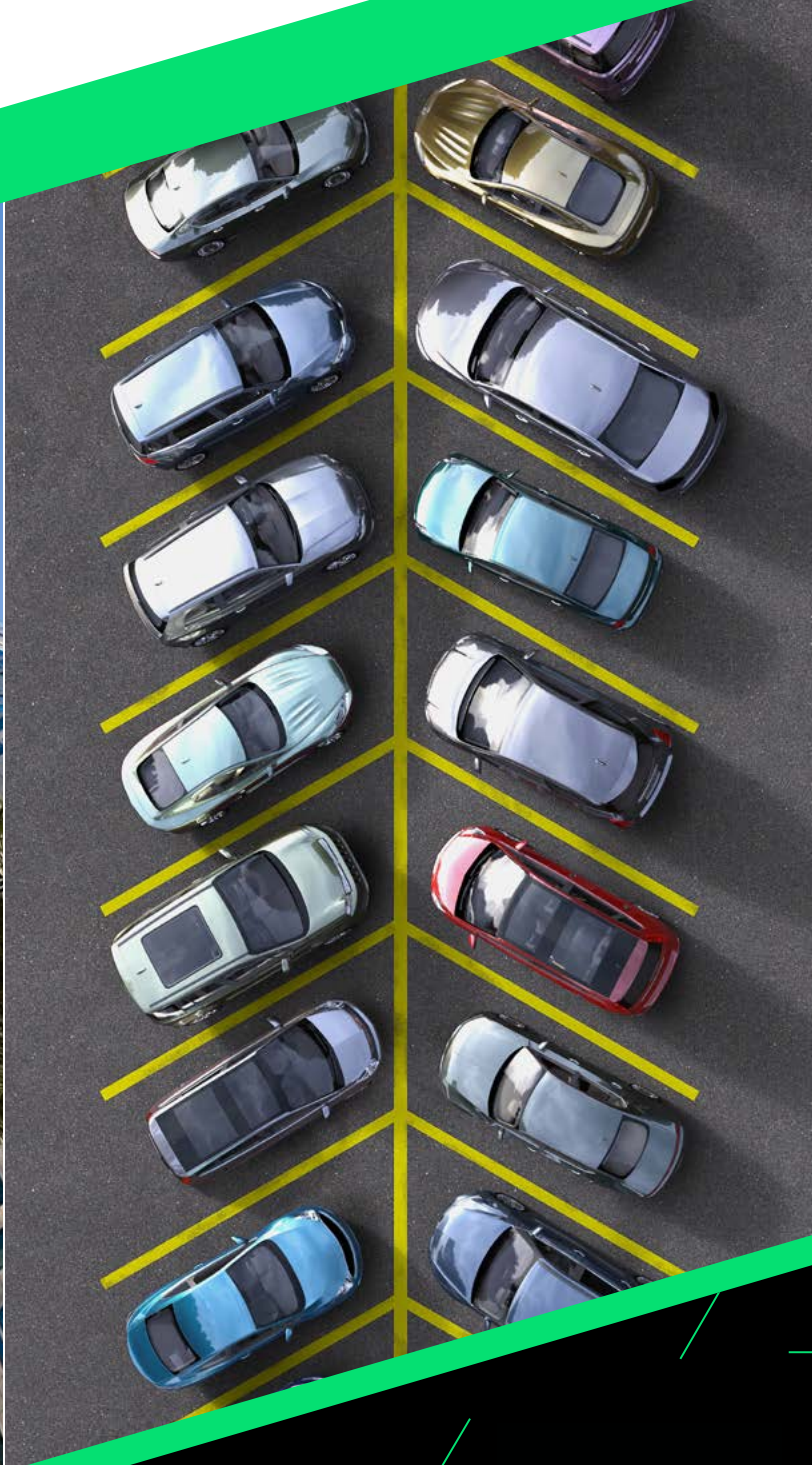


XPT Specialty Q2 2023 Insurance Market Report



*Industries of Focus:
Commercial Property
& Personal Lines*



MARKET
REPORT

A greater number of extreme weather-related events, increasing labor and material costs, an uptick in nuclear verdicts, and an unpredictable economy are just a few of the factors shaping the current state of the insurance market. As a result, personal lines carriers and brokers are anticipating a challenging second quarter of the year – impacting rates, claims, capacity, and pricing.

At XPT Specialty, we believe the best way for us to serve you, our retail broker partners, is by examining current market conditions that affect your business and keeping you informed. Here, in our latest state-of-the-market report, our own industry experts provide insights into key trends and challenges that are affecting the commercial property and personal lines insurance markets.



