



State of the Market - 2022

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Agenda

Overall Market
Conditions
and Outlook

1

Property Trends
and Market

2

Cyber Trends
and Market

3

Casualty Trends
and Market

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Q&A

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Components of the Combined Ratio, Property/Casualty Insurance, 2011-2020

Year	Loss ratio ²	Expense ratio ³	Combined ratio
2011	79.3	28.4	107.7
2012	74.2	28.2	102.5
2013	67.4	28.2	95.6
2014	68.7	27.8	96.5
2015	69.2	28.0	97.3
2016	72.3	27.9	100.2
2017	75.9	27.3	103.2
2018	71.4	27.2	98.6
2019	71.0	27.2	98.2
2020	70.1	27.4	97.6

1 Excludes state funds and other residual market insurers.

2 Incurred loss and loss adjustment expenses as a percent of earned premiums.

3 Other underwriting expenses as a percent of written premiums.



Pressure on Investments

- Interest Rates
- Investment Income



Pressure on Underwriting

- Prudent Underwriting Decisions
- Underwriting Results

Market Pressures



Great Resignation

Great Resignation - Headlines

**Burned-out teachers are sharing their
Great Resignation stories on TikTok**

**Over 4 million Americans have quit their
jobs for 6 months in a row as the Great
Resignation rages on**

**The Great Resignation rages on as a
record 4.5 million Americans quit**



Market

- 20M people left their jobs in the second half of 2021
- National average – 3% of workers every month



Public Entities

- 4.4% in education
- law enforcement
 - retirements – 45% increase;
 - resignations – 18% increase
- 1% in government office jobs

Great Resignation - Why

Flexibility

Burnout

Personal
Responsibilities

Mandates

Affordable
Housing

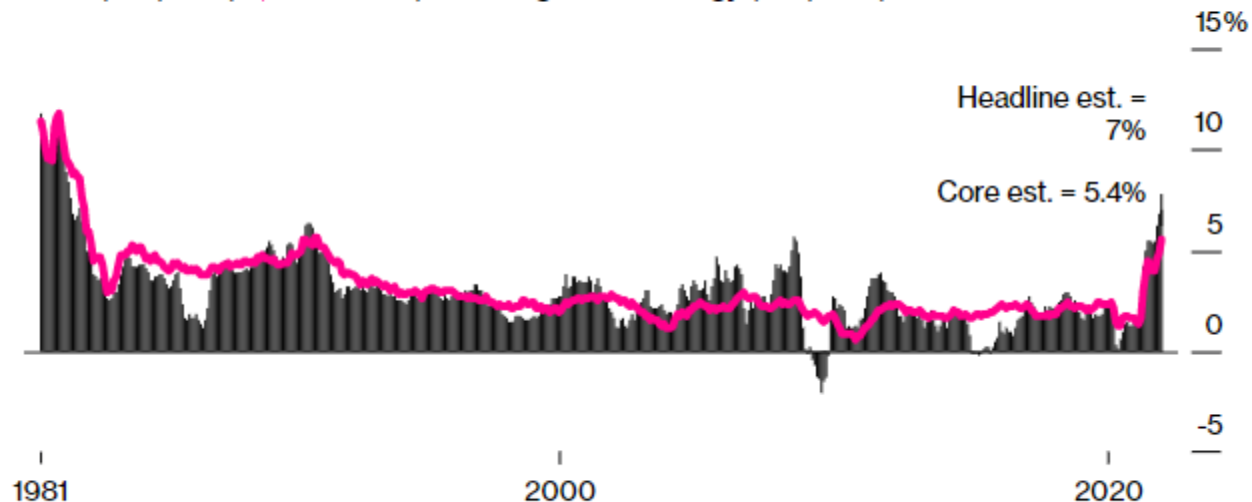
Supply Chain

Inflation

Hottest in Decades

U.S. headline inflation jumped in December by the most since 1982

■ CPI (YoY, NSA) / Core CPI, excluding food & energy (YoY, NSA)



