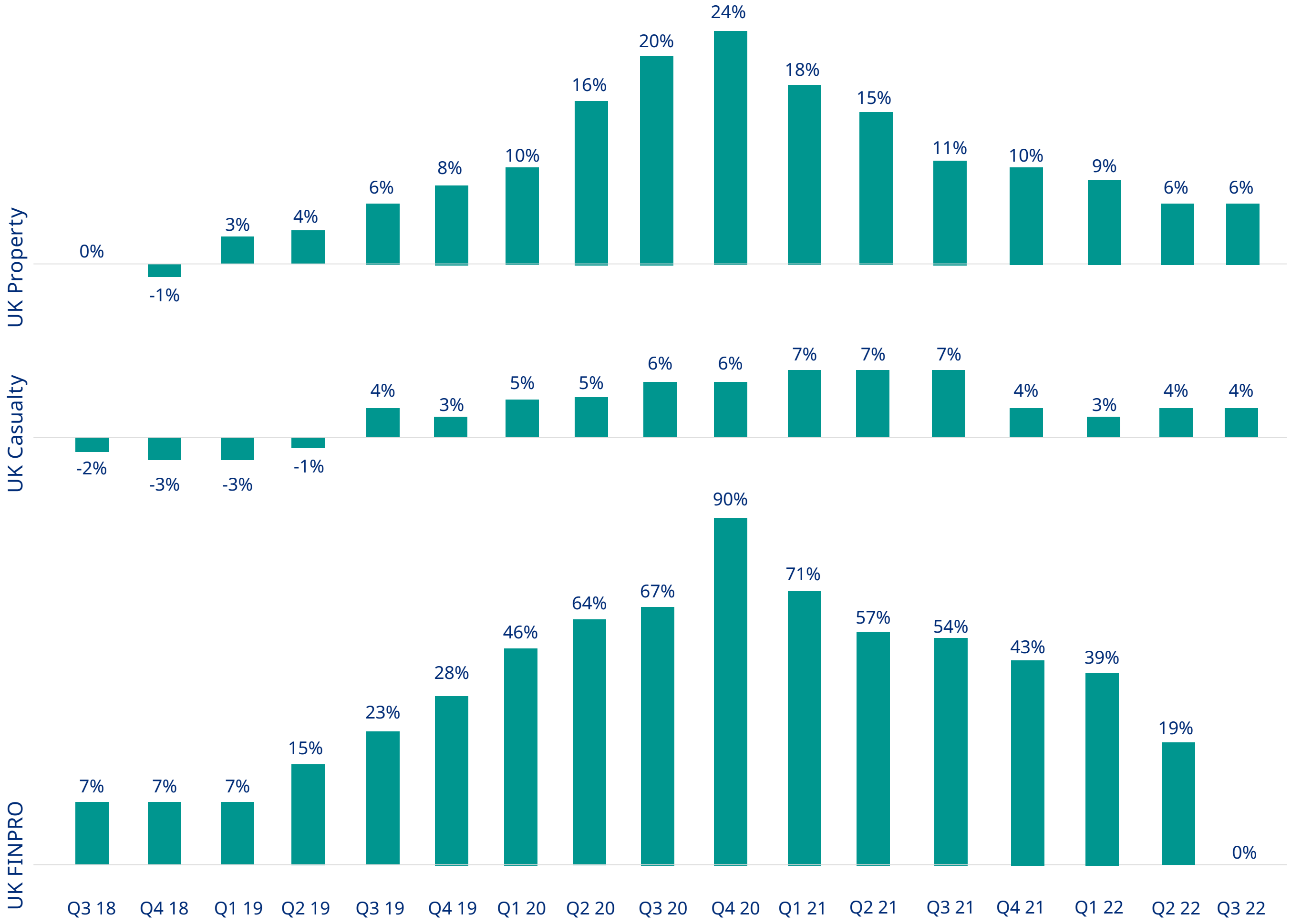


Source: *Marsh Specialty and Global Placement*

Property insurance pricing increased 6% year-over-year, the same as in the second quarter.

- Property insurance pricing continued to plateau, and was generally less volatile for clients.
  - Property insurance pricing remained competitive for low- to medium-hazard industries, and more challenging for higher hazard industries or risks with major loss activity and/or a challenging occupancy or process, such as food production, warehousing, or waste recycling.
- Insurers focused on claims inflation trends by increasing pricing if exposure bases were not, in their view, appropriately assessed.
- As reinsurance treaty renewal season started, Hurricane Ian served underwriters in maintaining pricing discipline.

07| UK composite insurance pricing change — by major coverage line



***Source:** Marsh Specialty and Global Placement*

Casualty insurance pricing increased 4%, the same as in the second quarter.

- Rates remained competitive for employers' liability and public and product liability for clients considered to have attractive risks, despite inflationary pressure.
  - Exclusionary language created challenges and was increasingly viewed as a competitive edge as clients chose an insurer.
  - Capacity was stable with risk management key to achieving favorable terms.
- Inflation played a significant role in renewal discussions.
- Electric vehicles continued to affect the auto liability insurance market, with leading insurers saying that damage repair costs are approximately 25% higher for EVs than for cars with internal combustion engines.
  - For example, in many cases battery packs need to be replaced following minor collisions.
  - EV repair specialists are currently in short supply; a limited number of garages have the knowledge and resources to carry out required repairs.

Financial and professional lines pricing was flat in the third quarter compared to average increases of 19% in the second quarter. Some products experienced a decline in rate.

- D&O pricing typically declined in the 5% to 10% range, with substantial rate decreases for large, multinational clients.