INDUSTRY FOCUS: COMMERCIAL PROPERTY

General Market Trends

Property is in an extremely hard market space, primarily due to the severity of windstorms. “This is a tough property market with record windstorm losses in Florida, Louisiana and Texas,” said Michele Martincich, Executive VP and Property Practice Leader at XPT Specialty. “As a result, wildfires have increased in frequency and intensity and continue to significantly impact all states across the nation – in addition to the well-known, severe conditions

in California.” Catastrophic weather events have also had a significant impact on property pricing and valuations.

Property valuations remain a key issue of concern when it comes to putting a property program together. Gone are the days when carriers would renew property risks as expiring – allowing property values to remain the same on any given account for five to 10 years, even if knowingly there had been changes.

Today, property valuations remain a key issue of concern when it comes to putting a property program together.

"It's time to update property values that have been reported 'as is' for far too many years. Unfortunately, brokers are apprehensive about discussing property values with their insureds and running a new insurance to value (ITV) because they fear policyholders will approach another broker/market instead of working with them," said Martincich.

Retail brokers can get ahead of these challenges by consulting with their insureds early in the renewal process and discussing possible changes that could be made – such as adjusting limits and increasing higher deductibles.

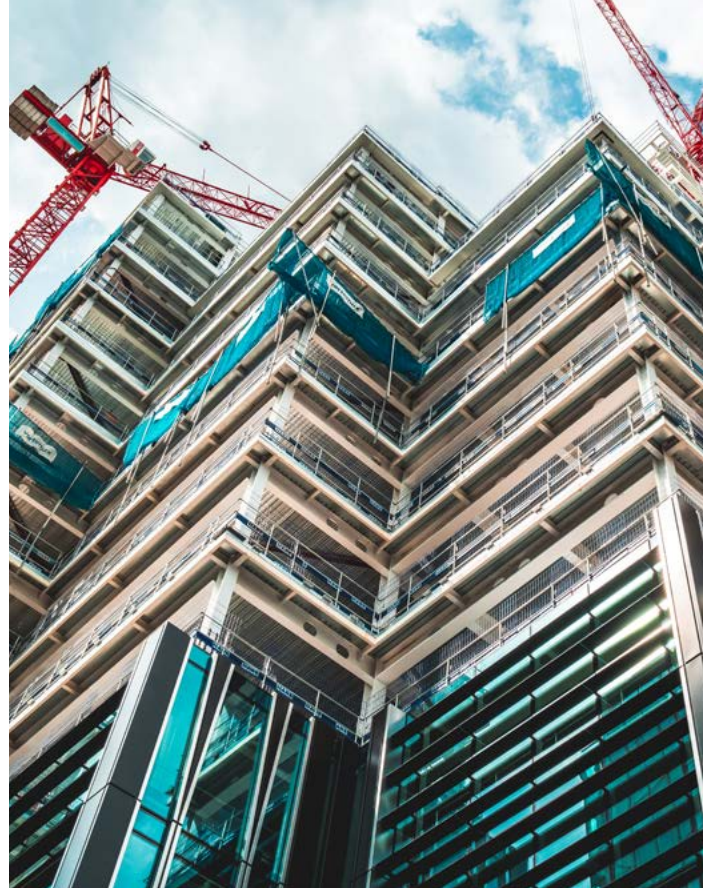
Capacity and Pricing

Some admitted carriers are reducing their property capacity in states such as Florida, which has forced many accounts into the excess and surplus lines market. This development puts wholesalers in a tough position, and they may have to scramble to replace a policy with, say, a maximum limit of \$100 million or greater. The reality is that most flood, earthquake and possibly hail limits, which were adequate at the \$25 million to \$50 million range, now must be increased due to a rise in property values.

However, the industry appears to be optimistic that new carriers will be coming into the market with greater capacity – which will help offset the carriers that are either reducing limits or getting out of the commercial property market entirely.

"Right now, property renewals are up 10%, 20% and even 25%. As new capacity comes in at the end of the year, we're hopeful it will back off to something more manageable, such as a 4% increase – where it used to be before all these issues," said Martincich.

As for pricing, last year we saw many major carriers that typically write policies for Florida windstorms significantly reduce their limits and raise pricing. This year, the same is happening as limits are going down again and pricing is going up at least 20% to 25% in areas that often experience catastrophic weather events. For certain areas where there have been losses, rates could go up as high as 50%, and again, the carrier would likely reduce limits.



Brokers and their clients need to understand that rising property valuations and carriers reducing limits go hand in hand.