Source: Bureau of Labor Statistics, Bloomberg survey



Pressure on Investments

- Interest Rates
- Investment Income
- **Record high inflation**



Pressure on Underwriting

- Prudent Underwriting Decisions
- Underwriting Results

Market Pressures





COVID Slow Down Claims Impact

Image: waagg / Getty Images

Image: Pinkypils / Getty Images

Wildfire



Hurricane



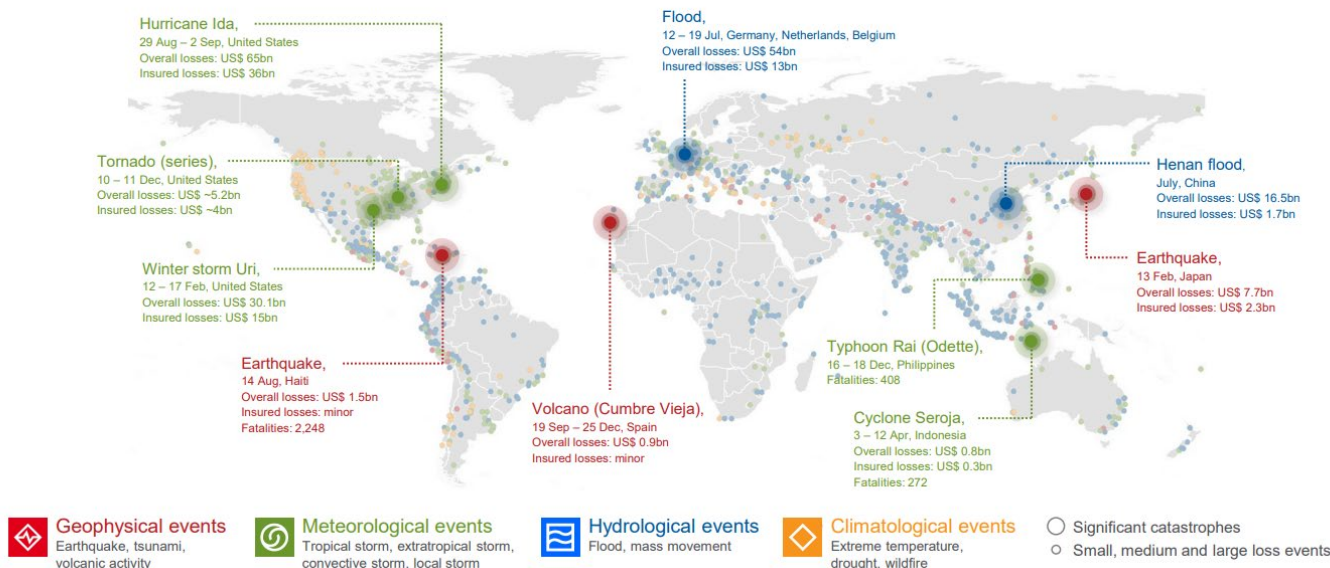
Tornado



NatCatSERVICE

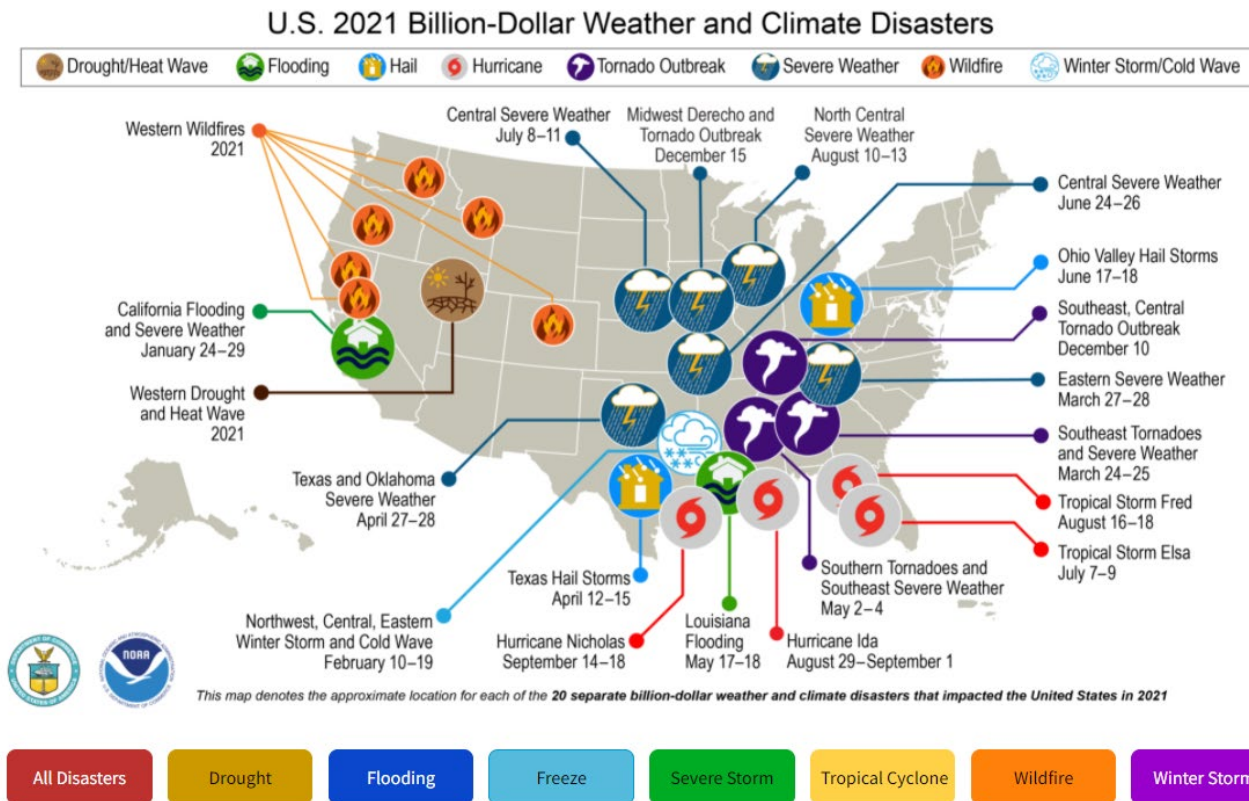
Relevant natural catastrophe loss events worldwide 2021