For financial institutions (FIs), while the average rate increased, some clients experienced reductions of 5% to 10%.

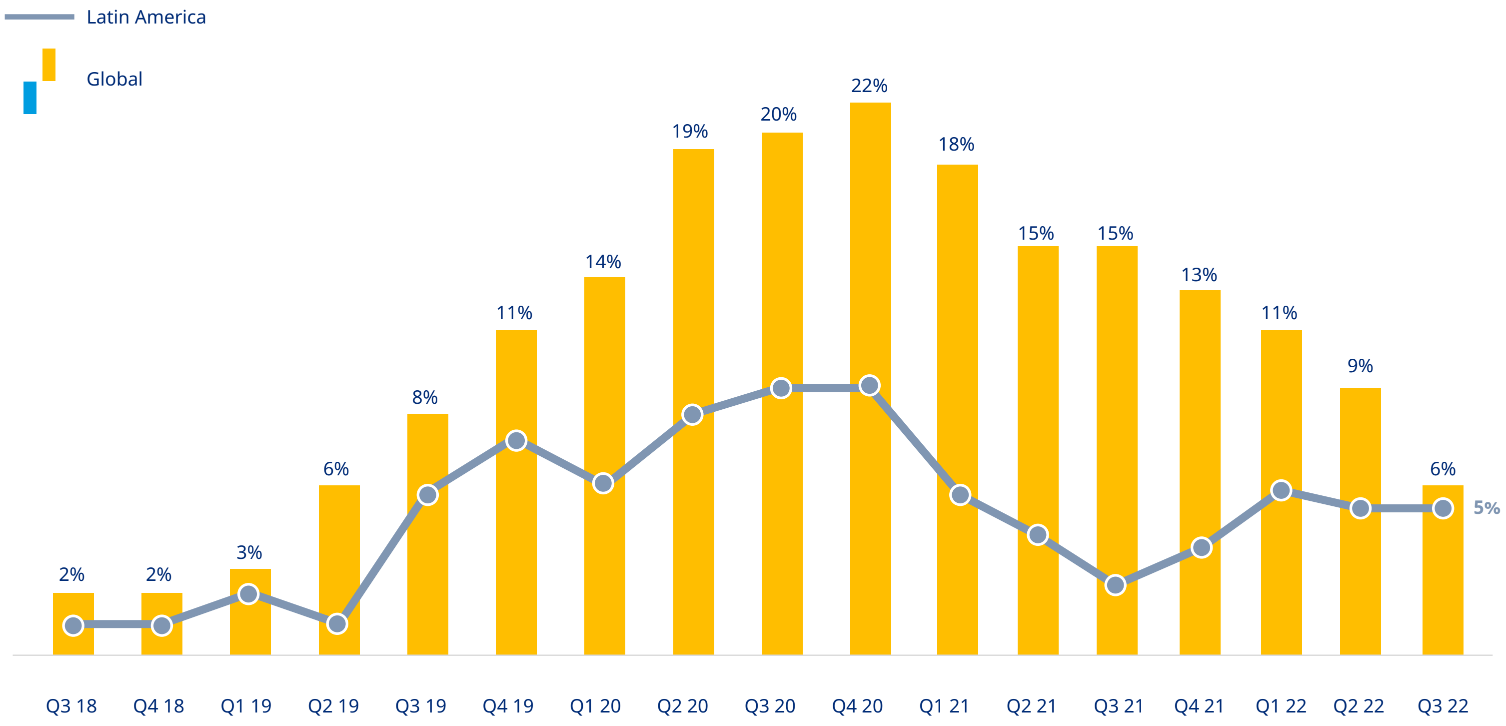
- Crime insurance capacity remained limited following the market's abrupt contraction over the past two years, which saw many insurers withdraw altogether.

Cyber insurance pricing increased 66% in the third quarter, continuing the moderation trend of the past several months, as losses continued to improve.

- The market experienced continued pricing stabilization following a peak increase of 102% year-over-year in the first quarter of 2022.
- Strict requirements from insurers regarding key cybersecurity controls continued to positively change underwriters' views on cyber hygiene at the majority of insureds compared to 2021 and before.
- We are cautious regarding the improvement in cyber insurance market conditions as other factors could compound the risk. For example, the Russia-Ukraine conflict may have temporarily paused ransomware attacks by disrupting the many cyber hackers based in the region.

Latin America and Caribbean pricing: Casualty pricing increases for second consecutive quarter

