



# 2024 State of the (Re)Insurance Market



Presented By:

John Stephens, President  
Keenan

# Agenda

- **SAFER 2023/2024 Programs**
  - Excess Property
  - Excess Liability
  - Cyber Liability
  - Equipment Breakdown
- **Reinsurance Market Environment**
- **SAFER 2024/25 Program Renewal Strategy and Forecast**



# SAFER 2023-2024 Programs Overview

- Established in 2002 for Excess Property, SAFER is the largest Excess Property & Liability program exclusively for public schools in California...and the United States.
- SAFER Excess Property program provides \$500M of limits with very broad coverage and follow form reinsurance.
- SAFER Excess Liability program provides up to \$50M of pure occurrence coverage with “follow the form and fortunes”. Many layers have multi-year rate guarantees.
- SAFER Cyber Program provides \$12M of program limits with per member limits up to \$5M (depending upon compliance) and ability to purchase higher individually dedicated limits.
- Equipment Breakdowns provides \$100M of limits with jurisdictional inspections and extensive risk management.

## SAFER Advantages

\$50M of pure “Occurrence” coverage

\$500M Property Limits without large wildfire deductibles

\$12M Cyber Liability coverage

Multi-Year Liability rate guarantees

Rate Stability

Broad participation and support from the reinsurer panel



# (Re)Insurance Market Environment

# SOCIAL INFLATION



sky news

## CALIFORNIA'S FIRST TROPICAL STORM IN 84 YEARS



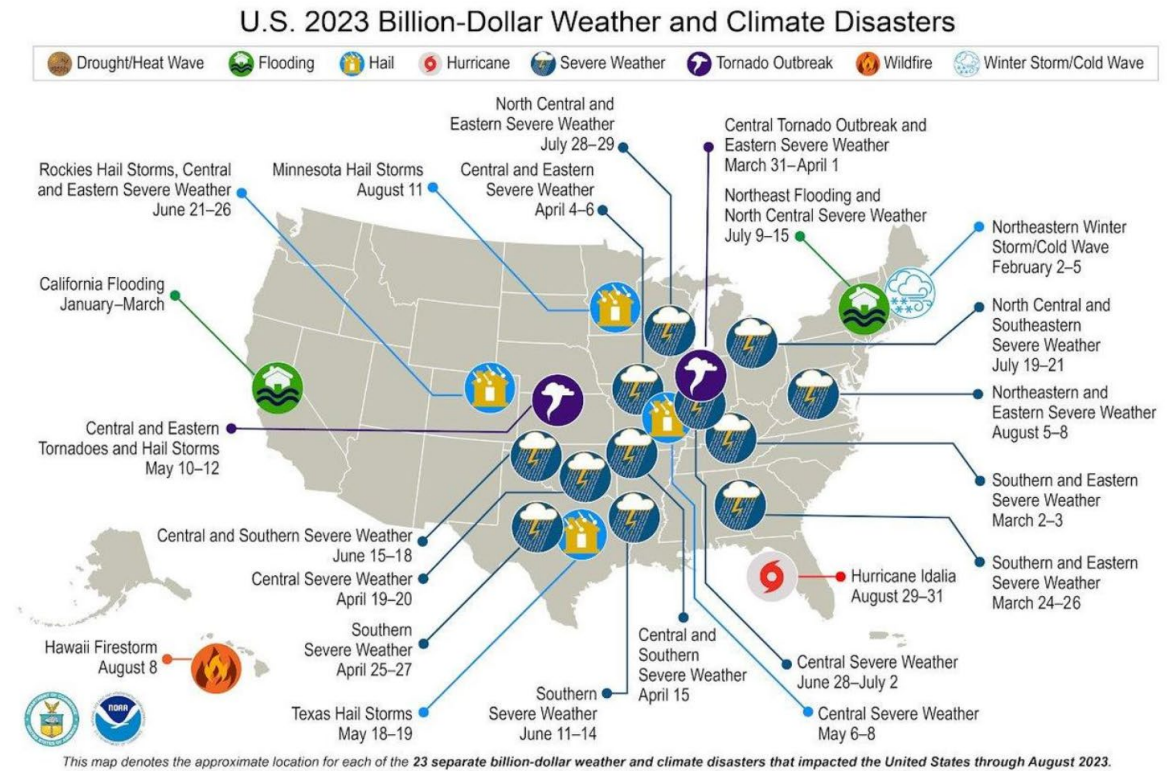
## CALIFORNIA WILDFIRES THE NEW NORMAL

Stream now with the ABC10 app on

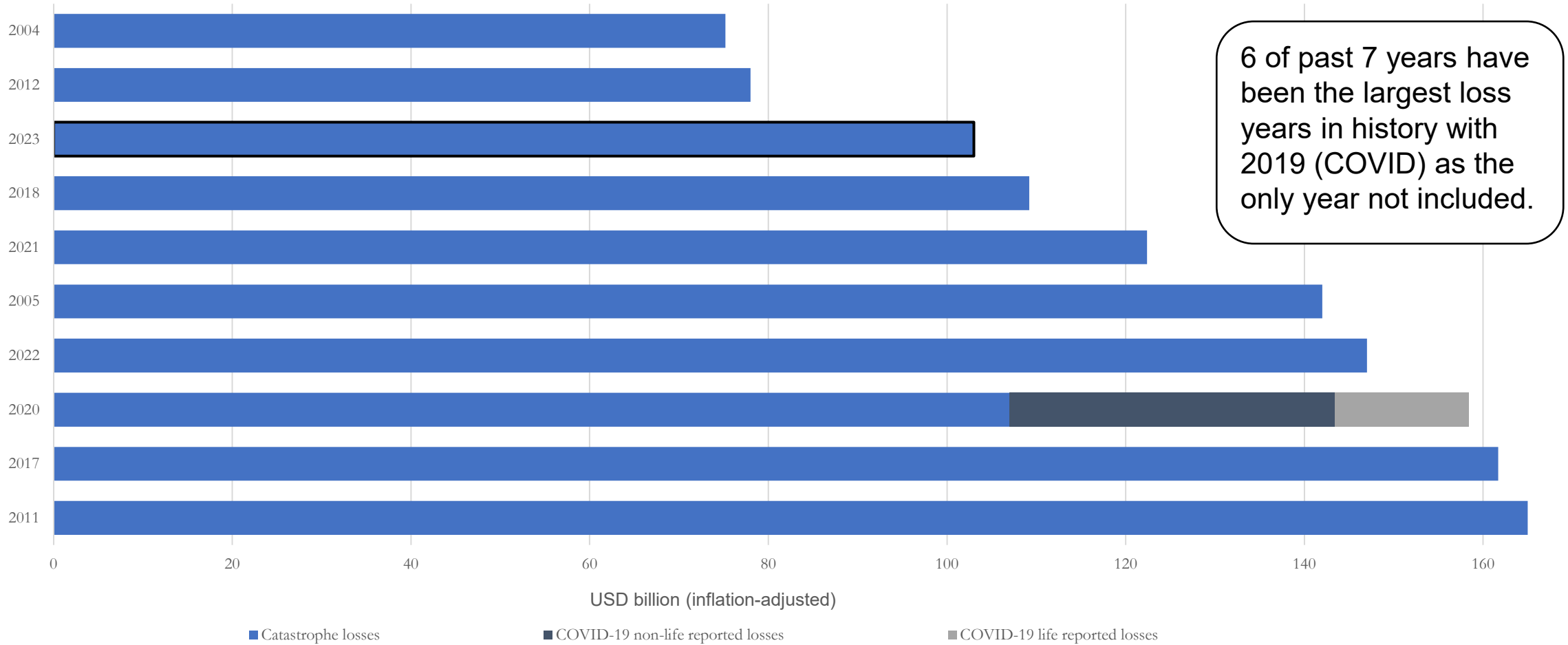


# 2023 Year In Review

- \$100 Billion insured losses for the 4<sup>th</sup> consecutive year and 6 of the past 7
- \$60 billion in convective storms
- U.S. set a new record with 25 weather disasters in a year that cost \$1 billion or more breaking record of 22 set in 2020.
- Maui firestorm reinforced wildfire “cat” exposure
- Adverse casualty loss experience development coupled with social inflation, Governor Newsom eliminating statute of limitations for SAM claims and California legal jurisdiction creating a very unstable market.



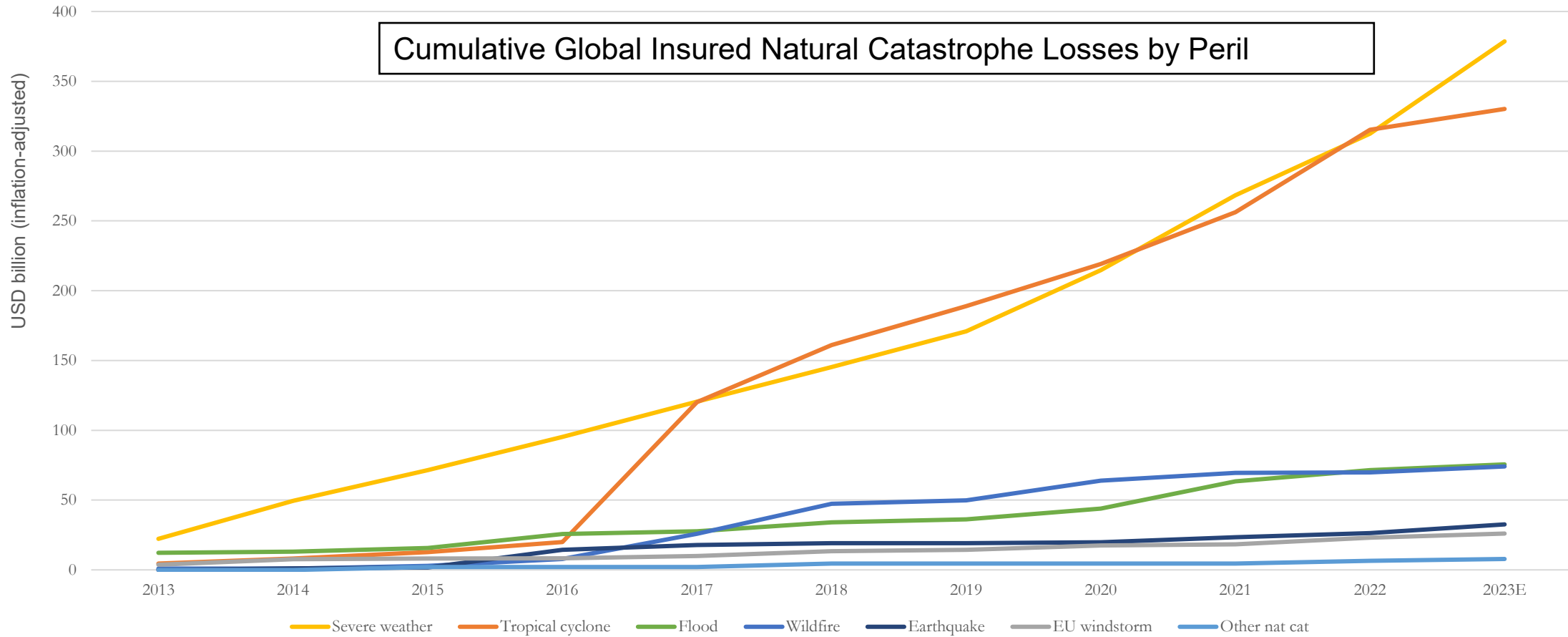
# Top 10 Largest Loss Years on Record (Excludes NFIP Losses)



