Executive Summary

Your team at USI Insurance Services thanks you for the opportunity to handle your property/casualty insurance program. The following are key takeaways from The Council of Insurance Agents & Brokers' Commercial Property/Casualty Market Report for Q1 2025 (January 1 – March 31):

- There were clear signs of softened market conditions this quarter, a continuation of a trend in 2024 of flat to lower premium increases for most account sizes and most lines. Premiums across all account sizes rose by an average of 4.2%, down from the 5.4% increase in Q4 2024. Increases for medium accounts slowed the most: the average increase for this account size in Q1 was 3.7%, a 42% decrease from Q4's recorded 6.4% increase. Large account increases were down to an average of 5.3% from 6.3%, while small accounts stayed steady at an average increase of 3.6% in Q4 2024 and Q1 2025.

- Across lines of business, reported average increases were also down, with two exceptions: commercial auto and umbrella. Respondents reported premium decreases for cyber, D&O, employment practices, terrorism, and workers compensation—more lines than the number that saw decreases in Q4 2024 (cyber, D&O, employment practices, and workers compensation).

- Workers' compensation fell the most this quarter by an average of 2.6%; cyber had an average decrease of 2.1%. D&O premiums decreased by 1.6%, and employment practices and terrorism fell by an average of 0.4%.

- As in Q4 2024, commercial auto and umbrella had the highest average increases in premiums out of all lines this quarter, at an average of 10.4% and 9.5%, respectively. Respondents pointed to third-party litigation funding as one of the factors driving the increases for both auto and umbrella.

- Most respondents agreed that third-party litigation funding has had a significant impact on not just the amount of claims and claim amount but also the availability of certain coverages, such as umbrella, auto, and product liability. Respondents also pinpointed litigation funding as a driver of premium increases in certain lines, including D&O, employment practices, cyber, and construction—though most of those lines showed decreases.

- Regarding D&O decreases in particular, respondents mostly did not identify specific drivers, but one suggested more capacity and more competition may have influenced premium trends for the line. Multiple broker 2025 reports on the state of the D&O market supported this conclusion.

The first quarter of 2025 showed signs of softened market conditions. Premiums across the account sizes rose by an average of 4.2%, a 22% decrease from the 5.4% increase recorded in Q4 2024.

PREMIUM PRICING BY LINE OF BUSINESS

- Suggestions of softened market conditions were also seen in reported premium changes across the various lines of business; premiums increased more slowly or even decreased for all lines of business this quarter except for commercial auto and umbrella. Overall, premiums increased by an average of 4.9% across the lines of business, down from 5.4% in Q4 2024.

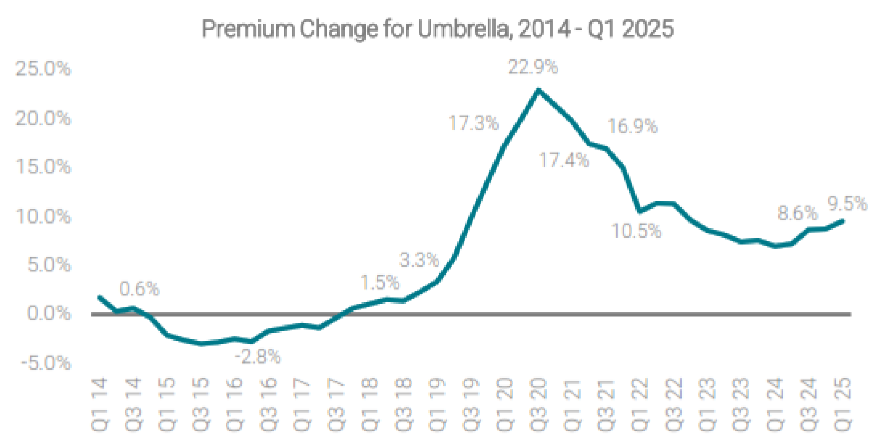
- Cyber, D&O, employment practices, and workers compensation continued to decrease in Q1 2025, joined by terrorism for a total of five lines whose premiums fell. Cyber premiums fell by an average of 2.1%, the third record low premium change for the line in the past year.

- Premium increases for commercial property, a line that regularly had the highest increases in 2023 and 2024, slowed to just 2.9% this quarter, a more than 50% decrease from Q4 2024's 6.0% increase. Respondents described market conditions for this line as increasingly competitive. For example, one respondent from a large Northeastern firm noted that carriers were "more competitive on commercial property risks"; another respondent from a large southeastern firm mentioned that new underwriter flexibility on commercial property risks allowed them to push for better terms on renewal, such as lower deductibles or higher limits and sublimits.

- Commercial auto once again this quarter had the highest increase in premiums at an average of 10.4%, followed by the reported average increase in umbrella premiums of 9.5%.

NOTABLE LINE OF BUSINESS: UMBRELLA

Third-party litigation funding (TPLF) is a practice where third parties, often hedge funds and other financiers but sometimes even foreign governments, provide funding for a lawsuit on behalf of the plaintiff in exchange for a cut of the award. What makes it particularly attractive for plaintiffs is that litigation funding agreements tend not to require any sort of repayment if a case is unsuccessful—incentivizing the bringing of a lawsuit where otherwise the plaintiff would not initiate one. According to the Institute for Legal Reform, there were about $15.2 billion in assets allocated to litigation financing in 2023.



The primary impact of litigation funding on the insurance market is the downstream effects of increased verdict amount and size. Survey respondents say that it is having a very real effect on not just claim amounts, but also other key market metrics like premiums and even availability of certain kinds of coverage in Q1 2025. As one respondent from a midsize Southwestern firm summed it up, "Nuclear verdicts increased, driving liability and excess rates. It affected the entire litigation and claims system. We are seeing awards that exhaust all tiers of limits."