08| Latin America composite insurance pricing change



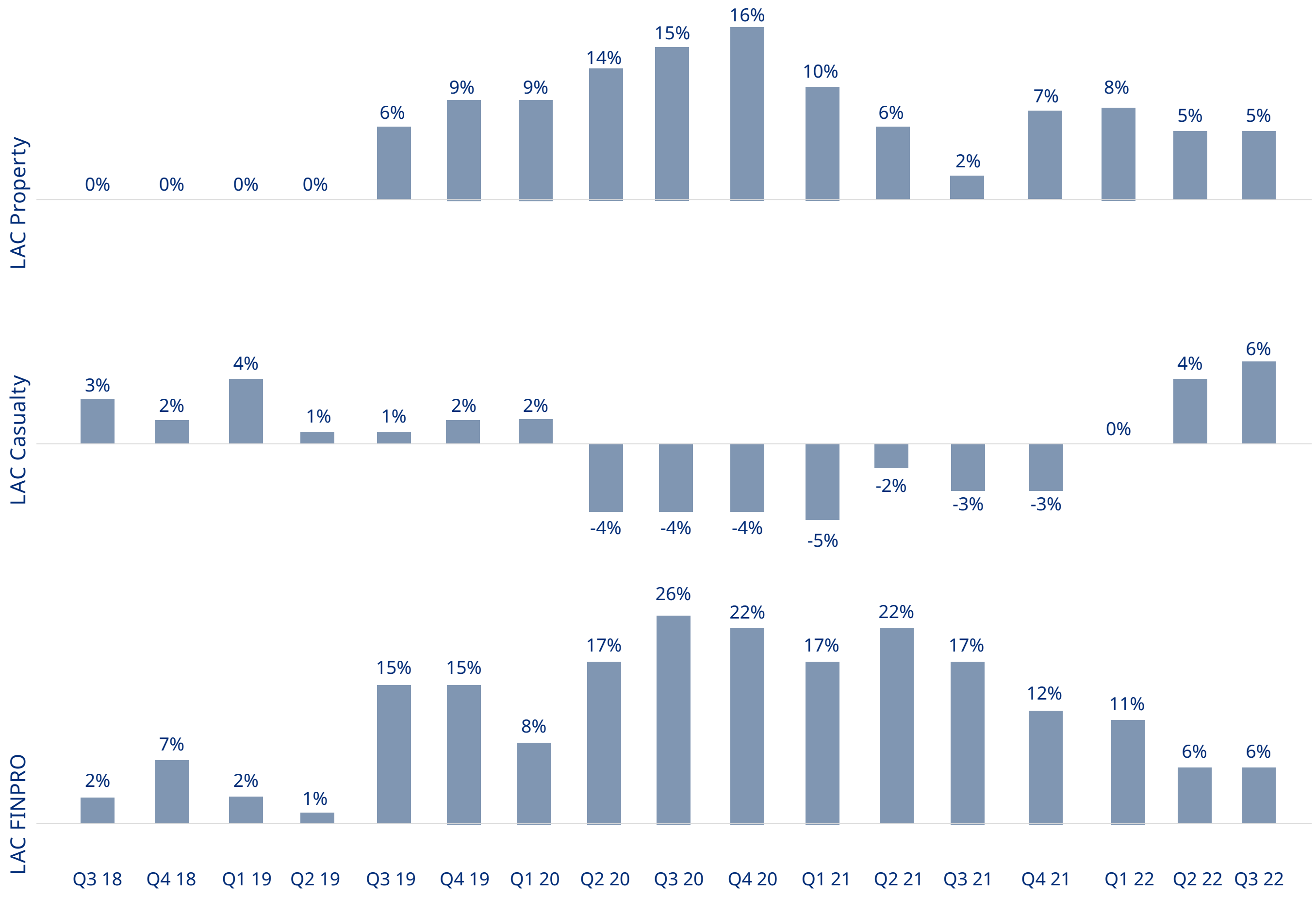
***Source:** Marsh Specialty and Global Placement*

Insurance pricing in the third quarter in the Latin America and Caribbean (LAC) region increased 5%, the same as in the prior quarter (see Figures 8 and 9).

Property insurance pricing increased 5%, the same as in the previous quarter and the sixteenth consecutive quarter of increase.

- Price increases continued across the region when facultative capacity was required, which is becoming common, particularly for countries with catastrophe (CAT) exposure.
- There were pockets of more challenging conditions across the region, with concern in Brazil that few markets would accept complex risks as insurers focused on year-end results.
- There was limited regional capacity for strikes, riots, and civil commotion (SRCC) and sabotage and terrorism (S&T) coverage, mainly due to political uncertainty in Chile and Mexico.

09| Latin America composite insurance pricing change — by major coverage line



Source: *Marsh Specialty and Global Placement*

Casualty insurance pricing increased 6% in the third quarter, compared to 4% in the prior quarter.

- The two consecutive quarters of increase were the first since the beginning of 2020.
- Non-complex programs and those with low limits experienced signs of increasing pricing and limited capacity.
- The local insurance market is beginning to reflect pricing in the facultative and international markets.

Financial and professional lines pricing rose 6%, the same as in the prior quarter.

- Regional and local market underwriting appetite remained conservative.
- The overall trend was for moderation in the pace of price increases for financial and professional lines.
- New local and international capacity allowed for relatively easier placement for risks with high limits.

