Brown & Brown

QUARTER 1 | 2025

Market Trends

Commercial Insurance & Risk Management

Growth Has No Finish Line

As a successful business, you plan for the future and adapt as circumstances change your course. At Brown & Brown, we help you navigate the path forward by taking a different approach to how you view, analyze and purchase insurance.

That's why, no matter where you are on your growth journey, we can help you find solutions to meet your ever-evolving insurance and risk management needs. If you are a highly complex multinational company, an individual or anything in between, our experienced teams can help every step of the way.

Founded in 1939 as a two-partner firm, Brown & Brown has risen to become one of the largest insurance brokerages in the world. As we've grown, we have maintained a focus on being as connected locally as we are nationally. We strive to provide the personalized, dedicated service you want from a boutique agency while delivering the peace of mind that you expect from a top brokerage.

Find your solution and explore Brown & Brown's additional capabilities and reports.

Employee Benefits

Brown & Brown has a robust National Employee Benefits practice. Explore our latest report that dives into employee benefits trends and provides a comprehensive analysis of how employers are adapting benefit offerings to attract and retain top talent.

READ OUR MOST RECENT REPORT

Personal Insurance

Whether you already have significant financial assets or are on the road to high net worth, Brown & Brown's Personal Insurance team offers comprehensive insurance for your lifestyle. Read the most recent report covering updates and innovations in personal insurance to help stay informed on the latest market shifts and how they may impact individual policyholders.

READ OUR MOST RECENT REPORT

MARKET SEGMENT

This report covers the trends in the middle to upper middle market with revenues ranging from $50M-$1B.

Our Goal

Brown & Brown's Market Trends allows you to connect quickly to key topics and notable updates in the insurance marketplace. Dive deeper on any topic with our Brown & Brown team to better understand how these trends may impact your business. We welcome the conversation.

Discover

Property

Q1 | 2025

The commercial property insurance and reinsurance marketplaces stabilized in 2024 due to positive underwriting results underpinned by previous years' discipline in capacity deployment, risk pricing and attachment point selection. The market faces challenges in 2025, resulting in volatility, particularly for catastrophe-exposed property and risks with historic claim activity.

In the first quarter of 2025, primary carriers are anticipated to be selective while trying to meet growth objectives. Moderate to noticeable competition will continue for accounts with favorable loss histories, good loss mitigation programs and low exposure to catastrophic risks, such as wind, hail, named storms or wildfire. For catastrophe-exposed accounts, carriers will show interest if premium levels are deemed attractive and adequate.

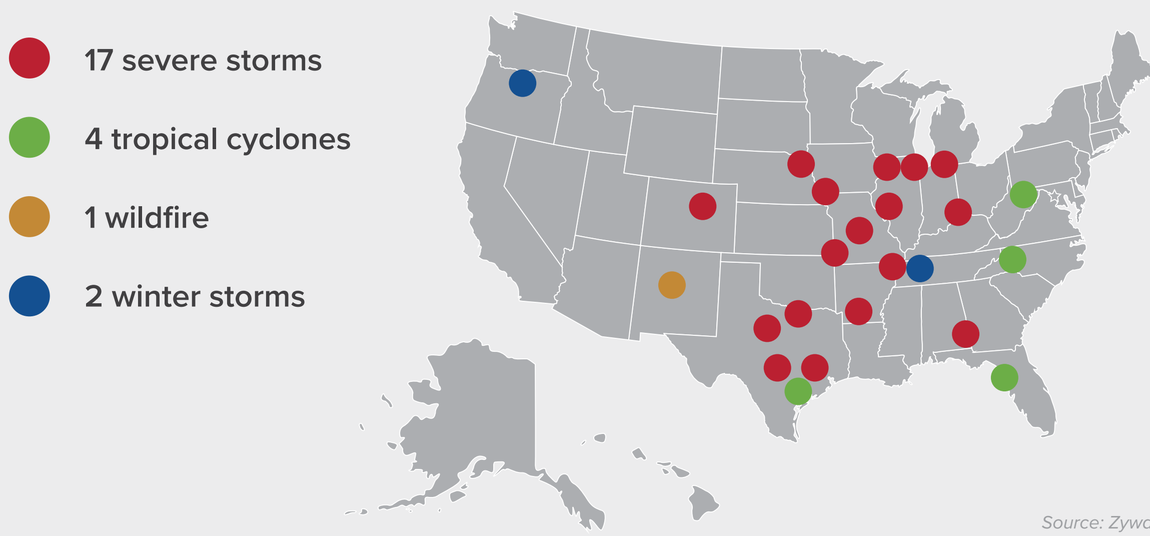
Property insurance rates are expected to continue the trend of 2024 and soften further in 2025. Actual rate changes can vary widely from account to account, depending on occupancy class and level of catastrophe exposure. Single carrier placements will likely experience different results from shared and layered insurance arrangements, with more volatility expected in the working layers. More benign portfolios should expect rate changes of -5% to +5%, while riskier portfolios could anticipate -10% to +10%. Increased capacity entering the market will lead to more carrier flexibility regarding coverage terms.