With all that is going on in today's commercial property market, brokers need to diligently educate their clients throughout the year. In doing so, they can get ahead of challenges by reaching out and updating insureds on where the marketplace is going and what they can expect come renewal time.

Commercial Property Conclusion

At XPT Specialty, we understand the challenges our retail broker partners are up against. We help our brokers explore all possible market options for their clients at prices they can afford. Communication, trust and building relationships – that's what XPT Specialty is about.

"At XPT Specialty, we communicate very closely with our carriers, discussing the marketplace and what they're seeing and expecting. It's about getting as much information as possible as to what could be the next big issue and exploring all possible solutions with our clients. These updates don't have to trigger panic for our carriers. We just want them to take a more educated approach to marketing accounts," said Martincich.

INDUSTRY FOCUS: PERSONAL LINES

General Market Trends

Most insurers across the personal lines sector are experiencing similar market challenges stemming from inflation, supply chain issues, catastrophic losses, and claims frequency and severity.

“While the personal lines insurance sector has experienced market fluctuations in the past, I don’t believe we’ve ever had such an upheaval of challenges at the level we are seeing now,” said Glen Pomeroy, Executive VP of Personal Lines at XPT Specialty.

The ongoing labor shortage is also impacting auto repair shops and claims costs. For example, the lack of staff has

many auto body shops taking longer to repair vehicles. As a result, the claims adjustment process has become longer, and rental car expenses have substantially increased.

In addition, expenses associated with the cost of materials, sensors and other electronics that are being used in today’s vehicles are key drivers behind rising claims costs. Unfortunately, increased claims costs will continue to significantly increase auto insurance premiums over the coming months, and possibly into 2024.

“The personal lines market currently exists in a perfect storm of economic and inflationary concerns, coupled with pricing worries from the carriers’ standpoint,” said Pomeroy.

The frequency of weather-related catastrophic losses remains yet another big challenge for personal lines carriers this year, with many markets experiencing similar issues related to claims severity that is impacting coverage and rates.



Capacity and Pricing

Many carriers have already begun to limit capacity in certain geographical areas, such as states where severe weather patterns have grown in frequency and intensity. As a result, carriers are being hit with increased reinsurance and claims costs that directly impact pricing.

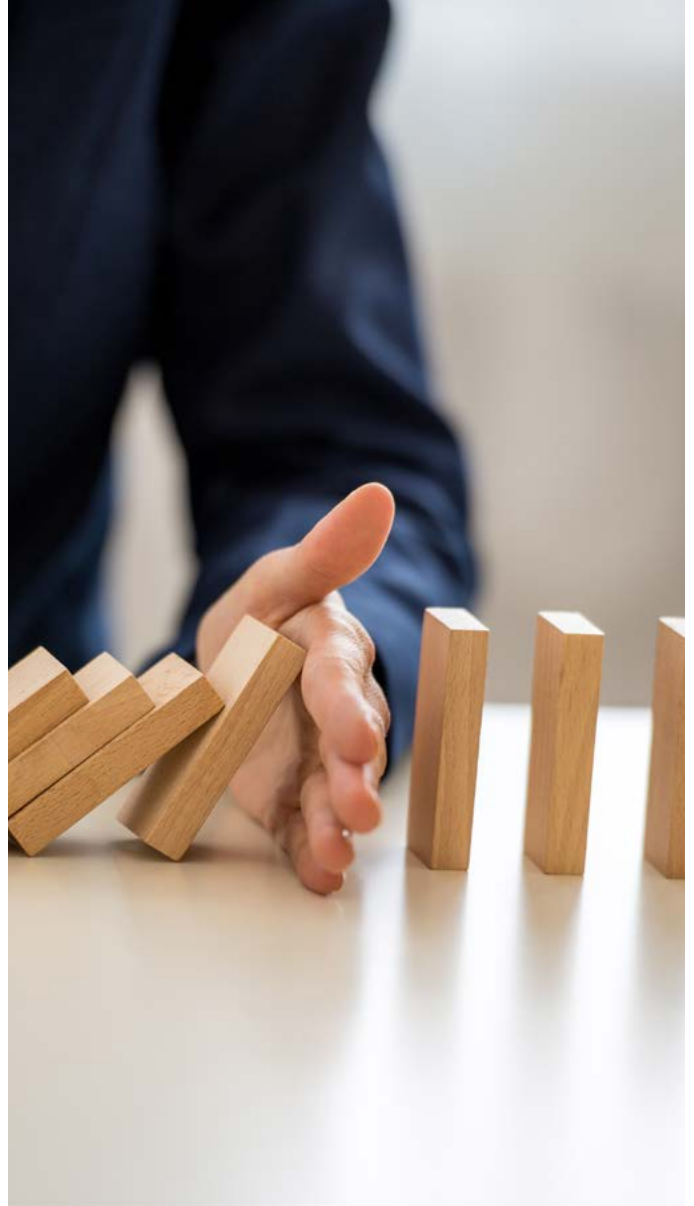
Personal lines brokers also face challenges due to the lack of retail capacity as more carriers reduce the number of agents they are willing to work with and even terminate existing contracts. This development has some retailers pumping their brakes and paring down their books of business, deciding to only serve specific territories or certain lines of coverage. In addition, many carriers are lowering their commissions.