Natural disasters caused overall losses of US\$ 280bn

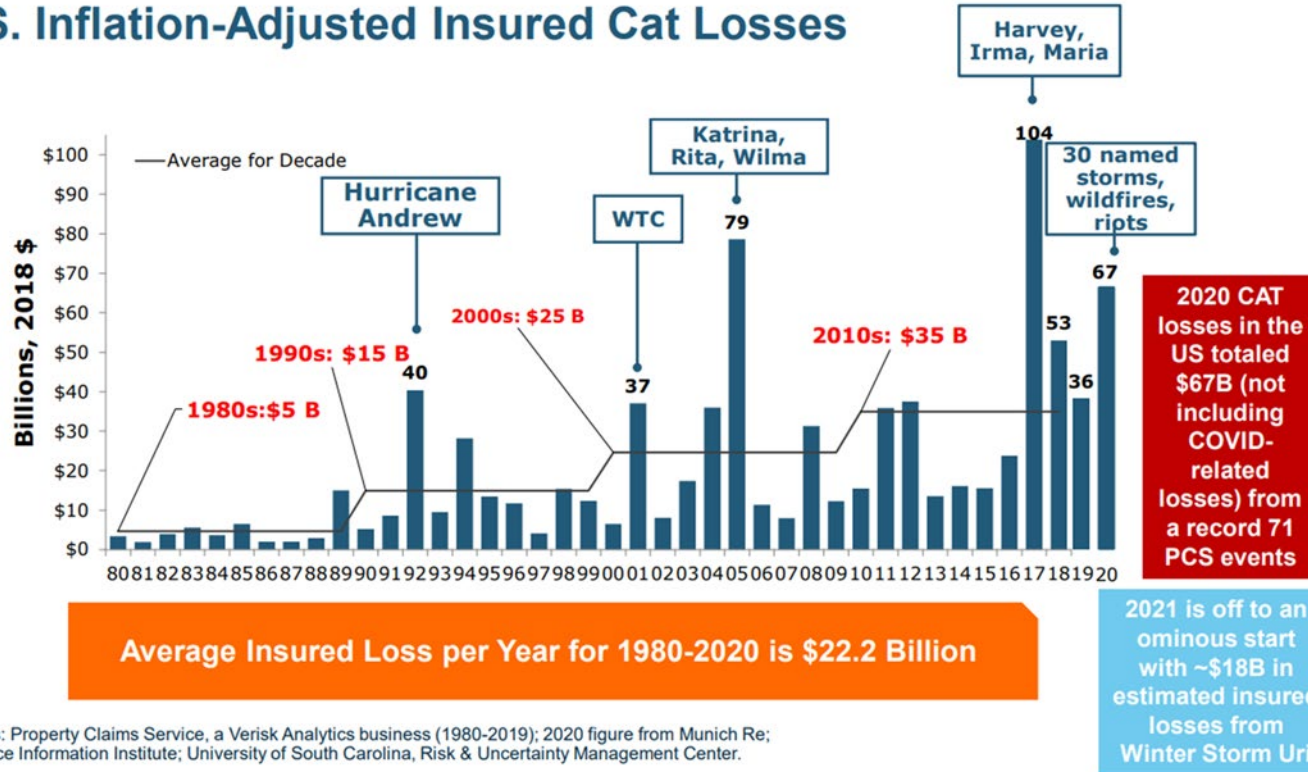


Source: Munich Re, NatCatSERVICE, 2022

CAT Activity 2021 - US



U.S. Inflation-Adjusted Insured Cat Losses

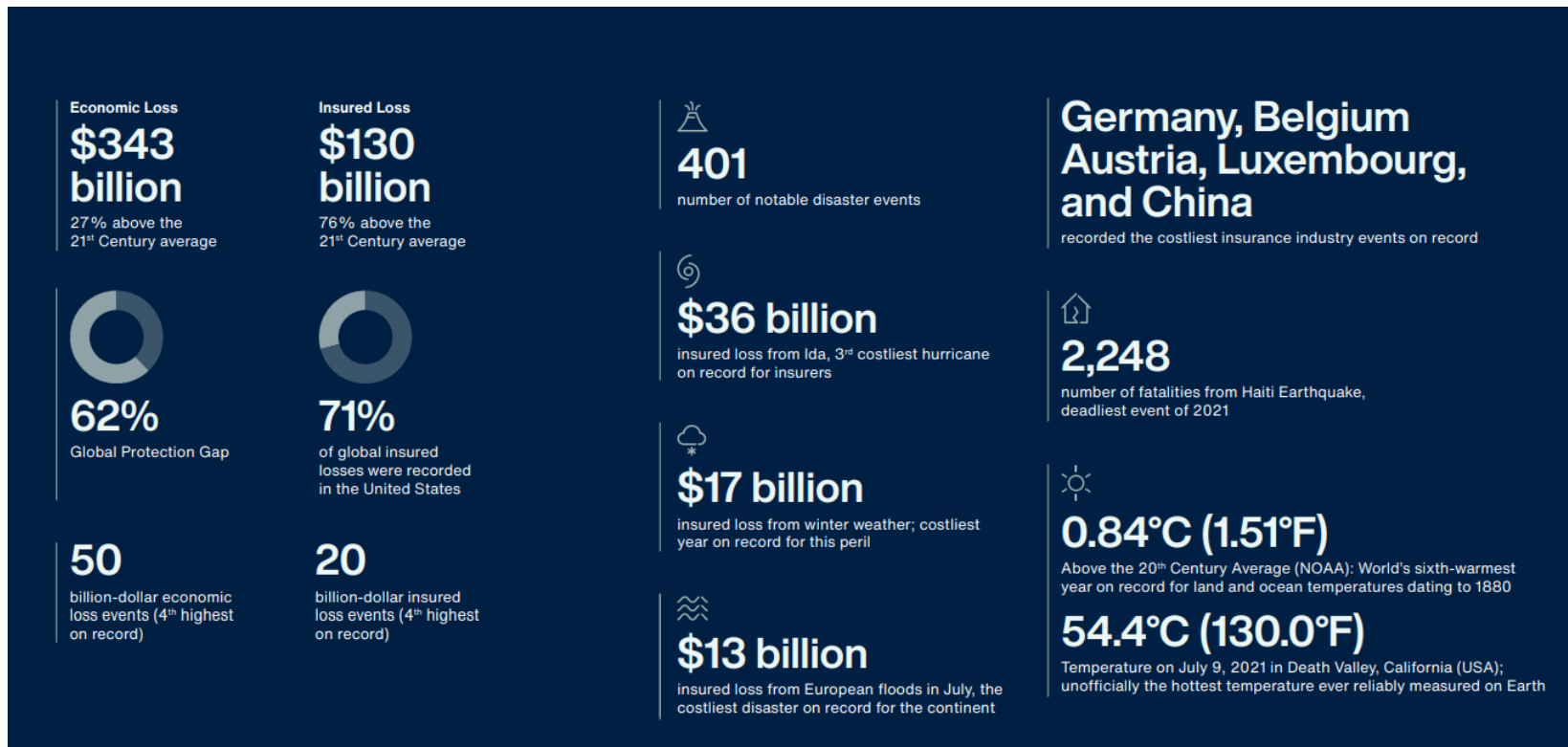


Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020 figure from Munich Re; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