The inflationary pressures on insurable values have eased, with moderate single-digit year-over-year increases deemed sufficient for all but the most undervalued portfolios. Reinsurance treaty renewals for this year are expected to be stable,

mainly due to profitable results and a strong reinsurance capital position in the marketplace. Reinsurers will remain committed to transferring catastrophic risk to primary insurers, which has been successful in recent years. Underwriting for individual accounts will focus on catastrophic risk exposures, insurance to value adequacy and property risk control measures. Marketing a given insurance into the global marketplace will be critical to achieving adequate terms for complex carriers.

2024 Natural Disaster Insights

The frequency and severity of natural disasters have continued to pose concerns throughout the commercial property insurance market. The following are some key highlights related to 2024 natural disaster activity:



Source: Zywave

Casualty

Q1 | 2025

General Liability

Overall, general liability rates have increased and stabilized in the single digits. A continued increase in claims costs, driven by social inflation and other economic factors, leads carriers to review pricing adequacy for high-frequency and severity liability exposures. Carriers will continue scrutinizing liability risks in legal jurisdictions with prevalent nuclear verdicts. Underwriters remain conservative in construction, hospitality, retail and real estate/habitational exposure. These industries face higher scrutiny due to the inherent risk exposures and the significant litigation potential.

Umbrella/Excess

The auto and general liability insurance marketplace issues overlap with the umbrella/excess liability coverage experience. Claim trends push underwriters to review an account's risk management procedures. In many cases, accounts must increase attachment points and decrease limits to manage spending. The appetite of many carriers continues to decrease, resulting in more carriers with smaller limits in excess liability towers.

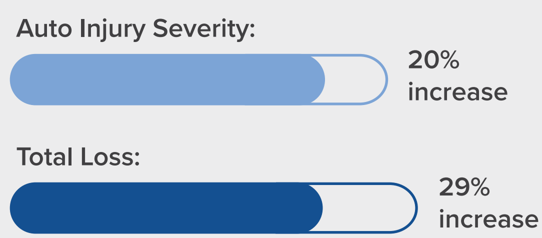
Workers' Compensation

The workers' compensation marketplace continues to be competitive for well-performing accounts. Many carriers leverage the work comp placement to balance writing general/auto and umbrella lines; of note, the upward trend in medical claims costs continues to be observed by carriers, who are watching closely to ensure adequate pricing. The insured's performance, attention to safety and risk control, employee training and adequate staffing are all factors weighing the future of workers' compensation rates.

Commercial Auto

Commercial auto remains one of the most challenging lines for carriers to produce profitable underwriting results. After years of rate increases, claim development continues to outpace premiums. Continued rate increases and the push for insureds to take increased deductibles are expected to continue. The high cost of auto repairs due to technology innovations and increased labor costs are causing carriers to underwrite physical damage deductibles. Owned, hired and non-owned auto risk management controls are essential factors in the underwriting process and are mandatory for complying with underwriting requirements. The marketplace for accounts with significant hired and non-owned auto exposure is minimal. Many carriers aim to decrease their volatility by utilizing facultative and treaty reinsurance; however, new restrictions limit how much a carrier can write.