Source: NOVA, Swiss Re, Insurance Information Institute



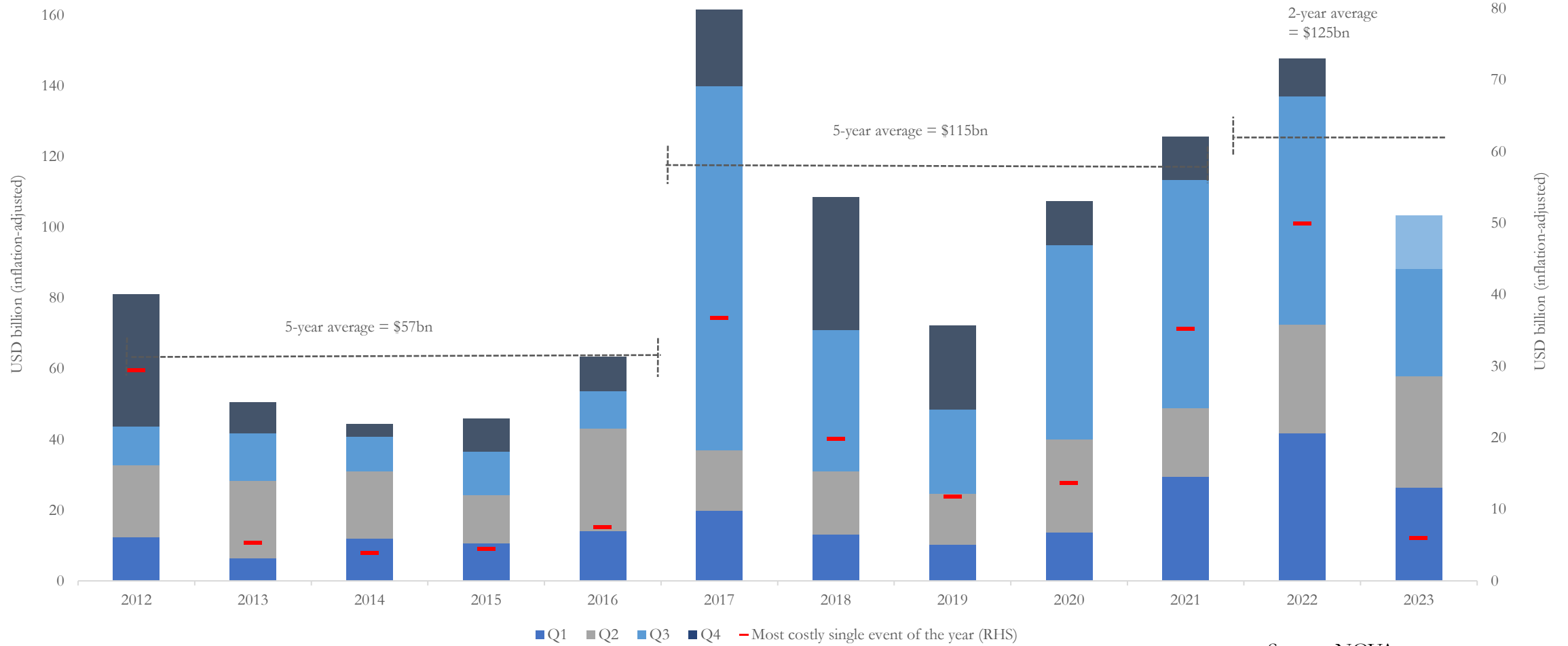
# The insurance market has paid more than \$750 Billion of insured natural catastrophe losses since 2017 with severe convective storms the largest contributor



Source: NOVA



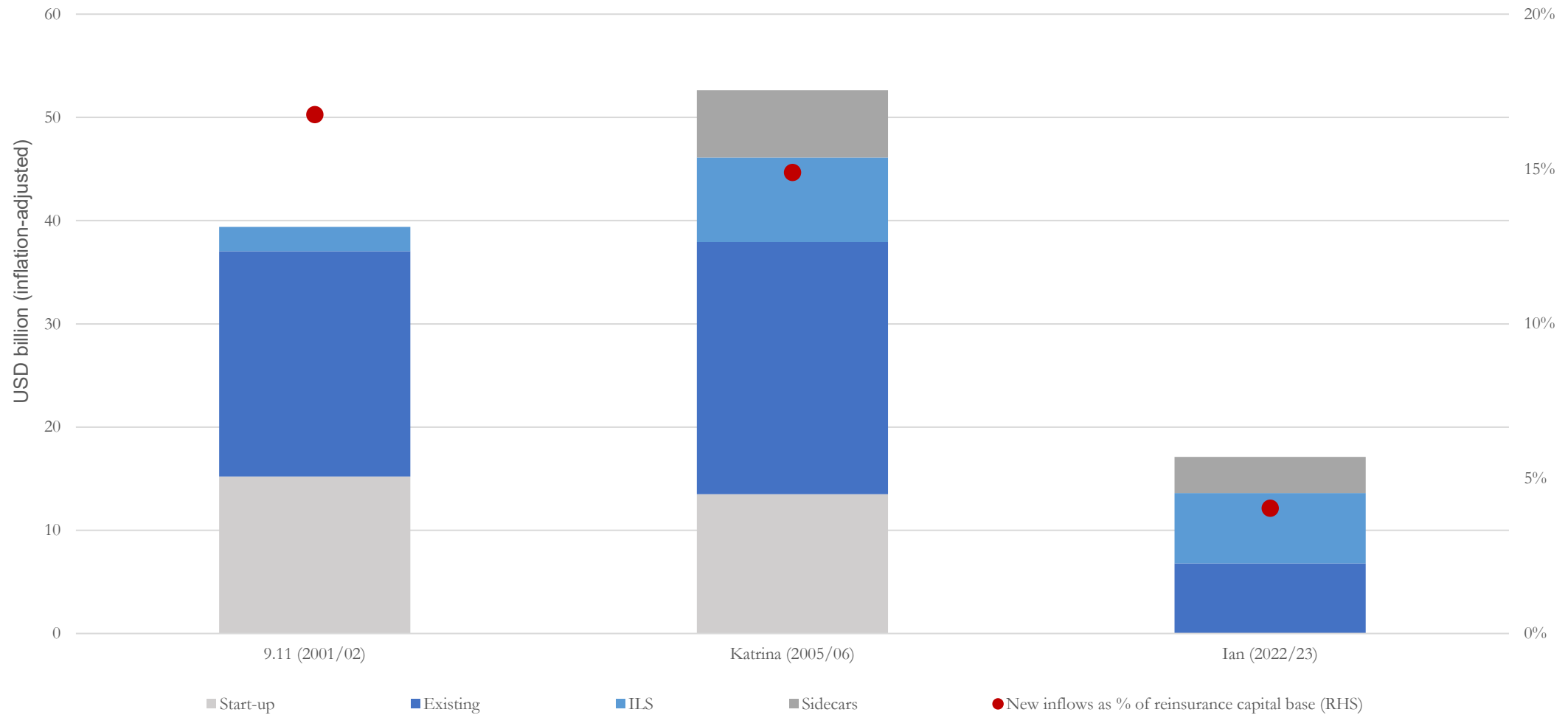
# Volatile risk landscape as high frequency of natural catastrophes pushed losses over \$100 Billion for the fourth consecutive year