Colorado State University Predictions

Year	CSU Prediction	# of Named Storms
2022	*>14	**
2021	18	21
2020	16	30
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2015	7	11
---	---	---
2010	11-16	19
---	---	---
2005*	28	28
2005*	15	---

Climate Change



Climate Change - Resilience



FEMA

- Climate resilience
- \$6.8 bn in pre-disaster projects
- Every \$1 spent, saves \$6

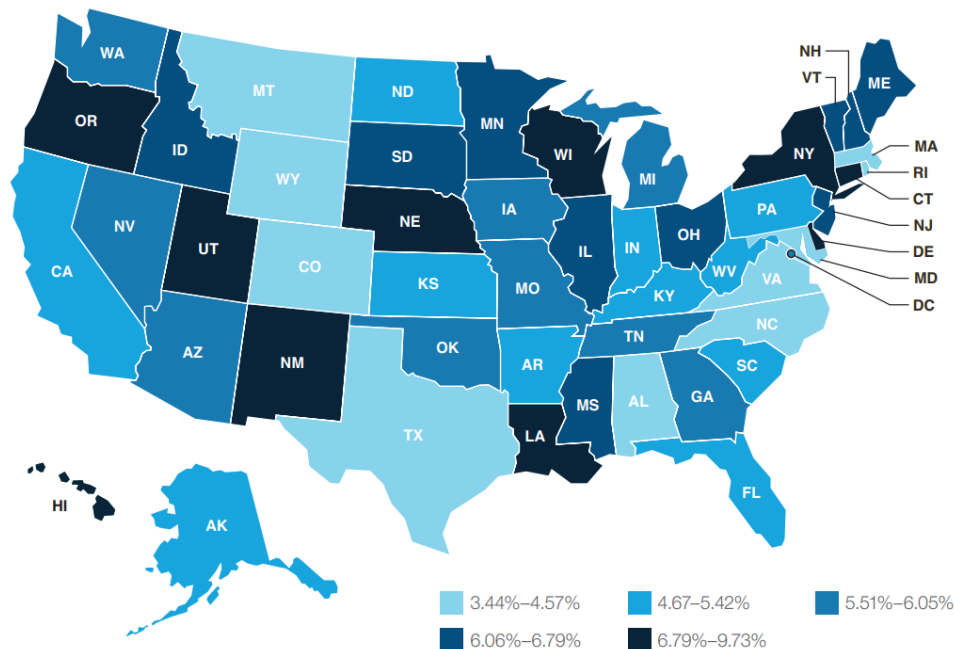
“Organizations must build a culture of risk **resiliency**. Too often, the catch-all term ‘**disaster recovery planning**’ is applied.”

Journal of Business Continuity & Emergency Planning

Insurance to Value

ISO 360Value Reconstruction Cost Analysis

Q4 2021 United States



Changes in reconstruction costs by state.

States are grouped in quintiles; each range/color in the legend includes 20% of the total number of states.

*All rates, percentages, increases, decreases, etc., are calculated as percentage changes from October 2020 to October 2021, unless otherwise noted.

- Total reconstruction costs, including materials and retail labor, rose 5.8% from October 2020 to October 2021**, moderating significantly from July 2020 to July 2021, when costs rose 16.7%. The steep hike in lumber that began in October 2020 and peaked in July of 2021 is rising at a much slower pace, with prices increasing 4.1% year-over-year in October 2021. Lumber remains elevated compared with pre-pandemic pricing. Quarterly costs were down 4.8%, a contrast to the 8.8% increase in the prior quarter.
- Reconstruction costs increased in all states.** New York, Wisconsin, and Louisiana had the largest increases year-over-year at 9.7%, 9.5%, and 7.6%, respectively. Wyoming had the lowest change at 3.4%. Rhode Island had the most significant shift in ranking, with prices rising just 4.4% in the most recent year-over-year period compared with a gain of 19% between July 2020 and July 2021.

COVID Slow Down

Public Entity
Exposure Impact

Aging Infrastructure

Property Trends and Renewal Expectations

2022 Renewals

1

Reduced Capacity



2

Increased Deductibles



3

Increased Rate





Broker Market Rate Predictions - Property



Amwins – Q1 2022



5% to 20%



Aon – Q4 2021



1% to 10%



Brown & Brown – Q1 2022



+10% or higher



Property Considerations

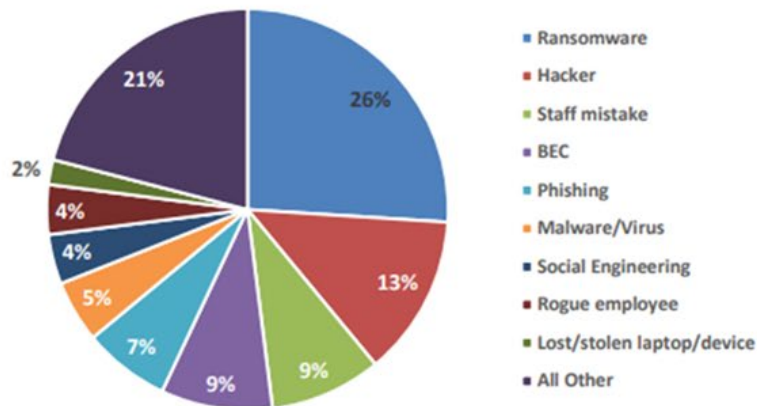
- ITV Plan
- Inspection of Aging Infrastructure
- Comprehensive Data