INCREASED COSTS FOR CLAIMS



Source: LexisNexis

Executive Liability

Q1 | 2025

Increased carrier competition continues to shape the executive liability space. Carriers are exploring broader terms, lower premiums and reduced retentions, indicating a favorable environment for insureds.

Public & Private Companies

Private companies are likely to experience a favorable marketplace heading into 2025. Market stability persists across the board, with similar trends applying to both private and not-for-profit risks. Securities class action claims for public companies in 2024 have risen slightly compared to 2023. However, carrier capacity remains strong, and we expect to see continued market stabilization. The life science and technology sectors account for a significant number of filed securities class action claims.

Antitrust Litigation

The antitrust regulatory landscape continues to evolve, with recent significant cases highlighting the importance of adequate coverage. These developments emphasize the importance of antitrust coverage, often excluded or limited from executive liability policies. There is potential for softening antitrust legislation, with outcomes likely to differ depending on the political environment.

Artificial Intelligence (AI) Impacts

The increasing integration of AI into business processes presents new challenges for executive liability. AI's ability to craft advanced phishing scams, such as using voice emulators, has made these scams more convincing and more challenging to detect. Across several coverages, the impact of AI is becoming more evident.

- **Directors & Officers (D&O)**
  - Directors & Officers (D&O) liability may increase in claims tied to emerging AI regulatory bills.
- **Commercial Risk**
  - Social engineering incidents linked to AI are contributing to commercial crime risks.
- **Employment Practices**
  - In employment practices, claims are rising due to the potential bias created by AI tools, alongside increased litigation in wage and hour disputes driven by AI-based management practices.

As AI evolves, monitoring its implications for market dynamics and claims activity will be essential.

Cyber Risk

Q1 | 2025

> Healthcare, professional services, education and manufacturing sector policies continue to be the most affected by cyber events, with a high frequency of business email compromise, ransomware and cybercrime claims.

Rate and Appetite Trends

While the most common result is a flat to 5% rate reduction, buyers who have seen consistent reductions in the past two years will likely experience flat to 5% rate increases given market stabilization. Traditional markets, facing competition from insure-techs, have adjusted pricing to grow in small and middle markets. In some cases, competition on layered programs is reducing excess pricing.

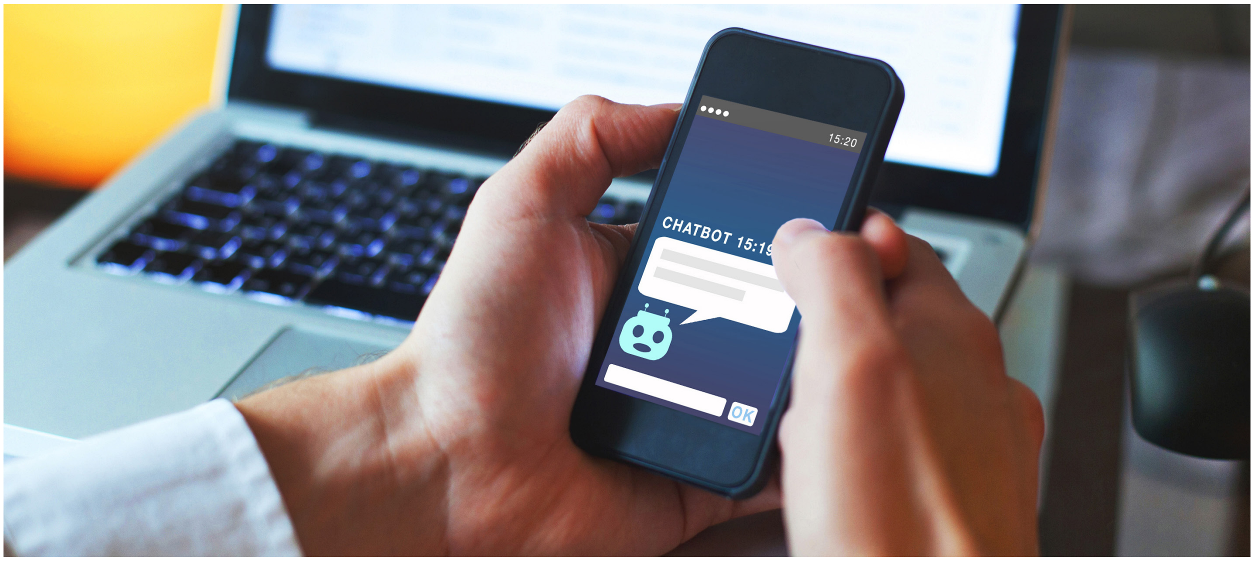
Many carrier appetites remain broad, although specific industries face difficulties due to outside political or economic factors and risk profiles. Carriers are more willing to increase limits from $5M to $10M for larger buyers on a single policy layer. Underwriting standards remain high, causing more significant competition for buyers with a strong security posture, regardless of size or industry.