Source: NOVA

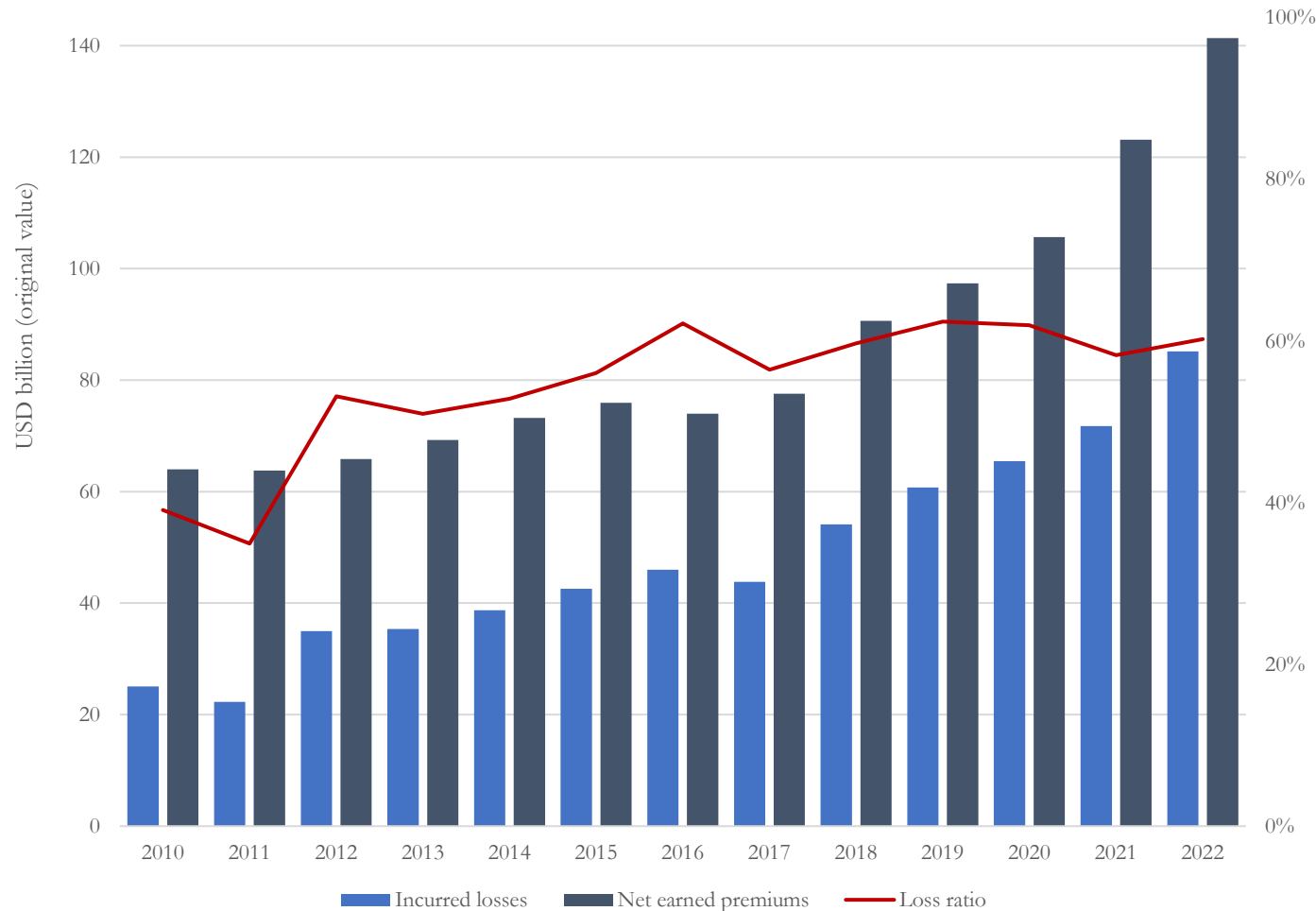


# New Capital Inflow Following Major Events



Source: Howden, Standard & Poor's, Artemis

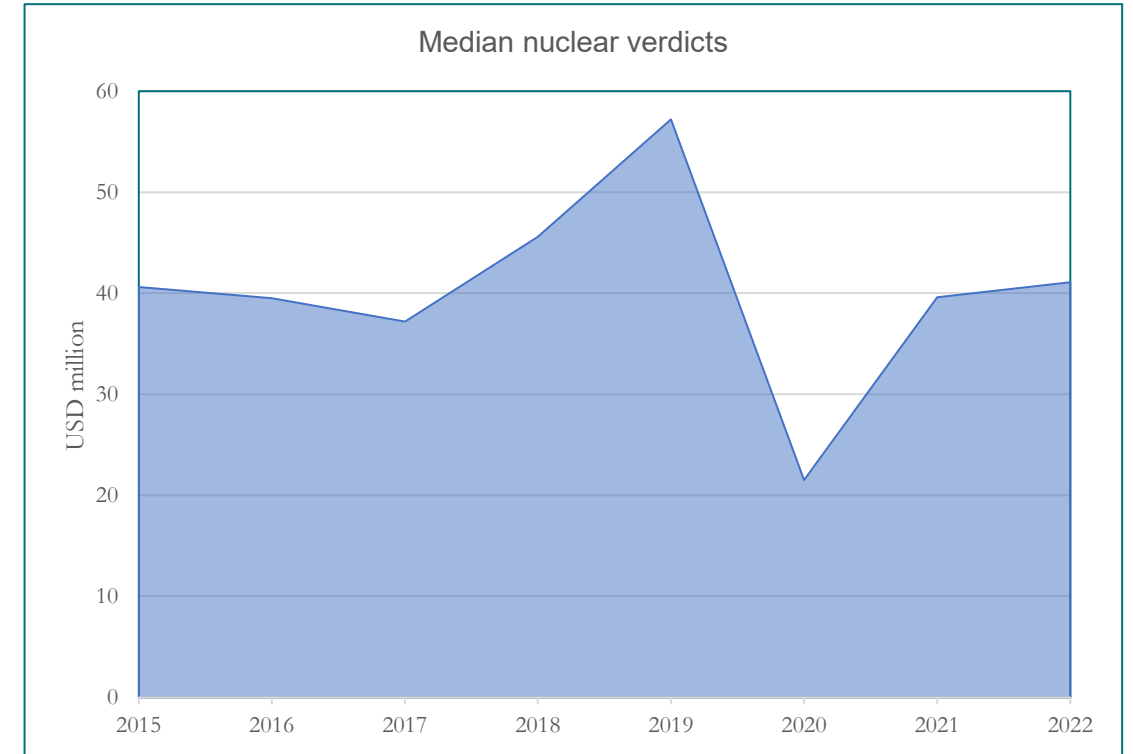
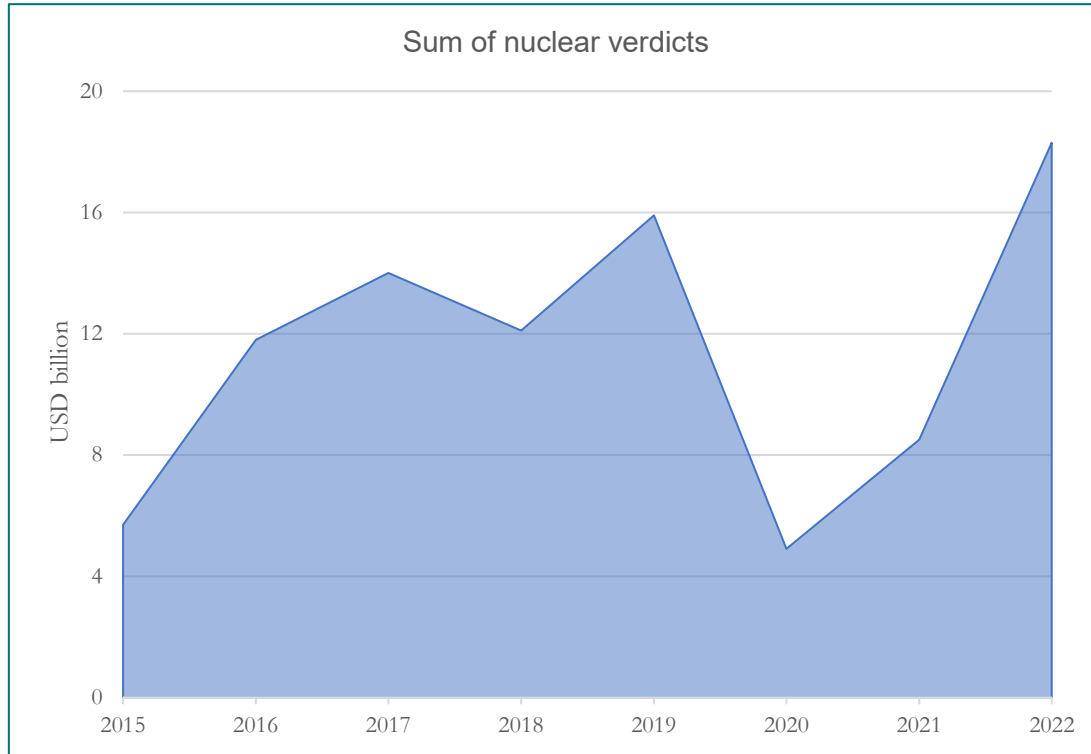
# U.S. Liability Lines Continue to be an Area of Uncertainty



- During the past 5 years, there is a noticeable rise in both premiums (as rates increased) and losses, with the loss ratio ticking up slightly but remaining relatively stable.
- Emerging liability risks such as polyfluoroalkyl substances (PFAS) and climate change are heavy contributors of uncertainty towards US liability lines.

Source: Howden, National Assoc. of Insurance Commissioners

# U.S. Nuclear Verdicts Reach Record Highs in 2022

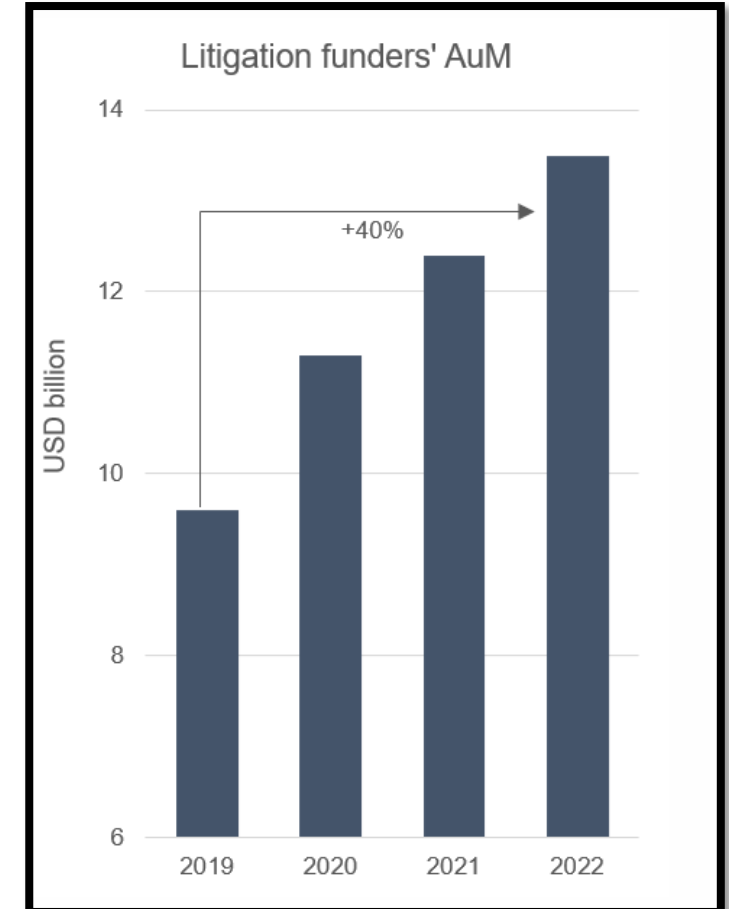


- The sum of nuclear verdicts (awards greater than \$10 million) reached record highs in 2022, increasing by 15% compared to the previous (pre-COVID) peak in 2019.
- Both sums and medians of nuclear verdicts show significant increases in 2022 compared to 2020, however median verdicts in 2022 remained below pre-COVID levels and largely in line with prior years.

Source: Howden, Marathon Strategies

# Legal System Abuse Drives Social Inflation

- **Third-Party Litigation Funding:** Without any transparency or direct ties to litigated cases, institutional investors and even sovereign nations contribute significant amounts of capital toward litigation suits for the sole intent of making a profit.
- **Plaintiff Attorney Advertising “The Billboard Effect”:** Plaintiff attorneys spend billions of dollars annually on advertising, hinting at a financial windfall for policyholders who retain their services.
- **Increasing Plaintiff Attorney Contingency Fees:** Claimants receive smaller portions of total settlements as attorneys and third-part litigation funders look to profit even more.
- **Eroding Caps on Damages:** Settlements and case damage awards increased 27.5% on average between 2010 and 2019, the U.S. Chamber Institute for Legal Reform determined, due to little or no limit on the amount of damages in the U.S. judicial system.



REINSURANCE RENEWALS

Thursday, December 28, 2023

### GC: global cat rates near-flat to up 30% with pressure on casualty at 1.1

The 1 January property market has seen global cat risk-adjusted rate changes averaging from near-flat to single-digits up for loss-free programs and 10-30 percent for those impacted by losses, as there was also pressure on quota share cedes and excess of loss pricing in casualty, according to Guy Carpenter.

# 1.1 RENEWALS



BREAKING NEWS

Friday, January 5, 2024

### KCC estimates Japan earthquake loss at \$6.4bn

Karen Clark & Company has estimated insured losses \$6.4bn from the magnitude 7.6 New Year's Day earthquake in Japan's Noto Peninsula.



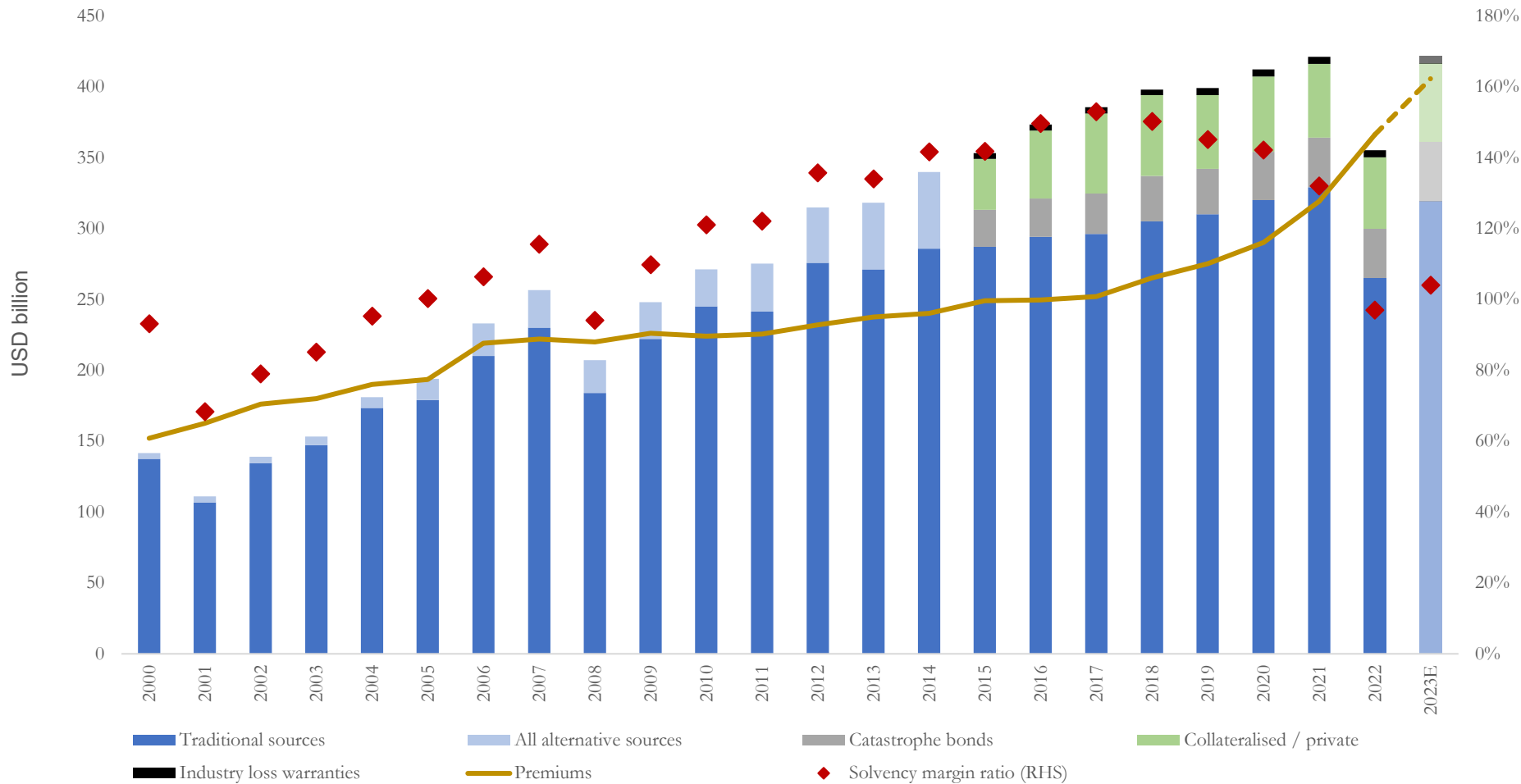
## 1.1 REINSURANCE RENEWALS

### California to Eliminate the Statute of Limitations for Child Sex Abuse Claims

In a significant move toward justice, California recently passed a new law that eliminates the statute of limitations for individuals to file lawsuits for child sexual assault. Governor Gavin Newsom signed this groundbreaking legislation, recognizing the need to address the unfair deadline that California law currently imposes on survivors of childhood abuse. The new law won't apply to any instances of sexual assault that occurred before the bill takes effect at the start of 2024. But moving forward, it will eliminate what advocates say is an unfair deadline California law now places on people who suffered abuse as children.