Cyber Trends and Market

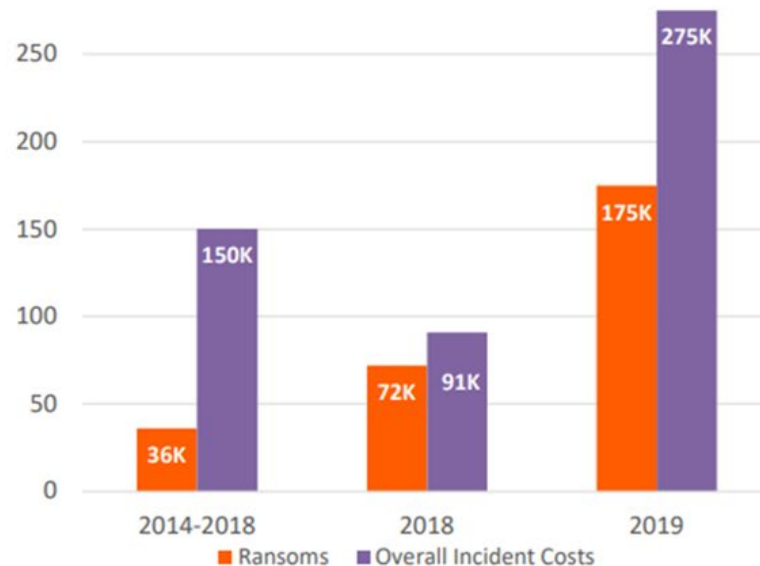
Cyber Trends and the Market

Percentage of Claims by Cause of Loss:
All Orgs 2015-2019
(N=3,525)



Ransomware Insurance Industry Impact

NetDiligence® 2020 Cyber Claims Study
Ransomware Average Costs – SMEs





Broker Market Rate Predictions - Cyber



Amwins – Q1 2022



50% to 100%



Aon – Q4 2021



> +30%



Brown & Brown – Q1 2022



200% to 400%

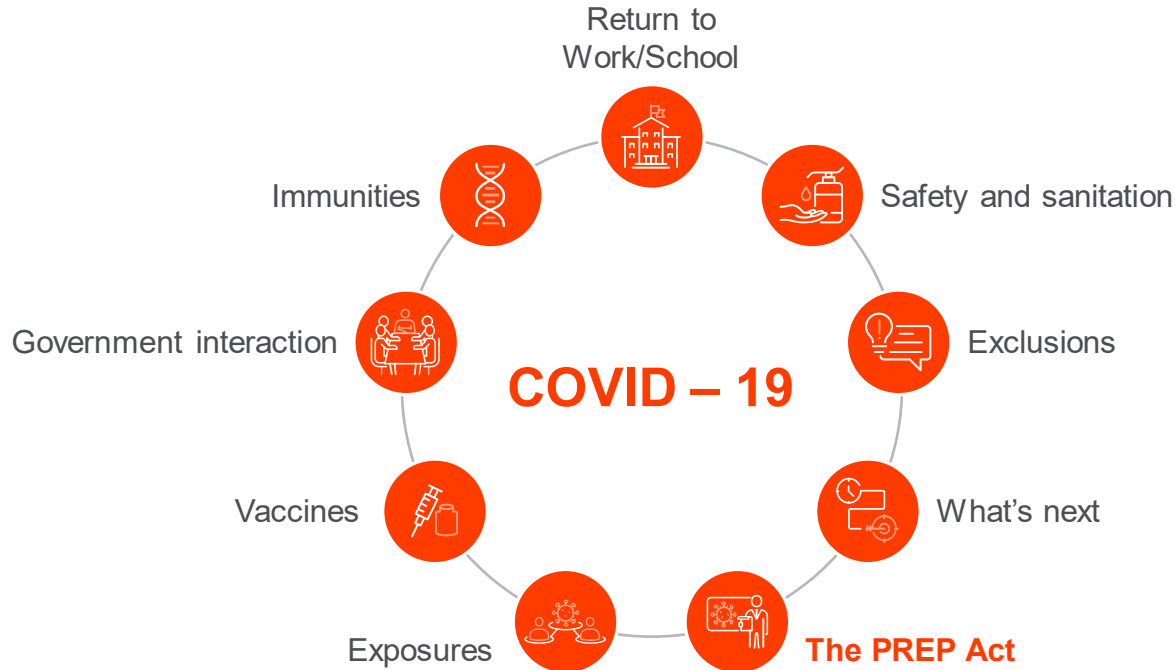


Casualty Trends and Market

Increasing impact on liability exposure

- COVID-19
- Reviver Legislation and Sexual Abuse
- Jurisdictional Challenges
- Law Enforcement
- Social Inflation and Nuclear Verdicts





Public Readiness and Emergency Preparedness (PREP) Act

The Public Readiness and Emergency Preparedness Act (PREP Act) authorizes the Secretary of the Department of Health and Human Services (Secretary) to issue a PREP Act declaration. The declaration provides immunity from liability (except for willful misconduct) for claims:

- ▶ of loss caused, arising out of, relating to, or resulting from administration or use of countermeasures to diseases, threats and conditions
- ▶ determined by the Secretary to constitute a present, or credible risk of a future public health emergency
- ▶ to entities and individuals involved in the development, manufacture, testing, distribution, administration, and use of such countermeasures

A PREP Act declaration is specifically for the purpose of providing immunity from liability, and is different from, and not dependent on, other emergency declarations.