Claims and Regulatory Landscape

There is concern that the continued elevated claims activity may cause broad market-wide rate increases and more challenging market conditions. Specifically, carriers are monitoring the possible accumulation of wide-reaching events and tailing litigation related to events in the past.

Carriers are concerned about the frequency of privacy-related claims, particularly those resulting from violations of the Biometric Information Privacy Act (BIPA) and tracking technology non-compliance. We continue to see the application of legacy laws like the California Invasion of Privacy Act (CIPA), enacted in 1967, and the Video Privacy Protection Act (VPPA), a 1988 law, to current privacy practices. The CIPA was designed to protect individuals from eavesdropping or being recorded without consent. The VPPA sought to protect consumers' privacy by prohibiting the sale of their video rental choices. These laws have been applied to recent data collection and sharing practices.

Healthcare, professional services, education and manufacturing sector policies continue to be the most affected by cyber events, with a high frequency of business email compromise, ransomware and cybercrime claims.



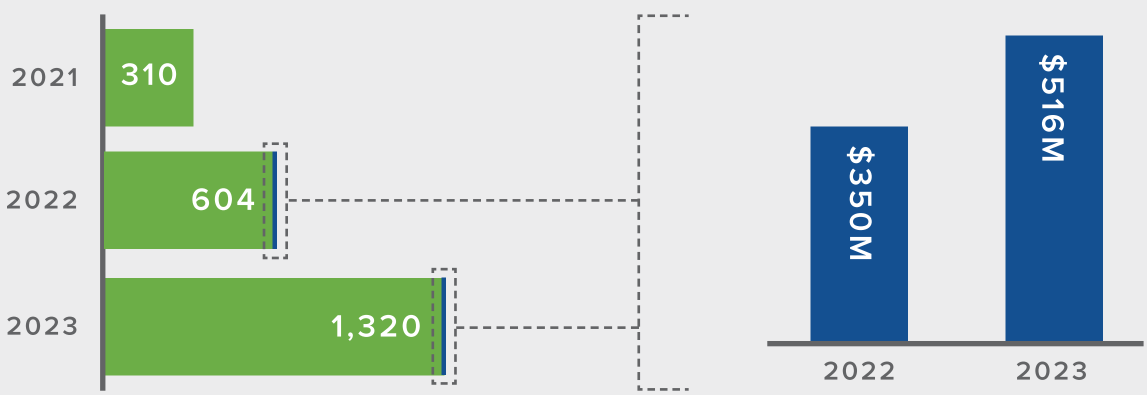
Looking Forward

The industry continues to monitor the implications of artificial intelligence and how regulation will seek to address security issues. While the immediate effect of the new Security Exchange Commission (SEC) cyber guidance appears limited to directors' and officers' liability policies, some predict that the SEC's requirement to report cyber incidents publicly will increase the frequency of class action lawsuits.