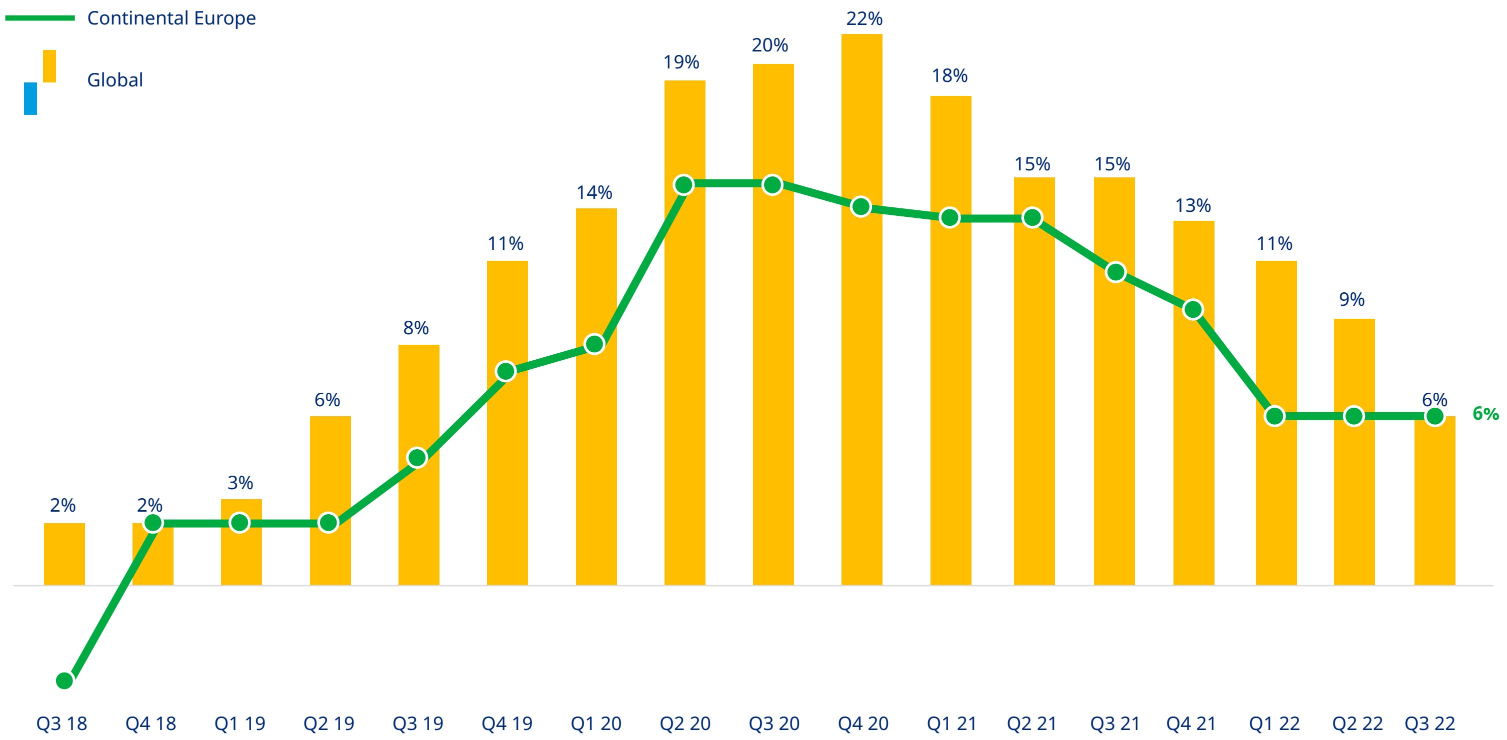
Cyber insurance continued to present challenges in pricing.

- Appetite and capacity from international markets increased for regional cyber risks — mostly excess capacity.

Continental Europe pricing: Cyber insurance shows signs of stabilizing

Insurance pricing in the third quarter of 2022 in Continental Europe (CE) increased 6%, the same rate of increase as in the prior two quarters (see Figures 10 and 11).