Data from Swiss Re confirms this trend. In a report released in September 2024, Swiss Re research showed that third-party litigation funding had increased U.S. liability claim amount by 57% over the past decade.

Survey respondents also mentioned that casualty lines were affected by litigation as well. One respondent from a large Southeastern firm said that "Third-party litigation funding significantly increased premiums for casualty (general liability, umbrella, and auto)." Q1 2025 results bore that out, with auto and umbrella as the lines with the highest premium increases—though it is interesting to note that liability lines, e.g., D&O, did not show the same impact on premiums, and again in D&O's case, recorded decreases.

Lower premiums are often correlated with increased capacity for a line. As such, 64% of respondents reported more underwriting capacity for cyber insurance products. At the same time, according to an August 2024 "U.S. Cyber Market Update" from Aon, the number of carriers underwriting cyber insurance in the U.S. increased to 218 in 2023, up from 214 in 2022; more carriers active in a market often corresponds to increased competition, which also can exert downward pressure on pricing.

NOTABLE LINE OF BUSINESS: COMMERCIAL AUTO

Insurance broker and financial services firm CBIZ, in the report "Commercial Auto Insurance Market Outlook for 2025," offered insight into the main factors impacting the line of business: commercial driver shortages, fleet electrification, and the rising cost of claims. According to the report, the trucking industry faced a shortage of 80,000 drivers by year-end 2024, which resulted in some companies feeling pressure to lower standards in an attempt to fill those positions—a trend associated with higher accident rates and borne out by survey results.

Higher repair costs due to the increased amount of safety technology in a vehicle pushed up claims costs. The CBIZ report cited AAA data showing vehicles with driver assistance systems like backup cameras could be up to twice as expensive to repair as vehicles without them, and ongoing supply chain difficulties could push up repair costs even higher. Overall, the average loss per commercial auto liability claim doubled since 2014, significantly more than economic inflation's 36%, AM Best found in a November 2024 report.

The use of electric vehicles in fleets is also on the rise. "By 2021, U.S. commercial and government fleets had over one million EVs, a 233% increase from 2019, with projections exceeding four million by 2030," said the CBIZ report. Electric vehicles come with unique risk profiles, including the increased cyber risk from dependence on public charging stations and battery fires, which can lead to increased premiums, according to the report.

Issues with the line also translated to changes in underwriting. "Underwriting continued to be tight in auto," said one respondent from a midsize Southwestern firm. "Carriers were restricting limits." These challenges were especially acute for large fleets.

HOW USI CAN HELP:

Organizations should take advantage of risk control strategies to place their enterprises in the best light with insurance. carriers, and use all available tools to ensure asset values are in line with industry expectations. Opportunities exist to make positive impacts on insurance costs, coverage, and risk quality.

To help clients navigate complex business challenges, USI shares expert insights and key solutions through our Executive Series. Our cross-functional teams work to provide timely information on new and evolving topics in risk management, employee benefits, personal insurance, and retirement. We then share tailored solutions to help you guide your organization successfully, enhance insurance coverage, and control costs.

RISK MANAGEMENT PLAN ASSESSMENT & IMPLEMENTATION:

Given these and other market changes and challenges, experts recommend that commercial brokers such as ours who have the resources begin the renewal process early and explore multiple market strategies, in tandem with implementing a robust risk management plan. That way, we stay ahead of surprises with innovative and creative renewal strategies which transition the outcomes in our clients' best favor. It is our responsibility to keep you informed of the challenging market we continue to face.

Nonetheless, we would have strongly recommended our team implement a robust risk management plan to combat these conditions as it related to your entity, as losses have crept up in the last few years and we want to implement mitigation strategies to derive positive results in both the frequency of losses, leading to premium reductions and a better risk profile. See the suggested sample below titled '**Targeted Risk Management Plan**'.

Targeted Risk Management Plan

Your USI's Property/Casualty & Risk Management team suggests using a holistic risk management approach which should coincide with a strong ERM (enterprise risk management) program. This risk management plan tends to focus on the following five operational areas:

1. Strategic/Business Operations
2. Legal/Transaction Liability
3. Workers Compensation/Safety/Loss Control
4. General Insurance/Health Insurance
5. Corporate Governance/Information Security

In turn, when assessing and reporting on risk in each area, we suggest applying the following evaluative model:

- Identification of the specific risk evaluated.
- Assignment of the degree of risk the identified practices present.
- Determination of the urgency with which the identified risk should be addressed.
- The USI Risk Management Team's methodology in completing a risk management assessment takes a broad assessment of your organization in tandem with what is assessed by your insurance carriers, utilizing various reports to help provide guidance to help manage the areas of greatest concern. This gives our clients a comprehensive continuous improvement plan that creates a vision and course of action for its — helping better protect the hard and soft costs of its organization.
- Description of our recommendations for mitigating the identified risk(s).

Like any organization, your enterprise is confronted with numerous challenges and risks, of which the following are amongst the most common for your industry (not in any order):

I. **Cyber/Crime Risks & Financial Controls**

II. **Contractual Risk Transfer Liability**

III. **Employee Training**

IV. **PCA Employment Status/Wage and Hour and Joint Status of Employer/Employee, Malpractice Exposure**

V. **Network Employment/Privacy Liability Business Continuity & Strategy**

VI. **Corporate Governance**

VII. **Fleet Safety/Controls**

VIII. **Safety Implementation Strategy**

IX. **Insurance Risk Transfer**

X. **OSHA Compliance**

For additional information and resources, please visit our Executive Insights page:
https://www.usi.com/executive-insights

In going through this plan, please direct any questions to your Consultant, Mohammad ElSawaf.