Sex Abuse Market Dynamics

Munich RE

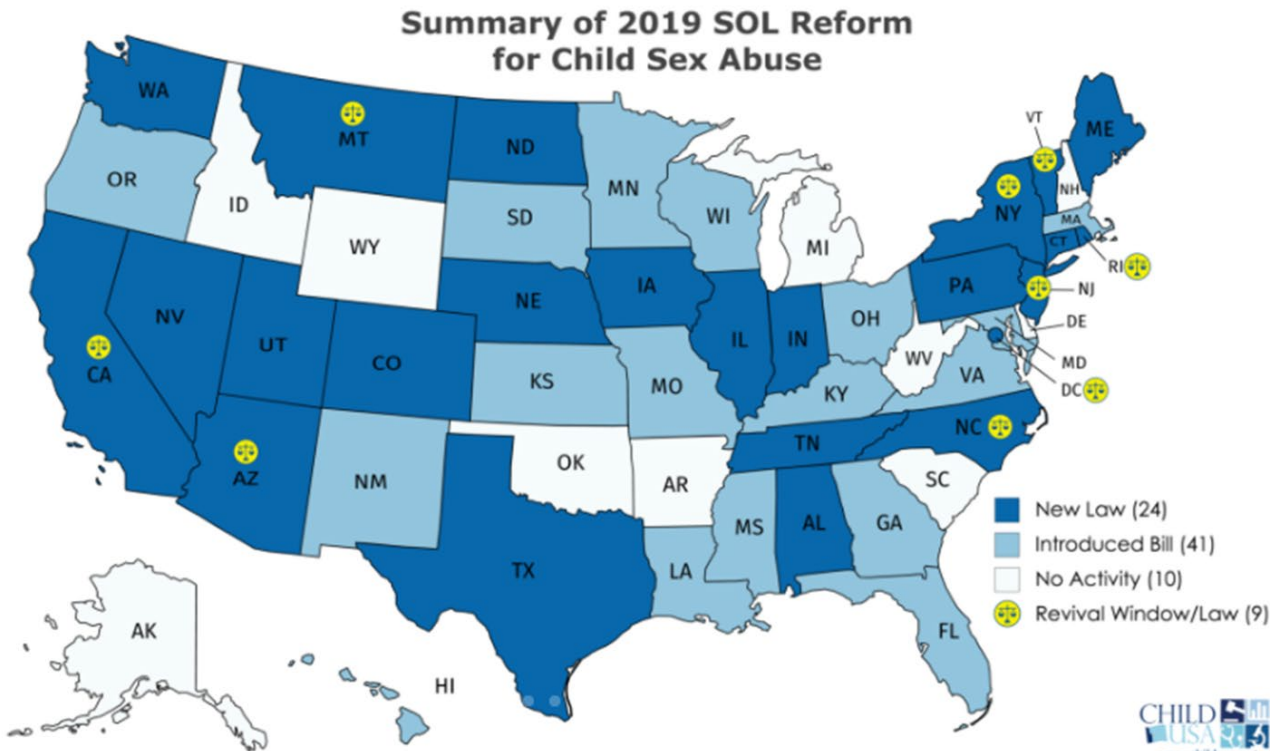


Image: used under license from shutterstock.com

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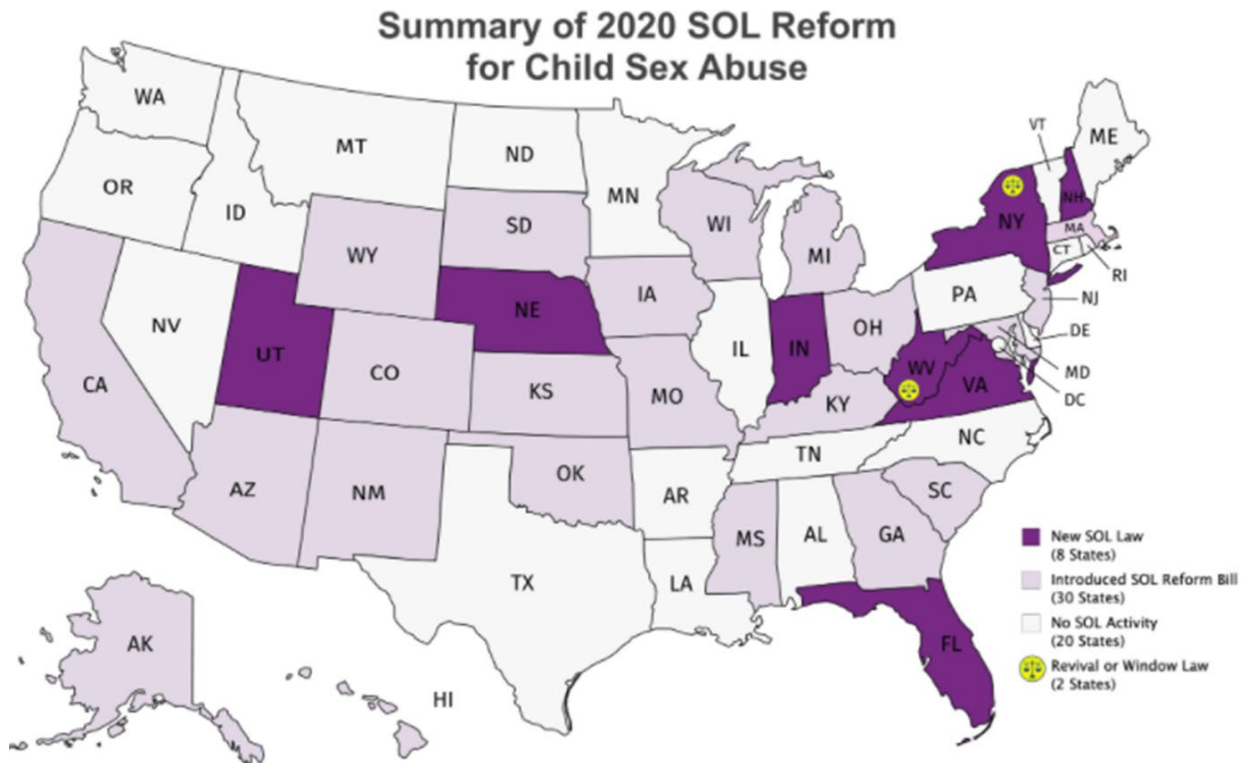
Reviver Legislation and Sex Abuse