# Dedicated (Re)insurance Capital



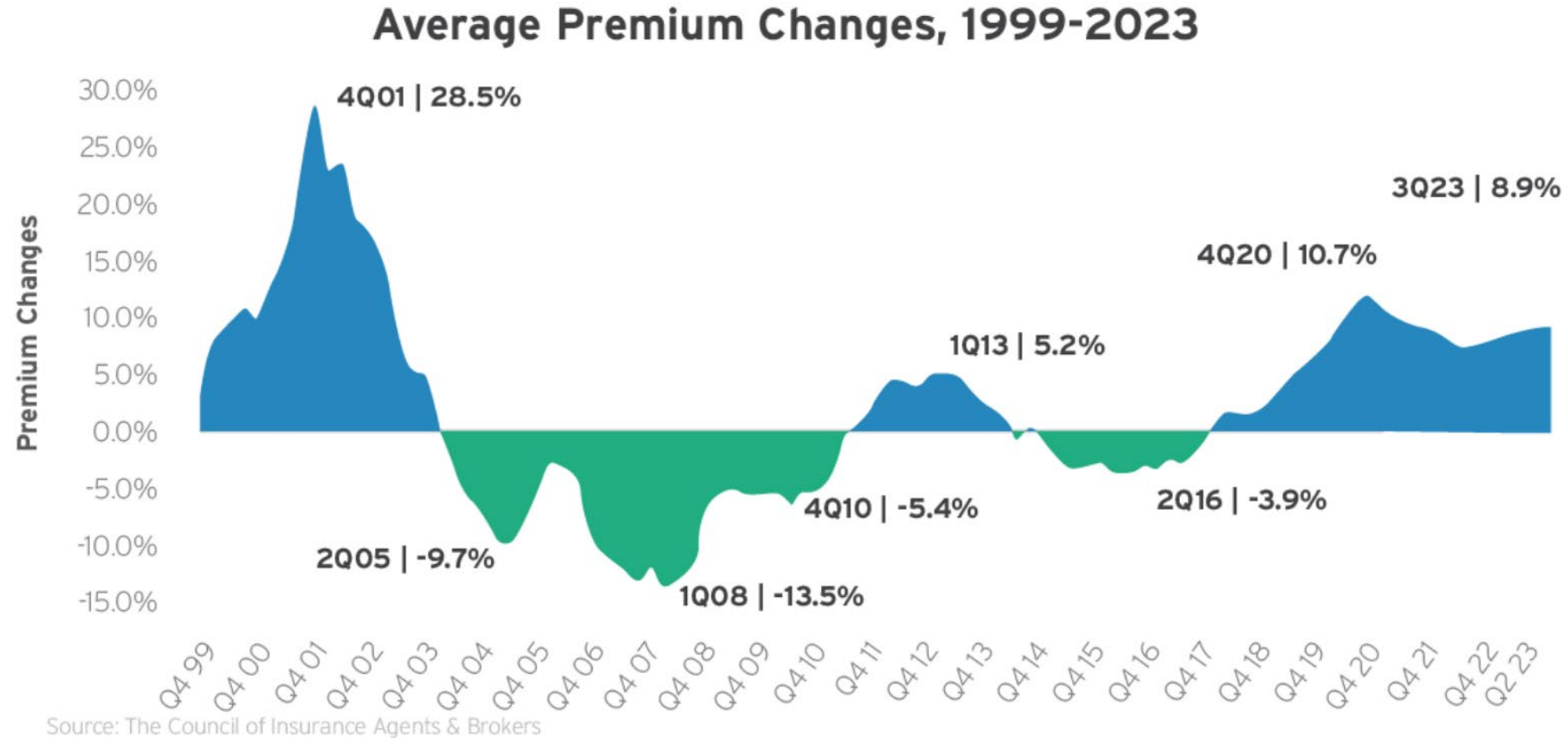
Source: NOVA

What We Measure:

- ✓ Capacity adequacy
- ✓ SAFER Claims Experience

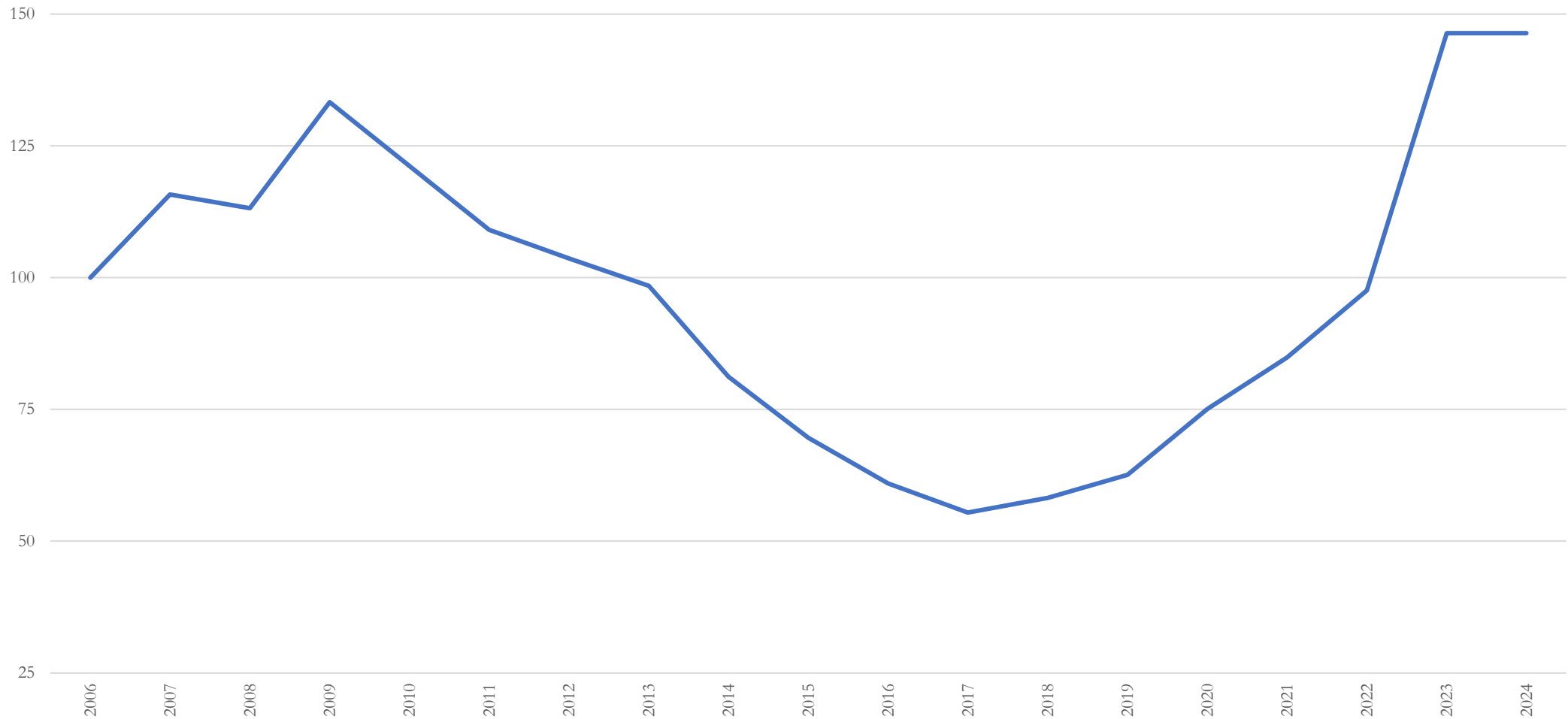


# Hard market has stabilized and 1.1.24 was far less disruptive than 2023

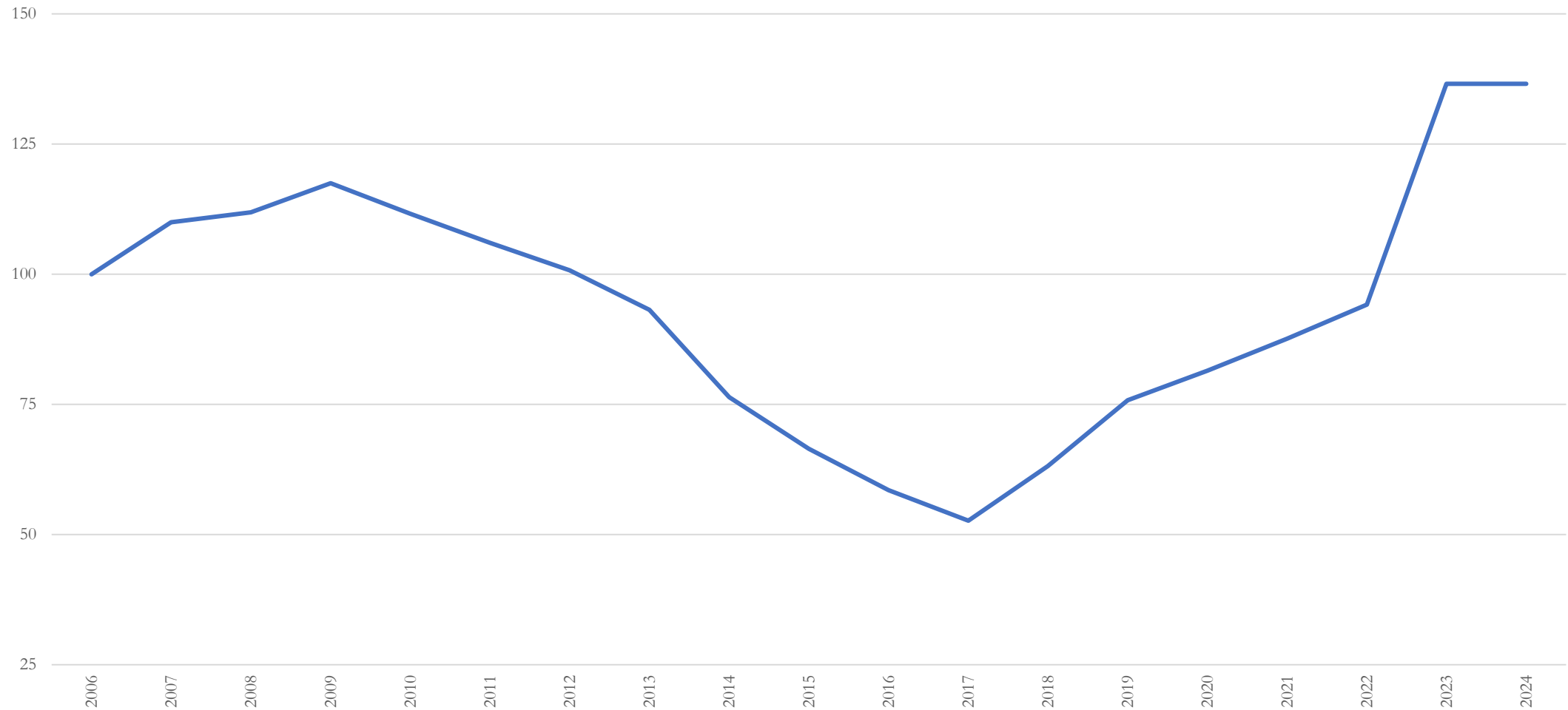




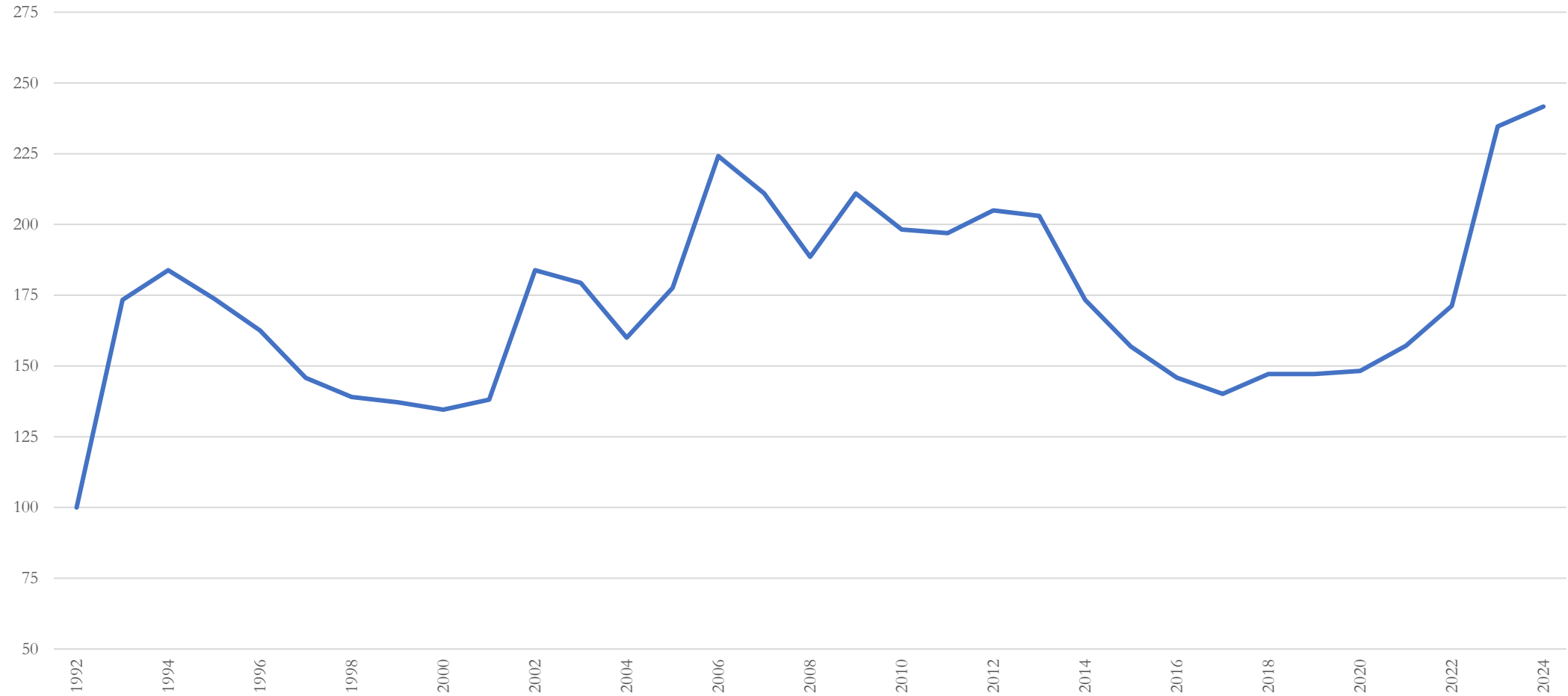
# Risk-adjusted non-marine retrocession catastrophe rate-on-line index on 1.1.24



# Risk-adjusted global direct and facultative rate-on-line index on 1.1.24



# Global risk-adjusted property-catastrophe reinsurance rate-on-line index on 1.1.24



sky news

# CALIFORNIA'S FIRST TROPICAL STORM IN 84 YEARS



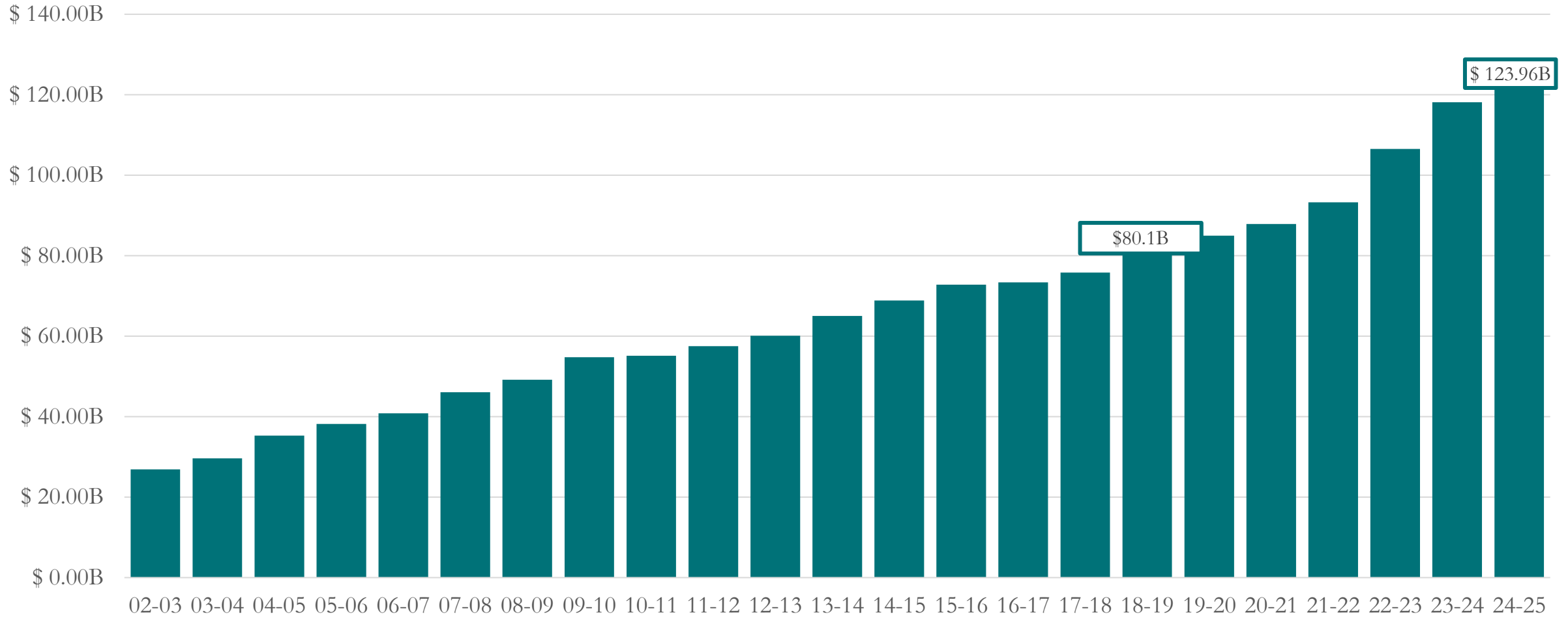
CALIFORNIA  
WILDFIRES  
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Stream now with the ABC10 app

Roku Apple TV amazon fireTV

SAFER Excess Property

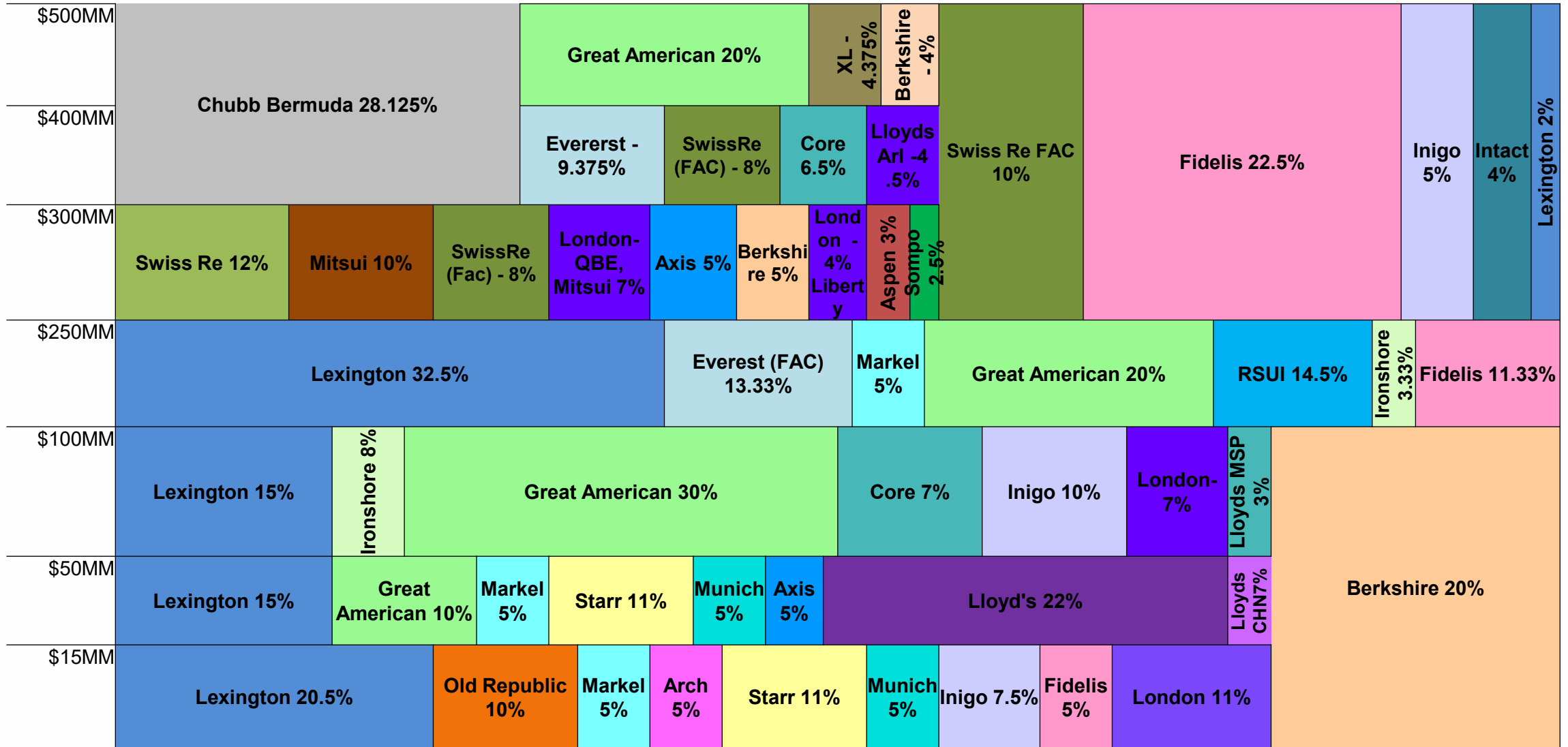
# SAFER is approaching \$125 Billion Total Insured Values (TIV) and over 100,000 structures



# SAFER Excess Property Point-In-Time Comparison

PY	6 Mon	12 Mon	24 Mon	36 Mon	48 Mon
18-19	\$21.0M	\$23.7M	\$22.4M	\$21.4M	\$18.3M
19-20	\$8.4M	\$10.0M	\$10.2M	\$10.1M	\$9.6M
20-21	\$5.4M	\$10.8M	\$11.0M	\$11.4M	
21-22	\$6.3M	\$10.8M	\$10.0M		
<b>22-23</b>	\$4.4M	<b>\$20.8M</b>			← 2 <sup>nd</sup> highest in the past five years
<b>23-24</b>	<b>\$10.0M</b>				← Trending to be highest loss year in SAFER history