10| Continental Europe composite insurance pricing change

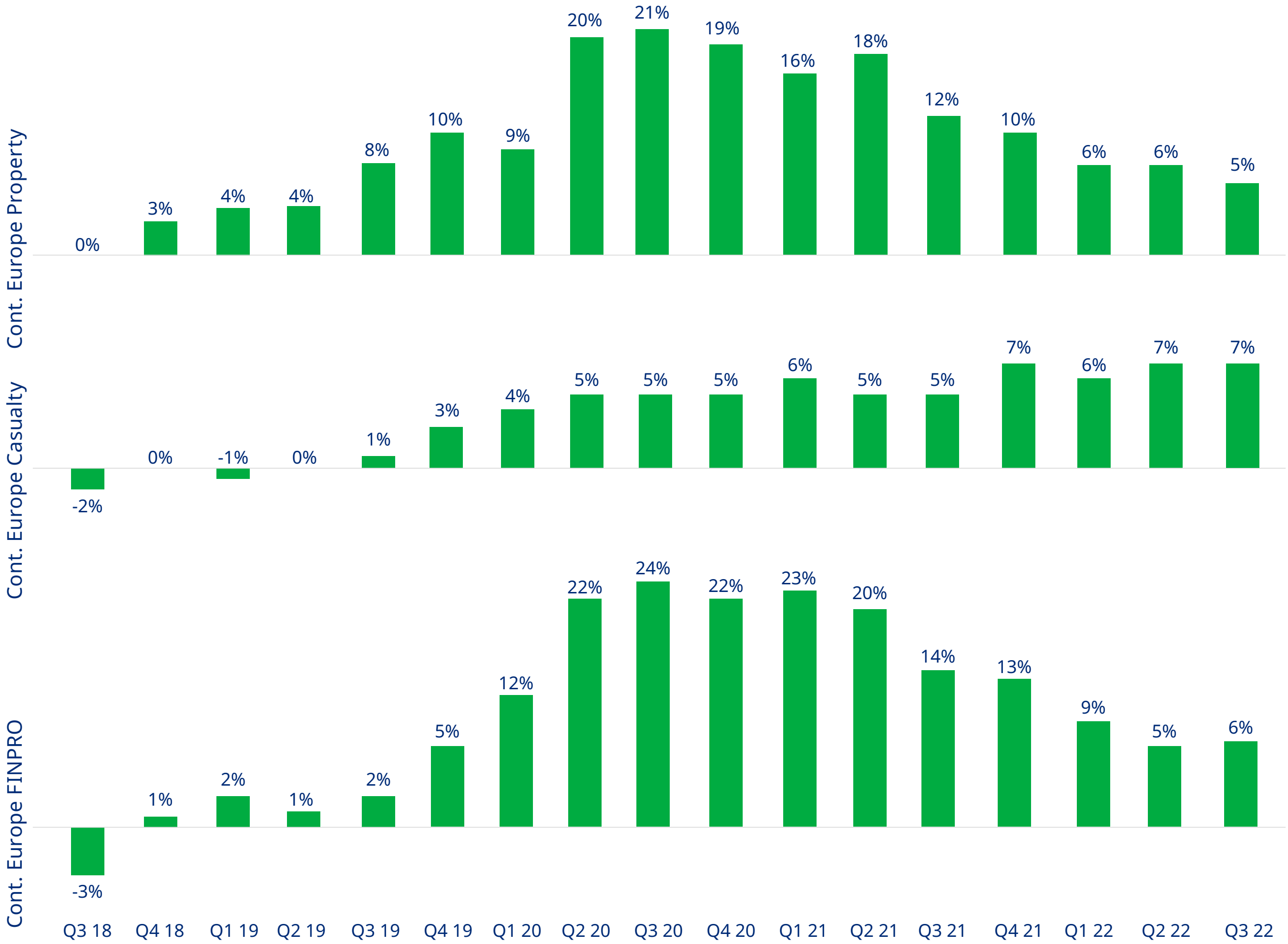


Source: *Marsh Specialty and Global Placement*

Property insurance pricing in CE rose 5%, compared to 6% in the second quarter.

- Insurer appetite increased as the overall rating environment improved.
- There was increased interest from insurers to offer long-term agreements.
- Conditions continued to depend on loss experience and risk quality.
  - Specific industries and risks found it more challenging to find capacity due to more restrictive underwriting guidelines.
- Strict underwriting controls continued and insurers remained disciplined with respect to capacity deployment and aggregation, especially for contingent business interruption extensions.
- Territorial exclusions continued for Ukraine, Belarus, and Russia.

11| Continental Europe composite insurance pricing change — by major coverage line



***Source:** Marsh Specialty and Global Placement*

Casualty insurance pricing increased 7%, the same as in the prior quarter and the thirteenth consecutive quarter of increases.

- There was a continued reduction in capacity from key primary insurers.
- Insurers increased pricing levels due to perceived inadequacy for risks with US exposure, or those in complex industries.
- Excess casualty and US-exposed placements continued to be challenging, with general liability risk experiencing double-digit increases in several countries.
- Some insurers reconsidered risk appetite, at times resulting in price increases or withdrawal of capacity, which particularly affected renewals with losses and in challenging sectors.
- Insurers’ concerns continued regarding social and general inflation on US auto exposures, with significant price increases typical for clients with large US auto fleets.
- Underwriter scrutiny continued for non-core extensions, such as product recall and medical malpractice.

Financial and professional lines pricing rose 6% in the third quarter. Stability continued for D&O liability pricing due to increased capacity and competition from insurers; pricing remained generally flat to low-single digit increases.

- Some primary insurers offered long-term agreements.
- Competition was seen across all program layers.
- Environmental, social, and governance (ESG) risk profiles continued to receive increased underwriter scrutiny.

- For FIs, rate increases continued to moderate, and some clients experienced moderate reductions.
- Crime renewal terms continued to stabilize.

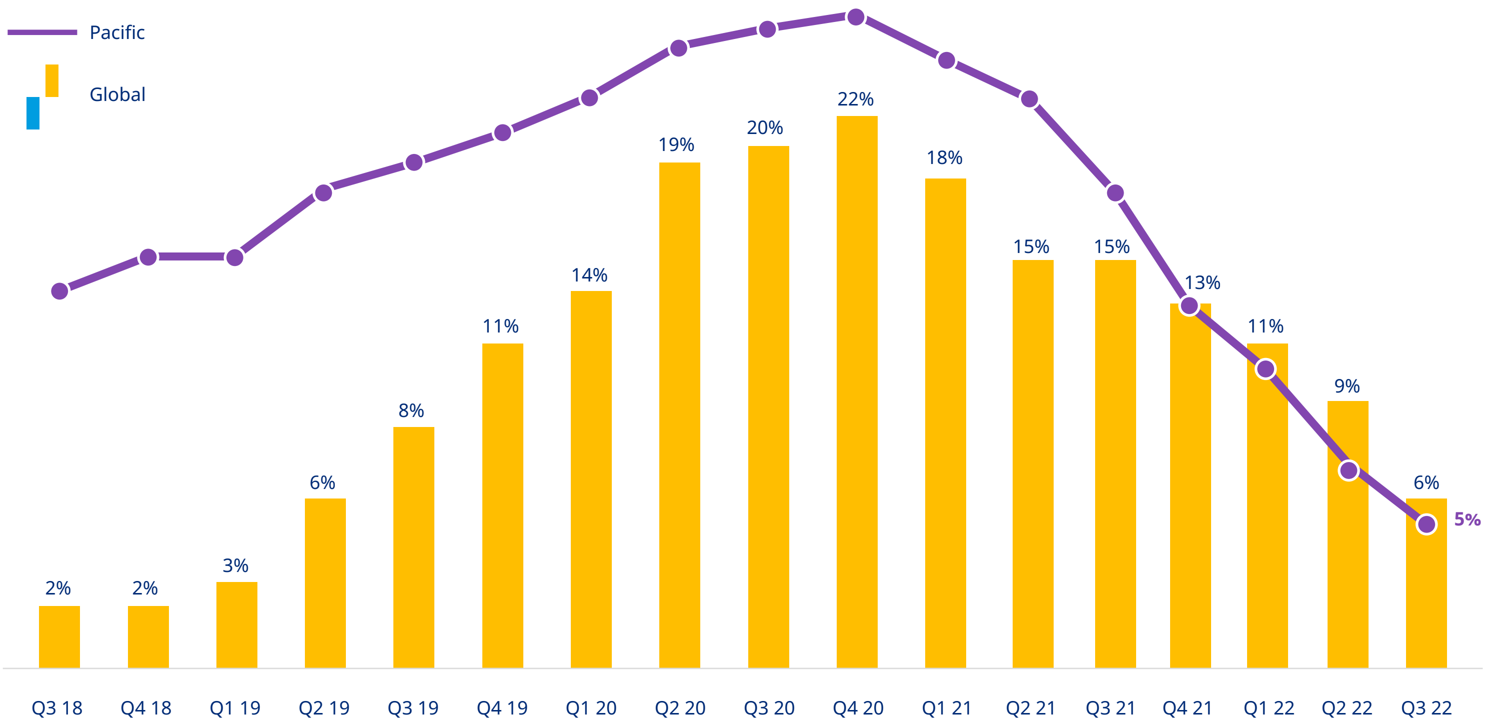
Cyber insurance pricing increased 40%, compared to 50% in the second quarter, as new capacity entered the market.