2019



Reviver Legislation and Sex Abuse

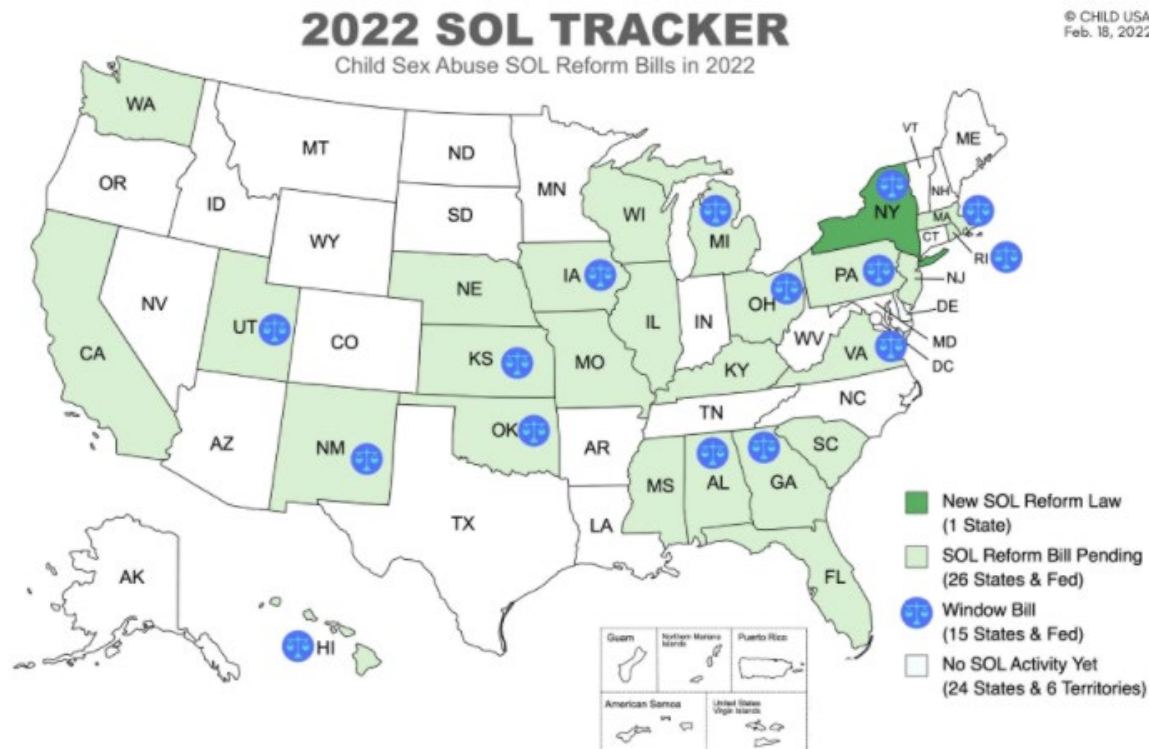
2020



2021

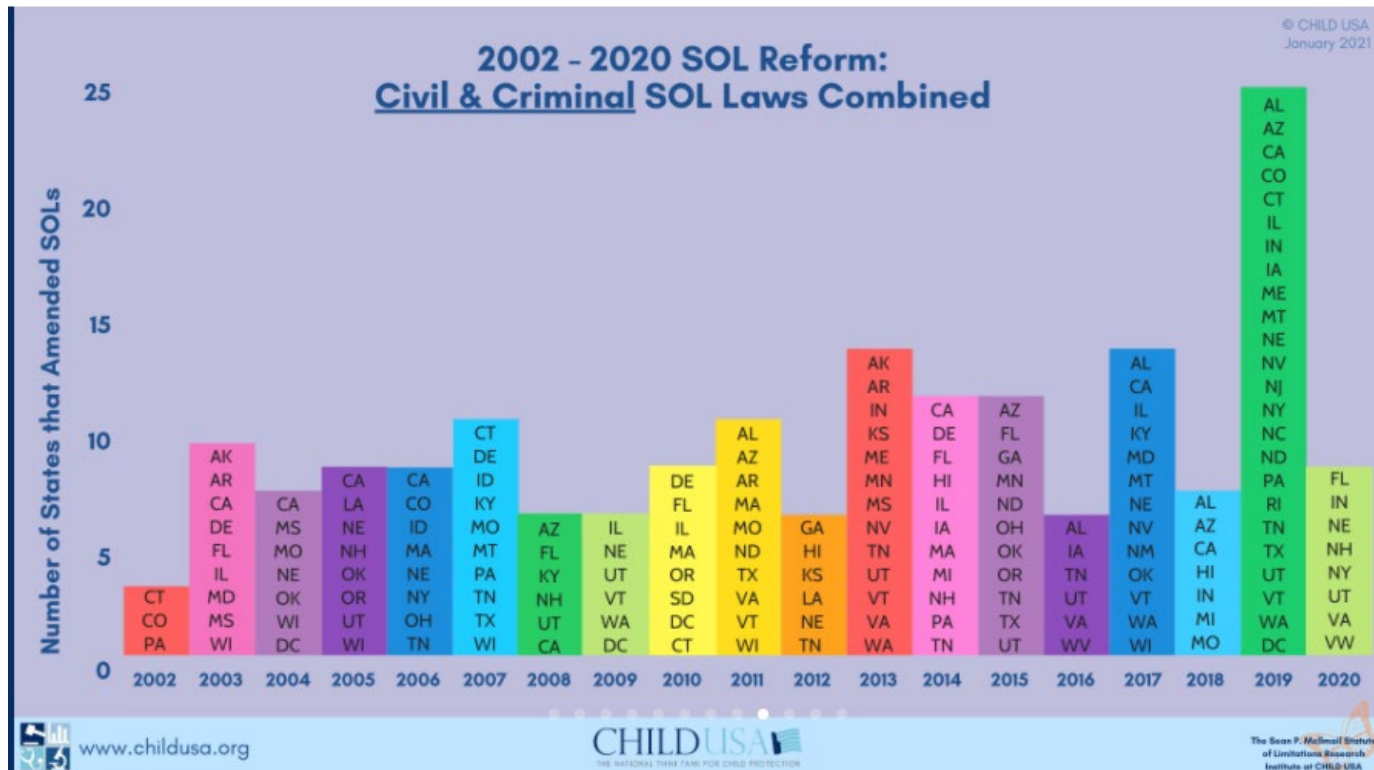


Reviver Legislation and Sex Abuse 2022



Reviver Legislation and Sex Abuse

Statute of Limitation Laws



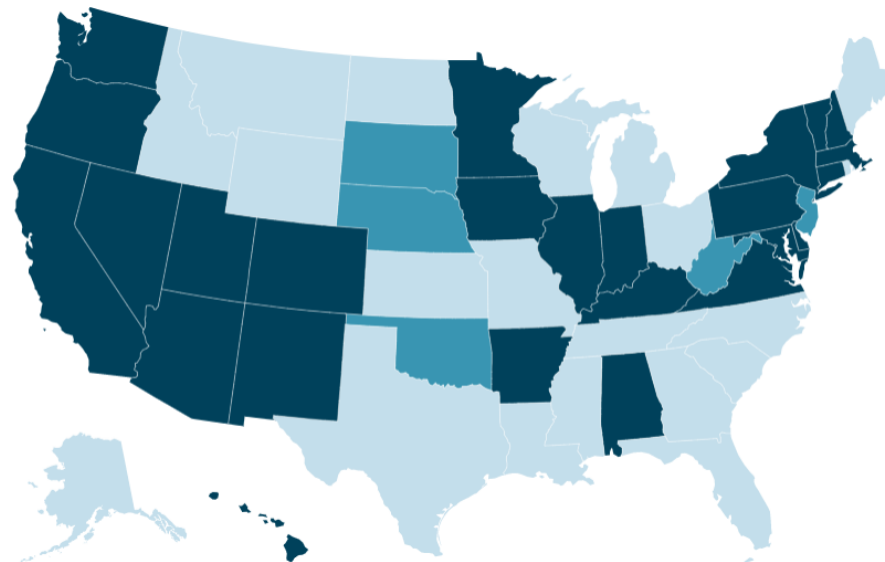
- Civil Unrest
- Public Perception
- Hiring, training, operating
- Changes in law





Law Enforcement – Policing Reform

States Passing Legislative Policing Reforms Since George Floyd's Murder



- States that enacted legislation between May 25, 2020 and May 21, 2021 in at least one of three identified areas: use of force; duty for officers to intervene, report, or render medical aid in instances of police misconduct; or policies relating to law enforcement misconduct reporting and decertification.
- States that enacted policing reform legislation during the same time period outside of the three identified areas.
- States that failed to enact substantive statewide police reform legislation. These states may have passed legislation creating a task force or commission charged with providing recommendations on policing policy and practice; or legislation enacting police reform limited to one county.

Law Enforcement – Policing Reform



Qualified Immunity

A series of legal precedents that protect government officials – including police officers – accused of violating constitutional rights.



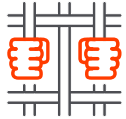
Jurisdictional Challenges

These areas are all interrelated



West Coast

- CA, OR, WA
- Significant increase in claims values



Judicial Hellholes

West Coast is problematic,
but there are issues across the country



Tort Reform

- Increasing tort caps
- Immunities reducing



Social Inflation and Nuclear Verdicts

Disproportionate claim values

Each of these pieces exacerbates complex and sensitive claims

Judicial Hellholes