# 2023-2024 SAFER Excess Property Program Participants



# SAFER Excess Liability

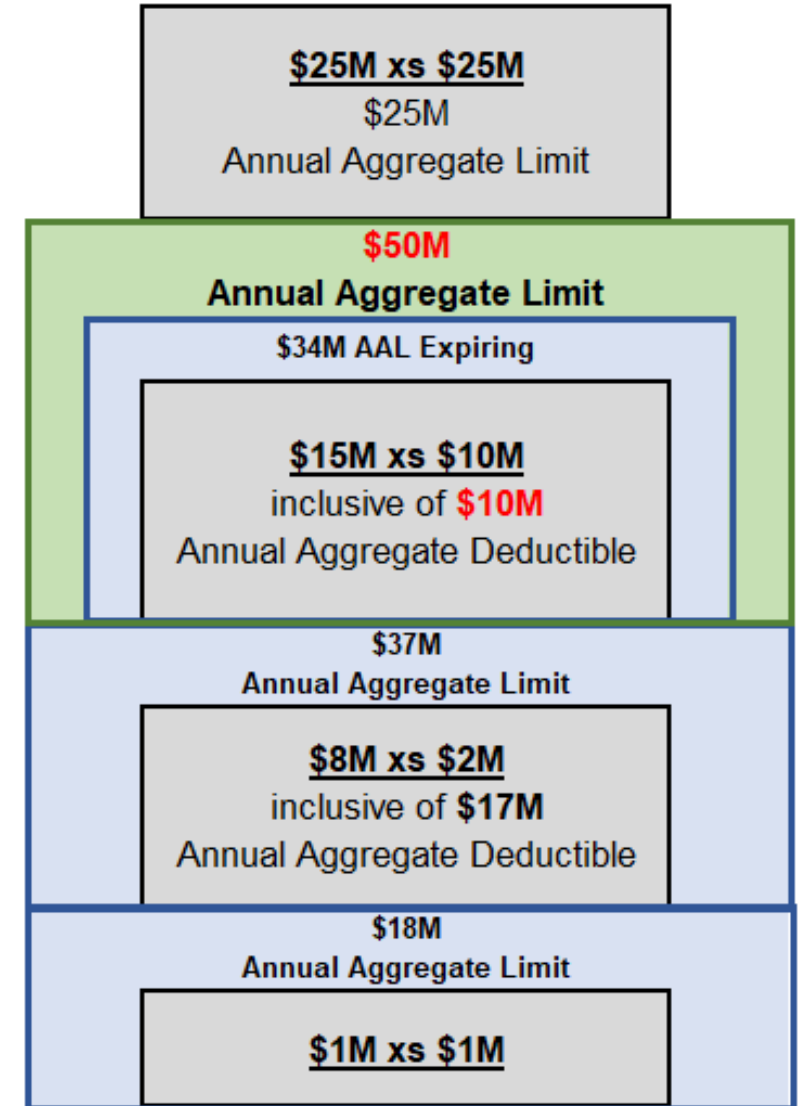
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# SAFER Excess Liability Program 2023-2024

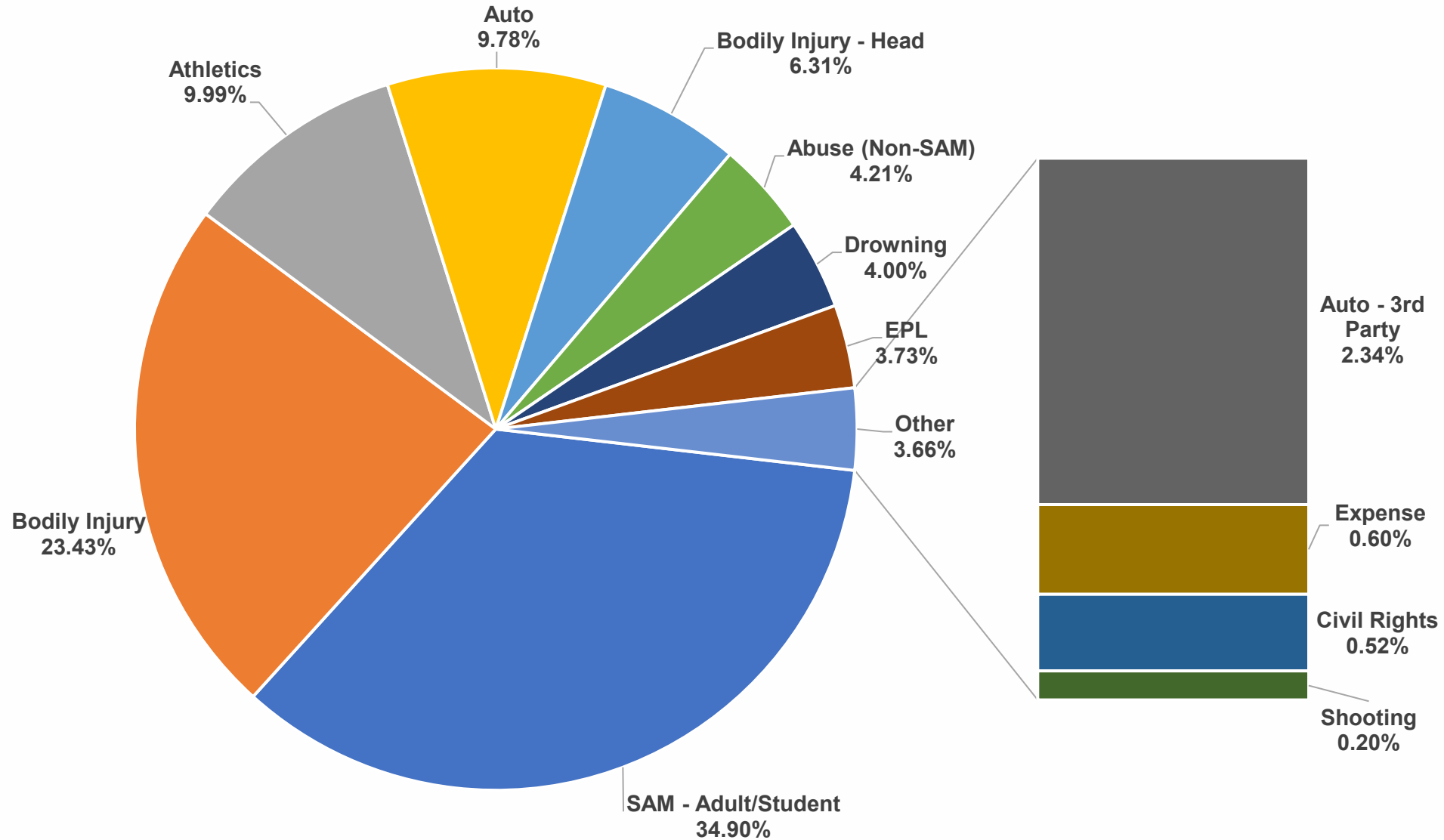
- **\$1M xs \$1M**
  - Rate guaranteed through June 30, 2025
  - \$18M Aggregate limit (previously \$16M)
  - \$54M Three-Year Term Aggregate Limit (previously \$48M)
- **\$8M xs \$2M**
  - 60% of layer capacity has a three-year rate guarantee expiring June 30, 2024
  - \$37M Annual Aggregate Limit inclusive of \$17M AAD
- **\$15M xs \$10M**
  - \$10M AAD - SAFER retains investment income in higher interest rate environment
  - \$50M Annual Limit (increased from \$34.4M in 2023)
- **\$25M xs \$25M**
  - \$25M aggregate limit and 2<sup>nd</sup> most diversified layer
- **Per Occurrence Coverage without any SAM limitations (i.e. claims-made and/or separate SAM MRL's)**
- **Follow the Form & Fortunes of the Memorandum of Coverage**
- **Reinsurers AM Best A- rated or better**



# SAFER Excess Liability Claims by Type

As of 12/31/2023

Type	Tot-Inc
SAM – Adult/Student	\$163.1M
Bodily Injury	\$109.6M
Athletics	\$46.7M
Auto	\$45.7M
Bodily Injury - Head	\$29.5M
Abuse (Non-SAM)	\$19.7M
Drowning	\$18.7M
EPL	\$17.4M
Auto – 3rd Party	\$10.9M
Expense	\$2.8M
Civil Rights	\$2.4M
Shooting	\$914K



# SAFER AB 218 claims skyrocketed in 2022 as 3 Year window expired but reporting is slowing

- 117 claims (+12 since 3/31/23)
- 29 NCR, 41 SCR, 2 SWACC, 45 Pre-Membership

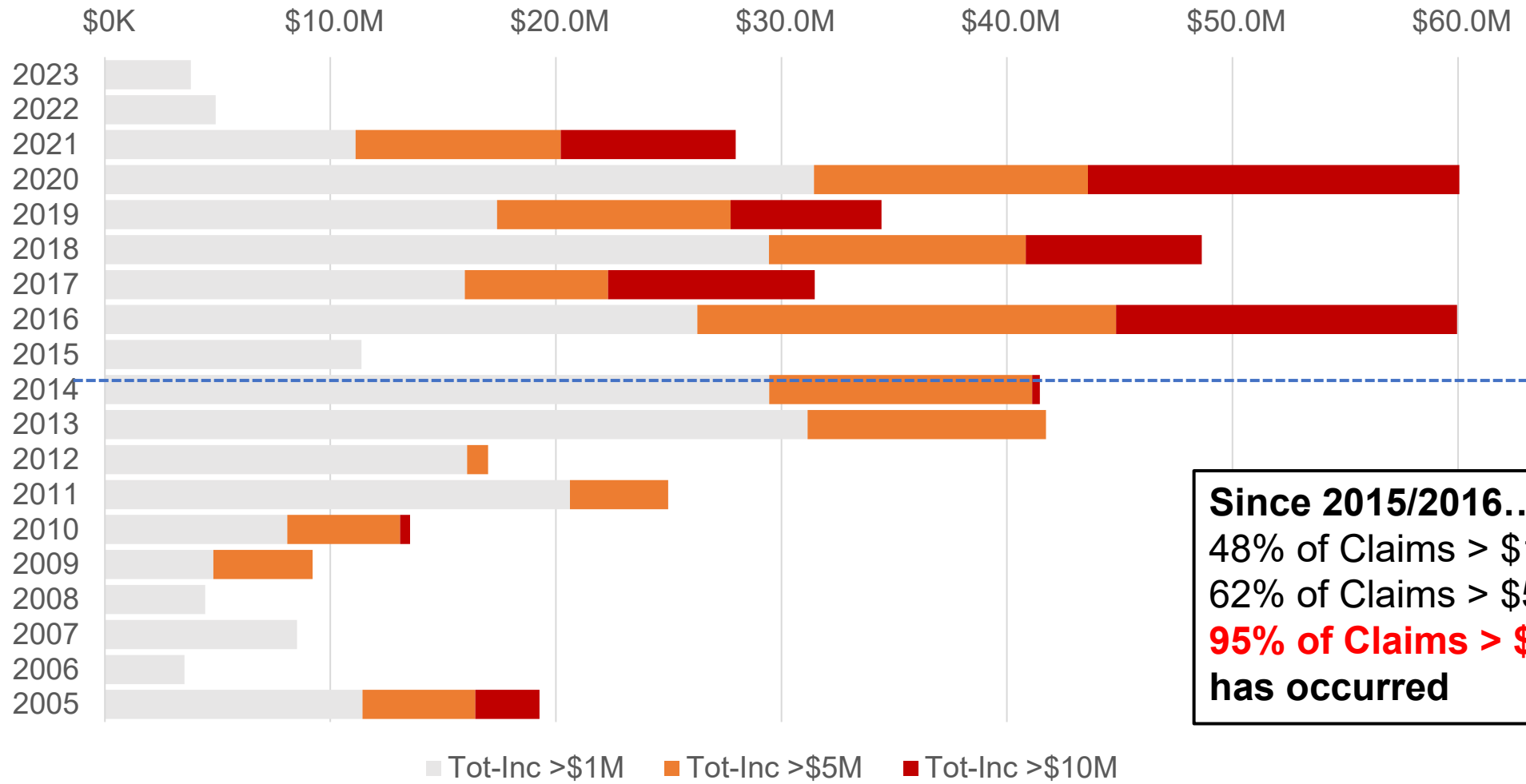
	# Claims Total / SAFER	Total Incurred Ground Up	Total Incurred SAFER Layer
Prior to 1986	37 / 0	\$1,340,053	\$0
7/1/86 to 6/30/09	53 / 6	\$37,716,896	\$14,220,000
1/1/09 to 12/31/19	27 / 7	\$21,901,479	\$16,663,179
<b>Total</b>	<b>117 / 13</b>	<b>\$60,958,428</b>	<b>\$30,883,179</b>