The number of data breach class actions in the U.S. increased dramatically in volume in 2023 compared with 2022. There were 1,320 data breach class actions filed in the U.S. in 2023, more than double the 604 filed in 2022 and the 310 in 2021.* In 2023, the top ten data breach class action settlements totaled $516M, a significant increase over the $350M recorded in 2022.

NUMBER OF DATA BREACH CLASS ACTIONS IN THE U.S.

TOTALS OF THE TOP 10 DATA BREACH CLASS ACTION SETTLEMENTS



*Source: *Duane Morris, Duane Morris LLP publishes Its Duane Morris Data Breach Class Action Review - 2024.*

Multinational

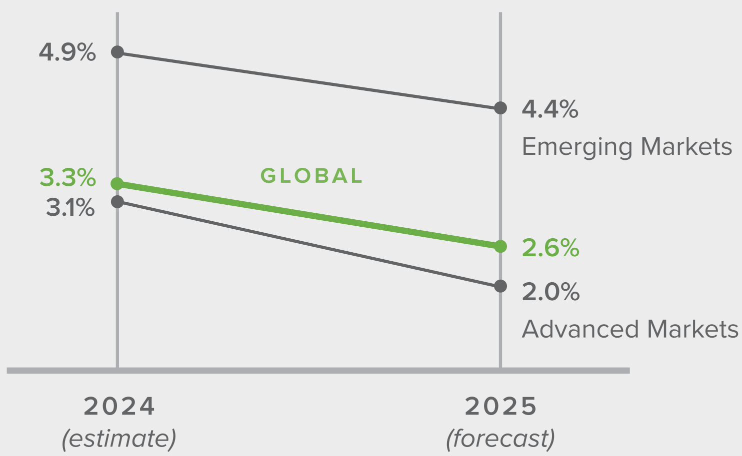
Q1 | 2025

The global commercial market written premium increased in 2024, and future moderate growth is expected to continue through 2025.[1] Global carrier combined ratios remained broadly steady at favorable levels, reflecting improved carrier profitability. Profitability was partly driven by technological advances, which were utilized to reduce underwriting expenses and resource optimization, identify new and efficient distribution sources and access to available capacity for emerging markets, from both a product line and regional perspective.

Not all growth has been profitable, as material variability exists across several key commercial segments.[1] Global property remains susceptible to catastrophic losses and regional variability in loss activity, evidenced in recent years, driving a hard market. Only specialty lines delivered consistent, meaningful levels of profitability. The U.S.-issued global casualty programs, addressing casualty-specific coverage internationally, continue to perform well, with a mix of results from each of the distinct components (general liability, auto/motor liability and workers' compensation/employer liability). Motor liability remains the loss leader of the casualty lines, with general liability representing the most consistent strong performer. This trend is attributable to the less litigious environment outside of the U.S., though the gap continues to narrow.