- Insurers continued to seek to increase retentions in many instances.
- Underwriters continued to require detailed information on cyber risk controls, particularly regarding ransomware.
- Insurer concerns continued around systemic exposures and accumulation risk.

Pacific pricing: D&O pricing declines for second consecutive quarter

Insurance pricing in the Pacific region increased 5%, down from 7% in the prior quarter and the seventh consecutive quarterly reduction in rate increases (see Figures 12 and 13).

12| Pacific composite insurance pricing change



Source: *Marsh Specialty and Global Placement*

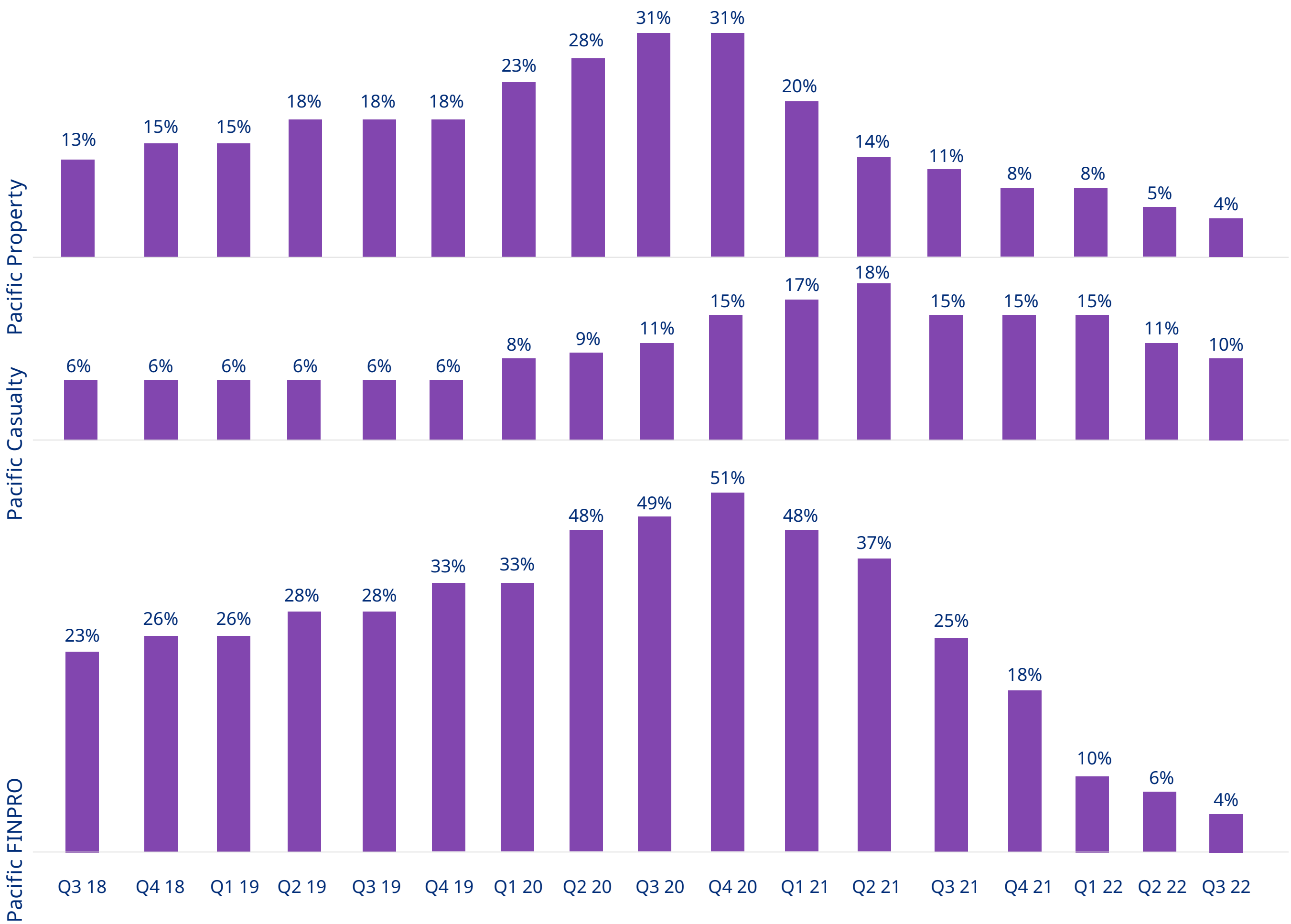
Property insurance pricing increased 4%, down from 5% in the prior quarter.