Valued As 12/31/2023



# SAFER Liability Severity Trends > \$1M, > \$5M, and > \$10M

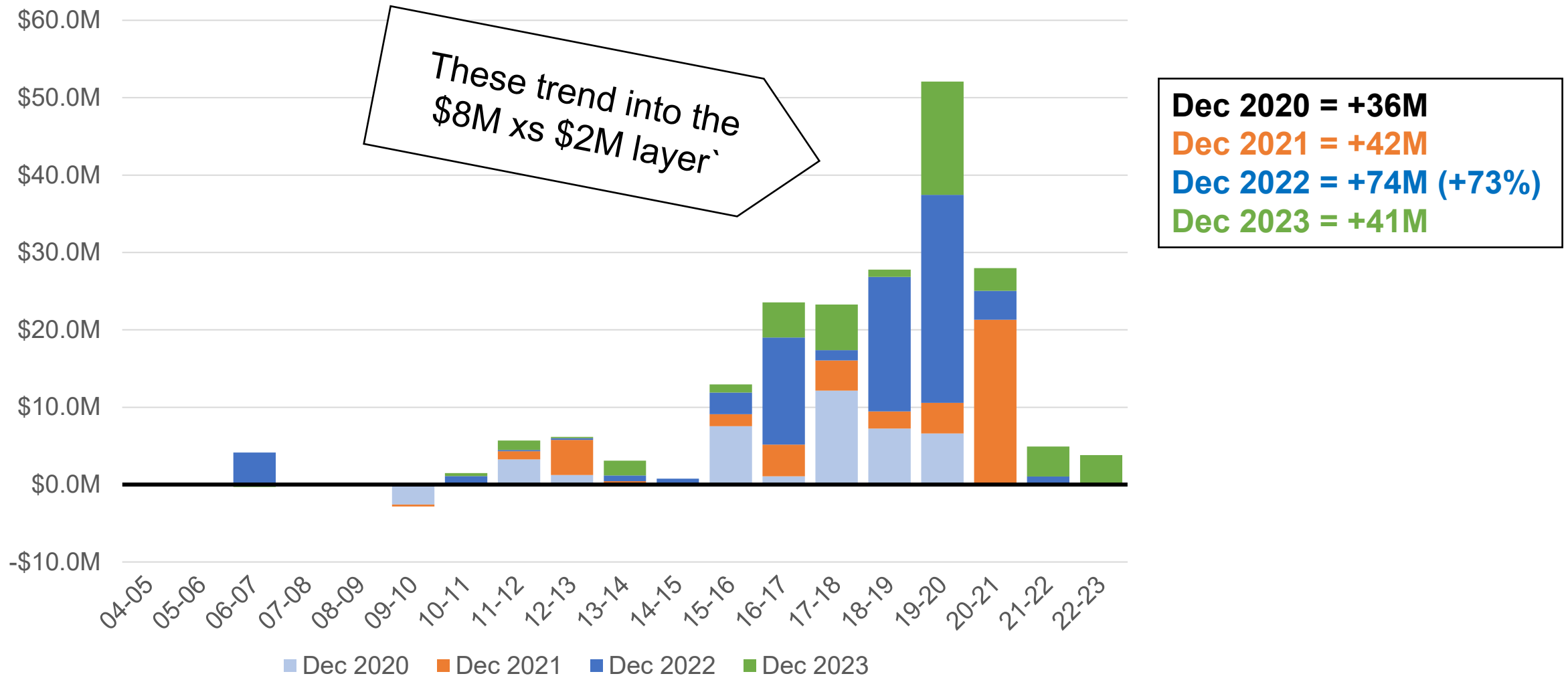
Valued as of 12/31/2023



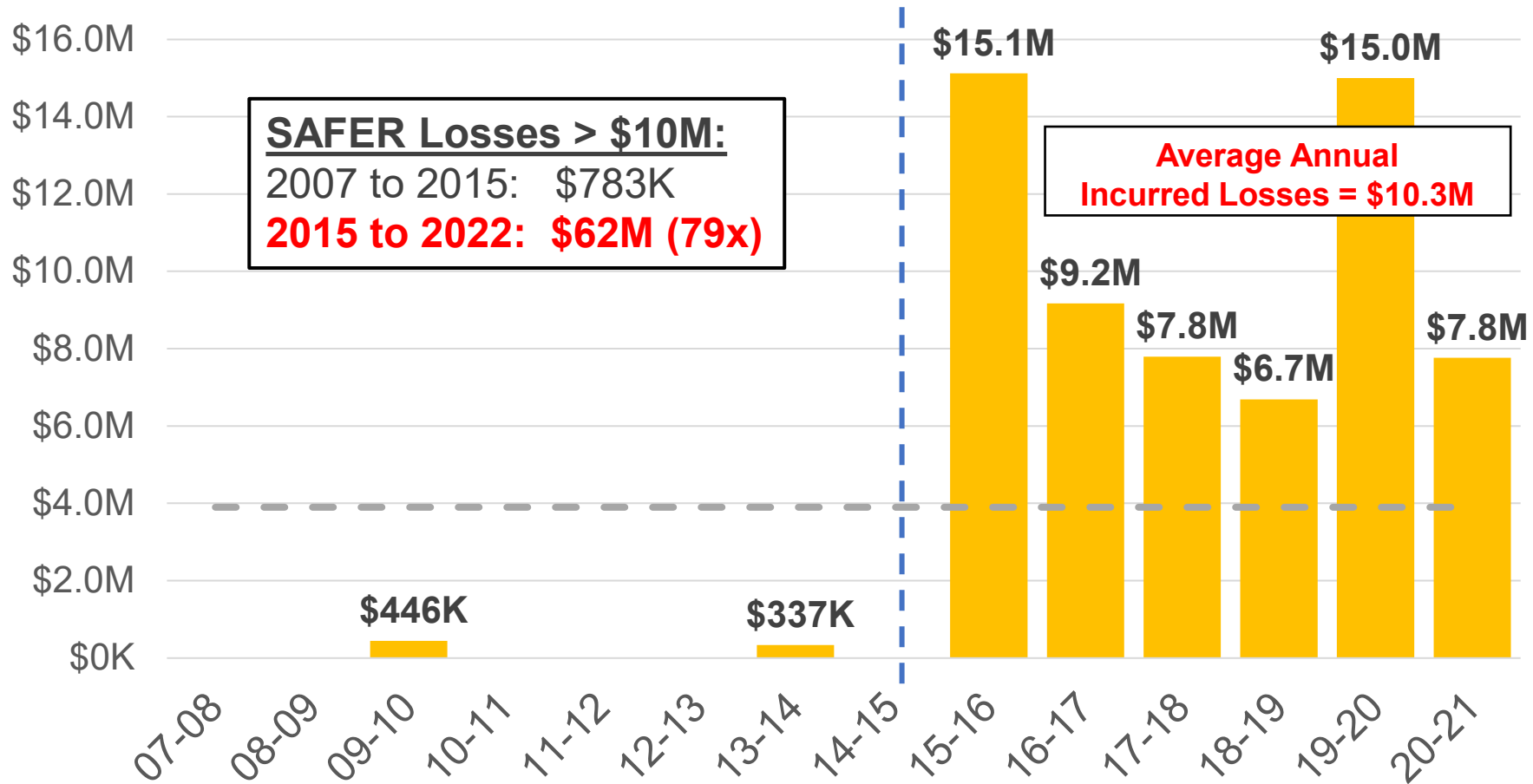
**Since 2015/2016...**  
 48% of Claims > \$1M  
 62% of Claims > \$5M  
**95% of Claims > \$10M**  
**has occurred**



# SAFER Excess Liability Loss Development > \$1M



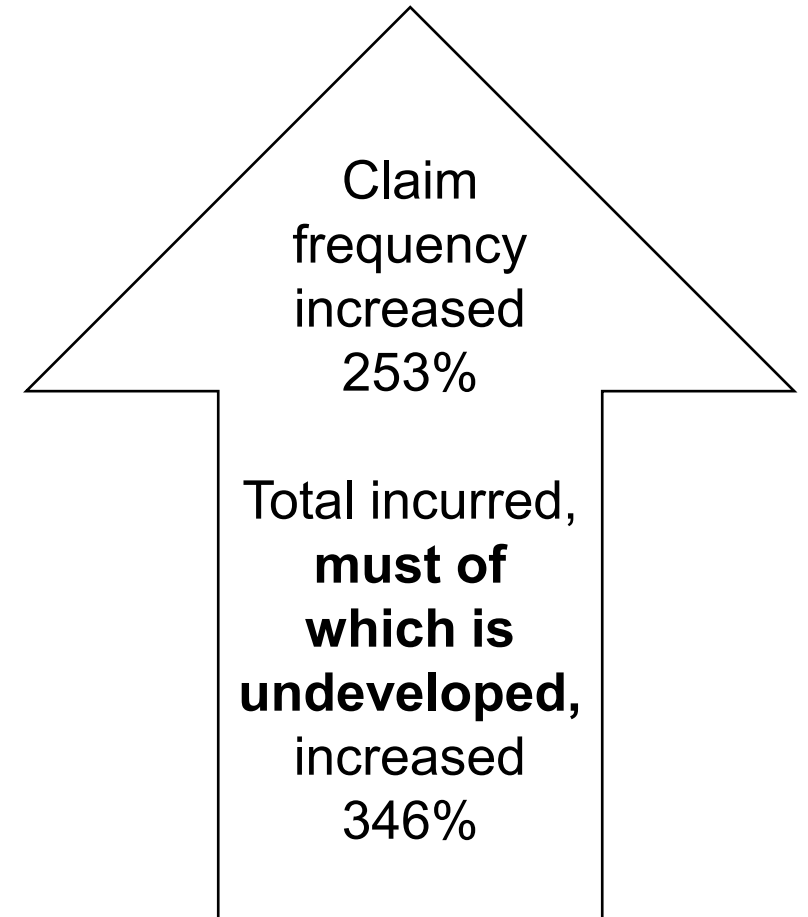
# SAFER Excess Liability Loss Development > \$10M



# SAFER Excess Liability

Summary of Total Incurred Losses > \$1 Million

Valuation Date	Total Incurred	# Claims
12.31.15 / 16-17 Renewal	\$135M	70
12.31.16 / 17-18 Renewal	\$152M	77
12.31.17 / 18-19 Renewal	\$199M	89
12.31.18 / 19-20 Renewal	\$242M	107
12.31.19 / 20-21 Renewal	\$273M	120
12.31.20 / 21-22 Renewal	\$309M	130
12.31.21 / 22-23 Renewal	\$361M	144
12.31.22 / 23-24 Renewal	\$442M	174
12.31.23 / 24-25 Renewal	\$467M	177



# 2023-2024 SAFER Excess Liability Program Participants

**\$25M xs \$25M**  
(\$25M AAL)

Somers Re 30%	AWAC 20%	Great American 15%	Arcadian 10%	Arch Re 10%	Ark 10%	Greenlight Re 2.5%	Arch Syndicate 2.5%
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**\$15M xs \$10M**  
(\$50M AAL inclusive of \$10M AAD)

Somers Re 25%	Arch Re 15%	Great American 10%	Sirius Pt. 10%	Arcadian 10%	United Educators 10%	Applied UW 7.5%	Greenlight Re 5%	Validus 5%	Arch Syndicate 2.5%
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**\$8M xs \$2M**  
(\$37M AAL Inclusive of \$17M AAD)

Somers Re 60%	United Educators 40%
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**\$1M xs \$1M**  
(\$18M AAL)

Hannover Re 80%	Somers Re 15%	Meritage 5%
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**\$1M**