Growth in nonlife premiums is expected to moderate in 2025

GROWTH NONLIFE INSURANCE PREMIUM GROWTH RATES IN REAL TERMS



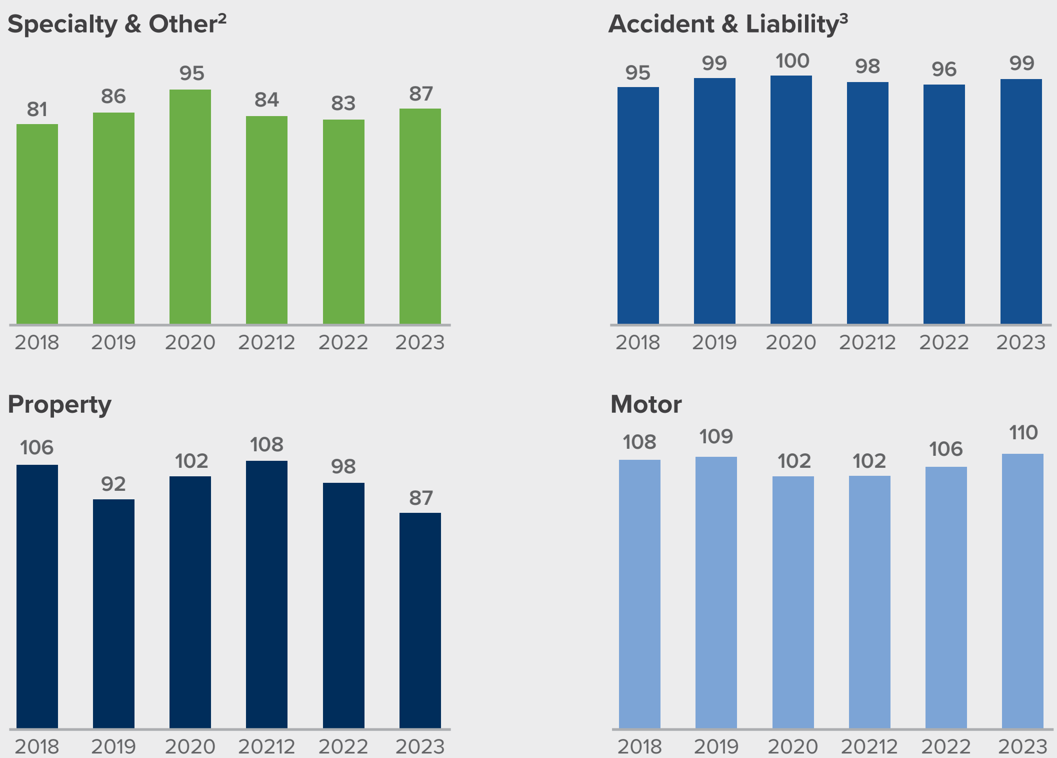
Source: Fernando Casanova, Caroline Da Souza Rodrigues Cabral, James Finucane, Roman Lechner, Mahesh Puttaiah, Weijia Yao, and John Zhu, "World insurance: Strengthening global resilience with a new lease of life," Swiss Re, July 16, 2024.

Deloitte | deloitte.com/us/en/insights/research-centers/center-for-financial-services.html

[1] Driving profitable commercial property and casualty insurance growth | McKinsey

Not all growth has been profitable, with performance diverging among lines of business.

GLOBAL PRIMARY COMMERCIAL LINES PROPERTY & CASUALTY NET COMBINED OPERATING RATIO (COR), 2018-13,[1]%



Note: Global estimates for combined ratio in specialty and other, accident and liability, and property are aggregated using data for Australia, Germany, the U.S., and the UK. For motor,they are aggregated using Australia, the U.S., and the UK. UK data excludes the Lloyd's market.

[1] 2023 COR estimated using reported data for Australia and preliminary estimates for Germany and the U.S. UK not included in 2023 estimates.

[2] Includes all other lines (e.g. marine, aviation, transport, credit and surety, agriculture, etc.).

[3] Includes commercial liability, workers' compensation, and commercial accident policies.

Source: Australian Prudential Regulation Authority; Association of British Insurers, S&P Capital IQ Pro; McKinsey Insurance Database Germany

Broader impacts scoping various lines of business will have increasing applicability in 2025, with carriers and insureds closely evaluating increased regulations and tax requirements, triggering new considerations in corporate structure, domicile and insurance procurement.

This outlook allows multinationals to strategically leverage their diverse global exposures to help optimize the total cost of risk through various program structures, assisted by a flat to softening pricing outlook on a globally aggregated scale.

Surety

Q1 | 2025

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The surety industry expects to see the most significant impacts in trade, with the aggressive stance on tariffs and renegotiation of trade agreements resulting in increased demand for supply bonds, advanced payment bonds and increased capacity towards customs importer bonds. All principals, including importers and manufacturers, should expect a minimum 25% increase in their customs import bonds, especially those who trade with Mexico, Canada and China.