“At XPT, we’re helping retail brokers build their books of business by providing them with insurance products that fit a variety of personal lines accounts – from preferred, high-value and specialty risks to nearly everything in between,” said Pomeroy. “Unlike many retailers that are working with limited markets and a scaled-back appetite, we are continually adding more capacity and exploring new options to best accommodate brokers with a wide array of product options.”

Claims

Personal lines insurance carriers across the industry continue to experience increases in the frequency and severity of claims. This has made it a challenge to write business in states that are more prone to extreme weather conditions – such as flooding, winds, hurricanes, wildfires, and ice storms – with many carriers drastically reducing their capacity.

Challenging accounts where there is weather-related exposure or previous large losses result in more carriers looking for ways to better mitigate risks. This has led to a tightening of capacity and higher premiums. As a result, many personal lines carriers are moving more accounts out of the standard marketplace and into the non-admitted market to provide more options for brokers.



Claims are also becoming more expensive to cover, due largely to the increase in court and settlement costs.

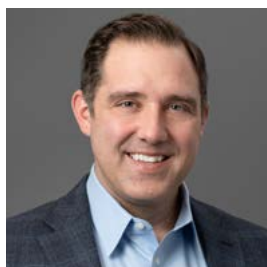
Personal Lines Conclusion

At XPT, we know what brokers are up against, and we are here to help them find the personal lines insurance markets they need. Our expanded market reach and strong carrier relationships allow us to offer a wide range of personal lines products – even for tough, hard-to-place risks.

“In addition to our array of insurance products, we are always looking to onboard new lines of coverage to further expand our market appetite. In fact, we never stop looking for solutions to better serve our brokers,” said Pomeroy.

At XPT, we know what brokers are up against, and we are here to help them find the personal lines insurance markets they need. Our expanded market reach and strong carrier relationships allow us to offer a wide range of personal lines products – even for tough, hard-to-place risks.

XPT SPECIALISTS WHO CONTRIBUTED TO THIS REPORT

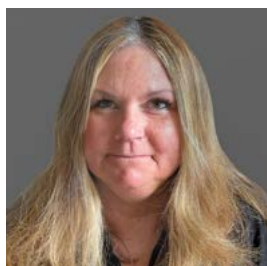


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Glen Pomeroy has over 20 years of experience in the insurance field, previously holding the position of Owner & President of Insurance Brokers Incorporated (IBI), which was acquired by XPT Specialty in early 2022. Glen and his team of experts specialize in a broad range of personal, commercial, and E&S insurance products throughout the Midwest and surrounding states. As his primary objective in his insurance career, Glen provides opportunities to his retail customers with an emphasis on product innovation and mutual success.



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Michele Martincich leads XPT Specialty's Property Practice Group, a role that joins the growing property division and teams under her leadership and support. XPT's Property Brokers are united under Michele's leadership, further developing and accelerating the group's expertise while using her strong relationship skills, analytical aptitude, and XPT's quality reputation and access to deliver clients the most beneficial solutions. Michele has over 25 years in various leadership roles within the wholesale industry, with the majority of her career spent with a top wholesale brokerage firm in NYC.

XPT SPECIALTY

Why XPT Specialty? Because we are as dedicated to your success as you are!

Every broker at XPT has deep industry expertise to help you secure the best coverage for your commercial property and personal lines clients. Our specialists have the combined expertise to help you find solutions to your coverage problems when other wholesalers can't. How do we do it? By working closely with you, our retail partners, to better understand the specific needs of each insured and risk – including tough, hard-to-place accounts.

At every step, the expert teams at XPT are here to help you navigate the complexity of today's market and provide ongoing support. From brokerage to underwriting, you can be confident that our specialists will work as hard as required to find your client the very best coverage at the best possible price.

For additional information, please visit xptspecialty.com or email info@xptpartnersllc.com.

Contact your broker or underwriter today
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