NCR/SCR/SWACC Retention (\$1M less MRL)
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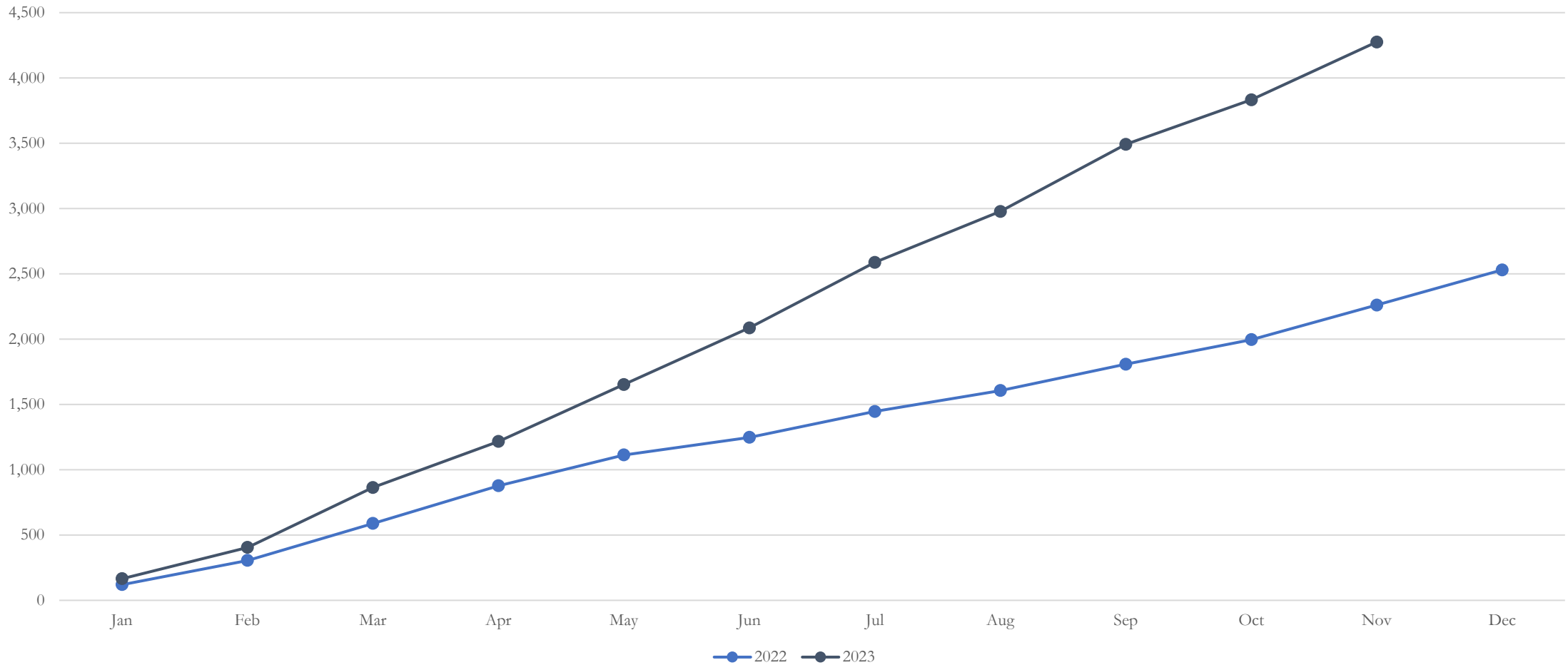


# SAFER Cyber Liability

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# Cumulative Global Ransomware Activity



Source: Howden, NCC Group

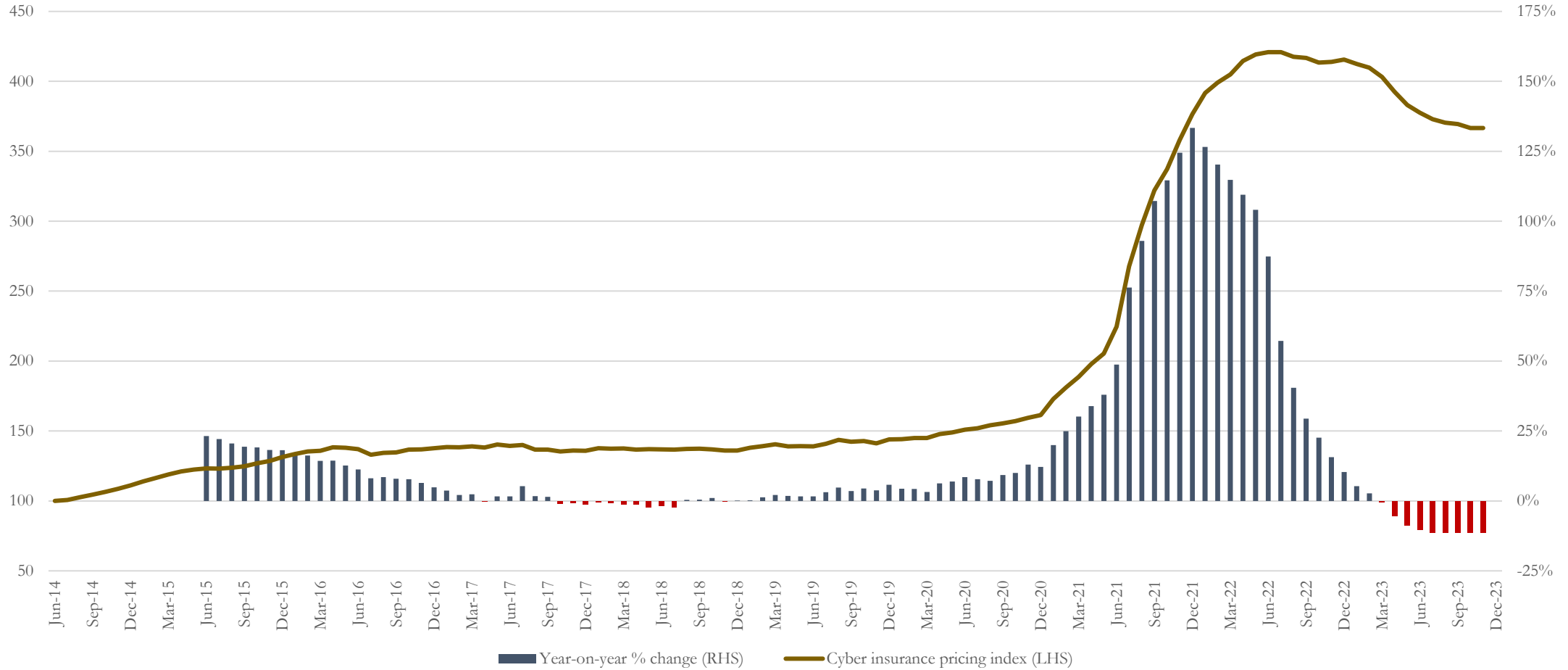


# SAFER Cyber Loss History

Program Year	Carrier	Incidents	Total Incurred	Claim Stratification				
				>100k	>250k	>500k	>750k	>1M
2015-2016	Brit	20	148,220					
2016-2017	Brit	14	335,905	3				
2017-2018	Brit	15	95,850					
2018-2019	Brit	17	105,398					
2019-2020	Brit	25	1,184,799	2	1	1	1	
2020-2021	Chubb	29	3,026,223	7	6	2	2	1
2021-2022	Hamilton	22	3,476,470	4	4	3	3	1
2022-2023	Hamilton/Tokio Marine	18	3,146,423	6	3	2	1	1
2023-2024	Hamilton/Tokio Marine	15	749,500	4				
Grand Total		175	12,268,787	26	14	8	7	3
Last 4 Years		84	\$10,398,615	21	13	7	6	3



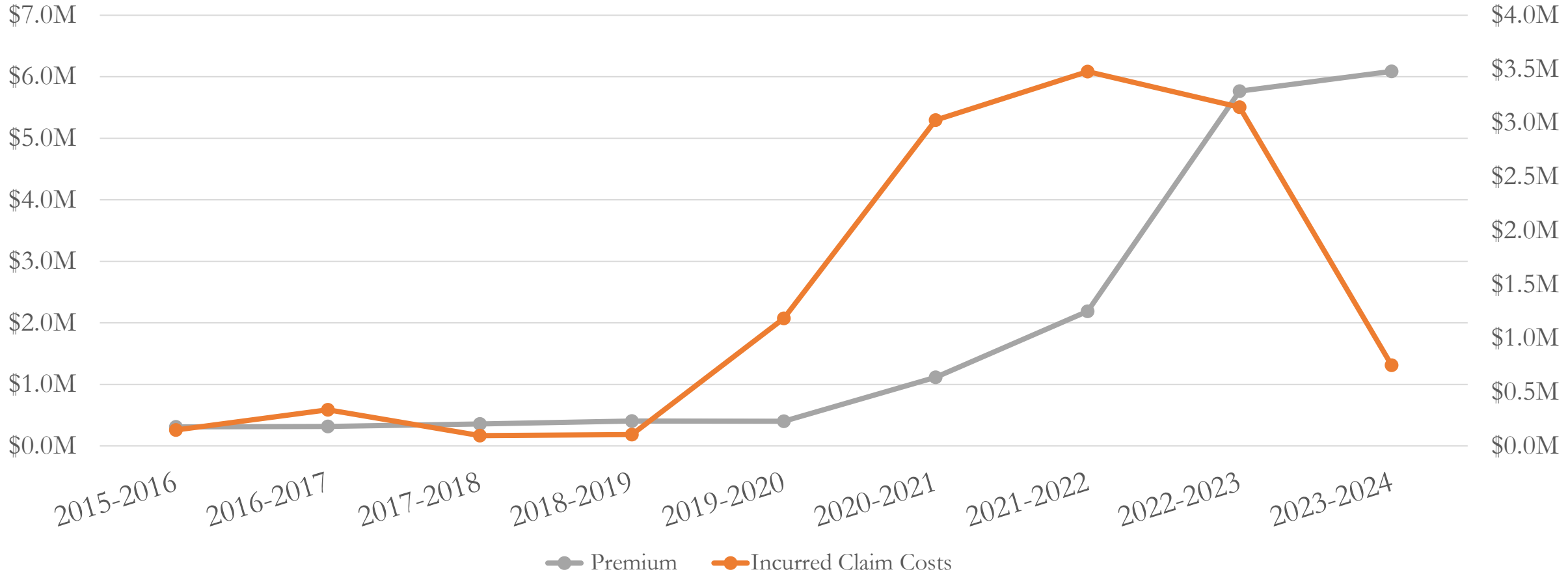
# Global Cyber Insurance Pricing Index



Source: NOVA



# SAFER Cyber Claims and Premium Experience



# SAFER Cyber Program

SAFER Cyber Program 2023-2024	
<u>Excess Layer</u> Tokio Marine (HCC)	
<u>Compliant</u> \$5,000,000 Program AAL \$2,000,000 Member AAL	<u>Non-Compliant</u> \$2,000,000 Program AAL \$1,000,000 Member AAL
<u>Primary Layer</u> Hamilton	
<u>Compliant</u> \$5,000,000 Program AAL \$2,000,000 Member AAL	<u>Non-compliant</u> \$2,000,000 Program AAL \$1,000,000 Member AAL
<b>\$2,000,000 Program AAD</b>	
<u>Program Deductibles</u>	
<u>Compliant</u> K-12 ADA < 9,000: \$35,000 K-12 ADA > 9,000: \$75,000 CCD: \$125,000	<u>Non-Compliant</u> K-12 ADA < 9,000: \$50,000 K-12 ADA > 9,000: \$100,000 CCD: \$150,000

# SAFER 2024/25 Renewal Strategy and Forecast

# 2024 Market Headwinds and Tailwinds

## Headwinds

- Higher loss costs
- Higher cost of capital
- Investor risk aversion
- Economic and geopolitical uncertainty
- Social Inflation / SAM / California
- Higher risk retentions
- Climate change
- Catastrophe losses > \$750B since 2017
- Resurgent ransomware attacks

## Tailwinds

- Sufficient supply to meet demand
- Sustained pricing increases (above loss trends)
- Anti-cyclical characteristics
- Higher interest rates and investment returns
- Easing inflation
- SAFER's structures
- SAFER's (re)insurer diversification



# 2024 Market Outlook Forecast Trends

Price forecasts based upon industry report and Zywave surveys

LINE OF COVERAGE	PRICE FORECAST
Commercial property	<b>CAT-free:</b> +5% to +15% <b>CAT-exposed:</b> +15% to +25%
General liability	<b>Overall:</b> +1% to +10%
Commercial auto	<b>Overall:</b> +5% to +30%
Workers' compensation	<b>Overall:</b> -5% to +2%
Cyber	<b>Overall:</b> 0% to +15%
D&O	<b>Private and nonprofit companies:</b> 0% to +5% <b>Public companies:</b> -10% to +5%
EPL	<b>Overall:</b> 0% to +10%

“Market behavior form 1.1 likely to persist, with continued impact of inflation to be felt across lines of business.”





# 2024 State of the (Re)Insurance Market



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