The top imports from those countries include vehicles, wood, machinery and plastics, which could all cause immediate supply chain shortages or wide-sweeping cost increases due to tariffs. The market anticipates that construction projects will see similar percentage increases in labor and materials, requiring larger bond needs for historically similarly sized jobs.

With any new presidency comes regulatory and policy changes, especially in years that experience a switch between parties. The president-elect has a history of reducing regulations to promote business growth, mainly in the private sector. Less compliance could impact the need for surety bonds overall, but counterparties will always retain the right to require financial guarantees.

The continued focus on widespread infrastructure progress is expected to increase demand for bonds, but sureties are monitoring signs of labor shortages with expected stricter immigration policies. Labor shortages lead to higher costs and delays, which historically result in claims scenarios.

Aviation

Q1 | 2025

The aviation insurance marketplace has endured various challenges in recent years, resulting in significant changes to available capacity and overall rating. Positive trends are expected to continue into 2025, with the abundance of capacity within the worldwide aviation insurance marketplace being a key driver. The rate increases experienced before the pandemic attracted new carriers and managing general underwriters to deploy capacity into aviation risks. Premium increases stabilized when combined with the decrease in flight activity and risk of claims during the pandemic. 2025 is anticipated to maintain a competitive atmosphere as new entrants pursue opportunities to increase their market share while legacy aviation insurers focus on continued innovation and customer retention.

Market Impacts

While the aviation sector has made positive trends, many challenges remain. Challenges include soaring aircraft repair costs and the shortage of qualified aviation mechanics. The labor shortage continues to influence underwriters' pilot training requirements, increasing demand for simulator training resources that are limited to instructor availability. Insurance claim costs across the sector are becoming some of the highest value and highest profile losses compared to other incidents like natural disasters. The lack of skilled mechanics, limited availability of aircraft parts and increased replacement part costs have risen significantly. Ground handling claims, weather issues and technical problems, coupled with the ongoing geopolitical climate, have had impacts on the market dynamics in the reinsurance sector.

In 2024, hundreds of orders previously placed for new aircraft were delayed delivery due to manufacturing challenges involving supply chain issues. Ongoing supply chain constraints for aircraft parts and engines and a growing demand for maintenance, repair and overhaul (MRO) facilities will continue.

Emerging Technology

The future of aviation is full of exciting innovations and technological advancements that will significantly impact the industry. Aviation insurers are actively monitoring emerging technology and the regulations associated with electric vertical take-off and landing (eVTOL) aircraft and the Urban Air Mobility market. Innovations like autonomous cockpits and electric propulsion are developed with promises of increased safety and sustainability. As they move closer to commercial use, these innovations will likely shape future insurance needs and risk profiles.

However, with this emerging technology comes its unique risks. Data privacy and safety standards will be a top concern as increased cyber threats weigh heavily among aviation industry leaders. Additionally, AI could help drive continued innovation and expansion as we look to space as the new frontier. Entering the new year, the continued sense of optimism remains.

Challenges and Opportunities Outlook

2025 is anticipated to resolve one of the most significant losses in aviation history, Russia's confiscation of several hundred aircraft due to European Union sanctions. This has been ongoing since the Ukraine crisis began nearly three years ago, with initial damage estimates exceeding $10B. These projections are expected to decrease as negotiations are underway, transferring ownership of the confiscated aircraft to Russian operators. In addition, many have been encouraged to obtain a resolution by negotiating a settlement through the U.K. court system. This influenced market conditions as insurers prepared for the worst, but recent developments are reducing the original projection.

The start of the new year brings the first round of reinsurance negotiations for aviation insurers. Results will be monitored closely to provide an insight into how the marketplace will evolve throughout the year. Typically, operating costs and reinsurance rates increase when inflation increases, and the market is expected to harden. However, the current market conditions anticipated for the upcoming year are increased capacity and underwriting interest, with signs of a stabilized marketplace.

How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving program.

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