- Severe flood events in Queensland and New South Wales earlier in the year — with an estimated insured loss greater than $AUD6 billion — has increased the focus on storm/flood risk mitigation, deductible adequacy, and sub-limits.
- Underwriters continued to focus on general CAT and secondary CAT perils.
- Commitment to continual risk improvement is critical to renewal success. Insurers also focused on current valuations supporting declared values.

Casualty insurance pricing rose 10%, down from 11% in the prior quarter.

- Insurers demonstrated continued caution due to claims inflation resulting from litigation trends, as well as inflation in material cost.
- Some major programs underwent substantial restructuring of layers as a result of changing underwriter appetite.

13| Pacific composite insurance pricing change — by major coverage line



Source: *Marsh Specialty and Global Placement*

Financial and professional lines pricing rose 4%, a decrease from 6% in the prior quarter.

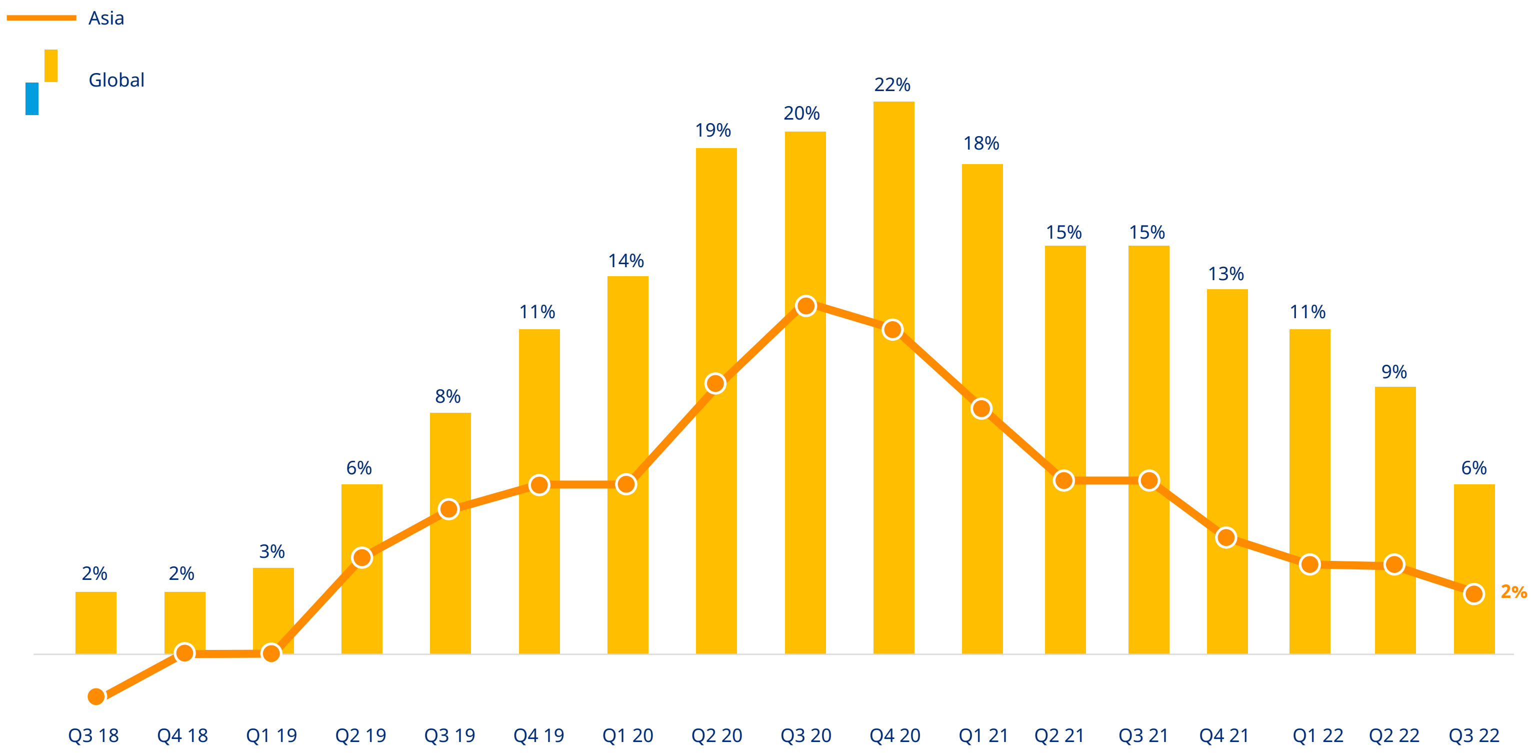
- D&O pricing continued to decline; other financial and professional lines pricing increases continued to moderate.
- Competition continued to develop, particularly for excess layers, resulting in improved pricing.

Cyber insurance remained challenging; however, it began to stabilize in the quarter as insurers sought to grow their business in this area.

- Ransomware continued to dominate the claims environment.