2021/2022

1

California

2

New York

3

Georgia Supreme Court

4

Philadelphia

5

Cook, Madison, St. Clair
Counties, IL

6

Louisiana

7

St. Louis, MO

8

South Carolina Asbestos
Litigation

Social Inflation

the increase in insurance losses caused by legislative, judicial, social and economic, and technical developments.



Nuclear Verdict

a jury award in which the penalty exceeds \$10M



Nuclear Verdict

any award that is significantly disproportionate to what would be expected.



Social Inflation and Nuclear Verdicts

- Crumbling of tort caps and immunities
- Litigation funding
- Desensitization to nuclear verdicts



Casualty Market Conditions

Capacity and Carrier

- Capacity, reduced but stabilizing
- Carriers in the space – stabilized

Limits and Retentions

- Higher retentions → loss experience
- Expiring limits

Terms and Conditions

- Constricted risk appetite
- Tight terms and conditions

Rate

- Increases expected
- Deceleration across all lines



Aon Q4 2021 – United States

Global Market Insights Report



Casualty
Liability



1% to 10%



Professional
Liability



1% to 10%



Auto
Liability



1% to 10%



WC



Flat

Brown & Brown Q1 2022

Market Trends



Casualty
Liability



5% to 20%



Professional
Liability



1% to 10%



Auto
Liability



5% to 12%



WC



Flat

Risk Management Considerations

- Policies and procedures
- Review by legal counsel
- Training to standard
- Insurance to Value and inspection plan



Summary



Market

- Low to no investment income
- Underwriting Pressure



Property

- ITV concerns
- Rate increasing, but at slowing pace

Cyber

- Tough rate environment
- Hope to see some slowing towards end of 2022

Casualty

- Sex Abuse and Law Enforcement concerns
- Rate increasing, but at slowing pace

Questions



Thank you for your attention!

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