Asia pricing: D&O pricing continues to moderate

14| Asia composite insurance pricing change



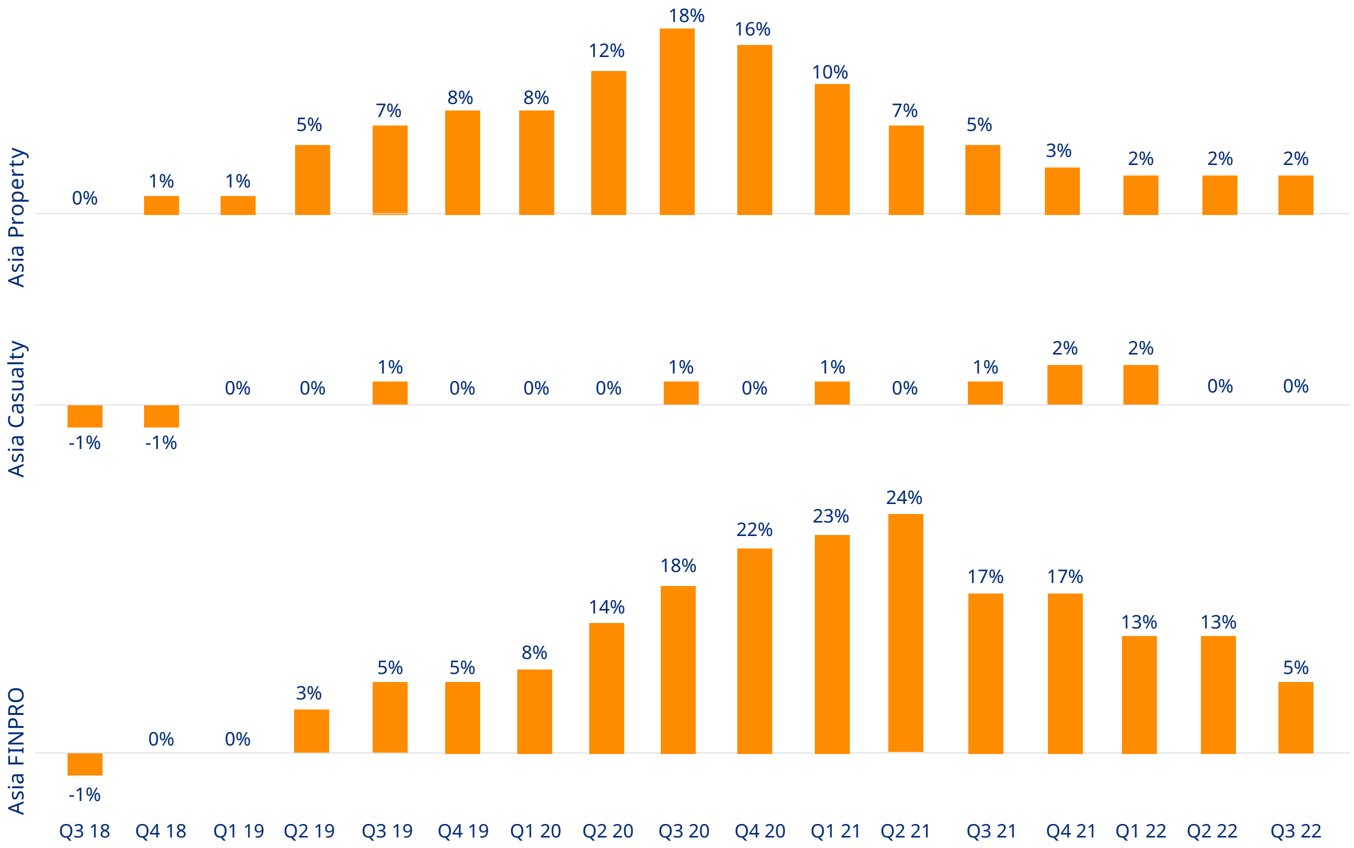
Source: *Marsh Specialty and Global Placement*

Insurance pricing in the third quarter of 2022 in Asia increased 2%, down from 3% in the prior two quarters (see Figures 14 and 15).

Property insurance pricing rose 2%, the sixteenth consecutive quarter of increases, which peaked at 18% in the third quarter of 2020.

- Clients with challenging claims experience or those requiring support from facultative markets continued to see above average rate increases.
- Natural catastrophe capacity continued to drive pricing that was above the average.
- Global inflation remained a concern for insurers, with continued focus on the appropriate declaration of declared values.
- The political violence (PV) market showed signs of contraction, with insurers carefully reviewing their aggregate exposures and pricing adequacy.

15| Asia composite insurance pricing change — by major coverage line



Source: *Marsh Specialty and Global Placement*

Casualty insurance pricing was flat for the second consecutive quarter.

- Renewal results favored clients with exemplary claims performance and strong risk management practices.
- Insurers continued to be selective in deploying capacity on challenged industry segments, including product recall and product liability exposure in North America.
- Auto and workers' compensation renewals experienced decreasing rates in a number of territories, while holding stable in others.
- Insurers placed more focus on reviewing and updating policy wordings, ensuring the application of updated sanctions clauses and exclusions associated with PFAS, cyber, terrorism, punitive damages, and contractual liability.
- Insurers took a stronger position on their ESG requirements, with some reducing or withdrawing their support based on the strength of the client's commitment and practices.

Financial and professional lines pricing increased 5%, down from 13% in the prior quarter.

- The pace of rate increases for D&O continued to moderate, with pricing in the range of 5% to 10% across Asia.
  - Increases were typically higher for US listed/ exposed business.
- Pricing began to moderate for FIs; for large/complex accounts pricing was nearly flat.

- Professional indemnity (PI) insurers were keen to explore smaller organizations, with customized offerings at competitive rates.
  - Some large and/or complex PI programs, especially from the communications, media and technology (CMT) sector, experienced average rate increases ranging from 5% to 10%, due to blended program structures with cyber coverages.
- Insurers demonstrated caution regarding digital-asset related companies due to systemic risks resulting in volatility in asset pricing that can lead to sharp decreases in value, and potential liquidations.

Cyber insurance remained challenging, with rate increases of 25% or more experienced by some clients.

- Concerns continued regarding claims, systemic risk, geopolitical tensions, and ransomware.
- As in other regions, there were signs in the quarter that the cyber insurance market is stabilizing.

Marsh

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