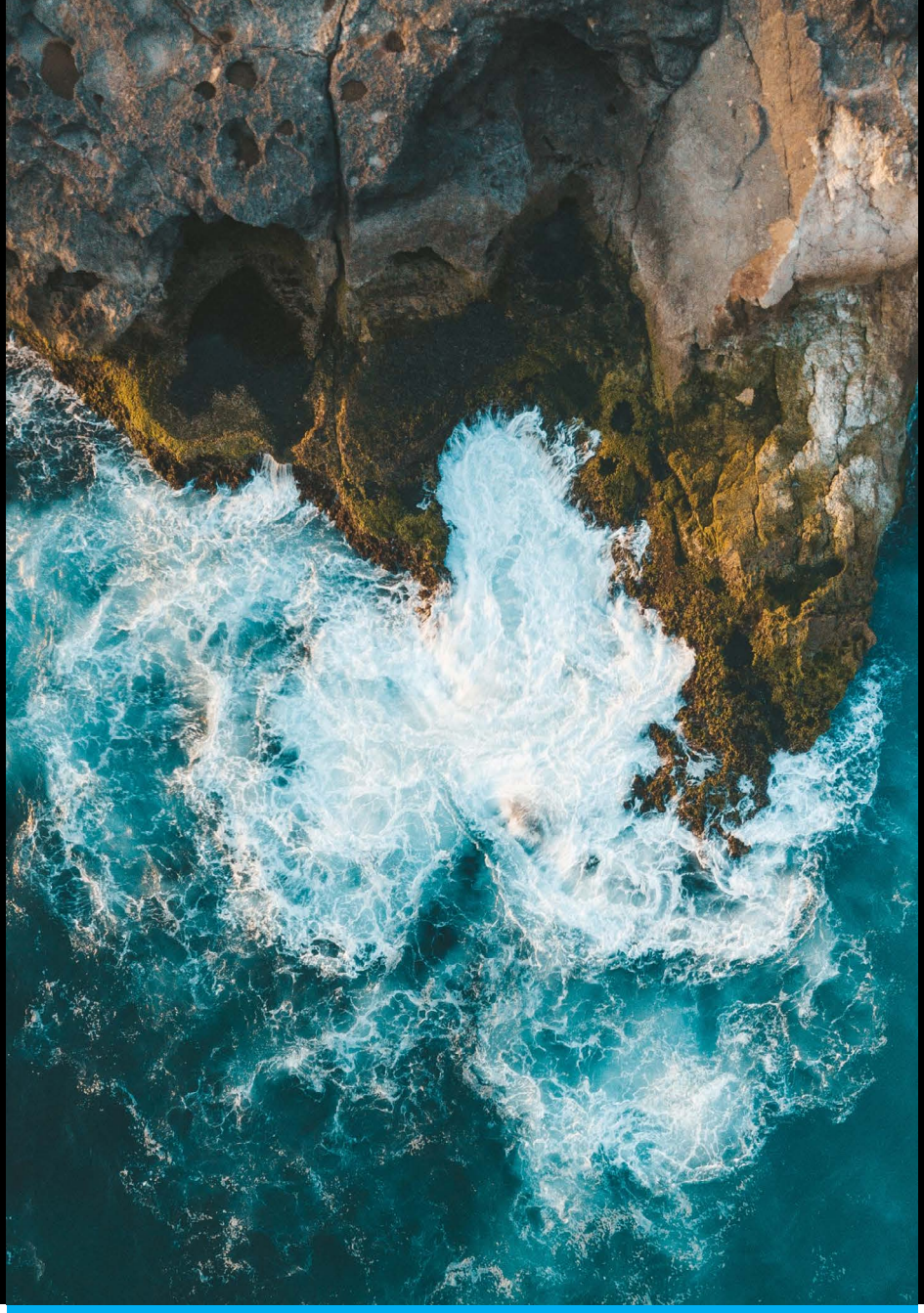


LOCKTON®

MARCH 2025

LOCKTON MARKET UPDATE

Growing uncertainty

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Headwinds and tailwinds abound

At the start of 2025, the property and casualty insurance market remains largely stable and predictable. Warning signs, however, are emerging.

Chief among these is the economy. U.S. GDP continued to grow in 2024, and business leaders were generally optimistic following the 2024 elections. As 2025 gets underway, however, questions are mounting: Will inflation heat back up? What impact will tariffs have on the cost of goods and services? How will the Fed move forward on interest rates?

Insurers and businesses are also closely watching headwinds associated with social inflation, climate change, and a volatile geopolitical landscape. And while most welcome a more business-friendly regulatory environment, its implementation has thus far felt chaotic and unpredictable.

Buyers should remain proactive and flexible. They should regularly evaluate program efficiency, stress-test their programs against different market scenarios, and engage with insurers to understand how shifts in capacity, pricing, or underwriting appetite could impact outcomes. Being prepared to adapt through alternative risk structures, diversified carrier relationships, or enhanced risk mitigation efforts will be key to maintaining stability.

Pricing environment in individual lines

Property	Improving
Workers' compensation	Favorable
Liability	Challenged
D&O	Stable
Cyber	Favorable

Key takeaways

- Although insurers reported profitable 2024 results, economic uncertainty, social inflation, and more are raising questions about their outlook for 2025.
- Property insurers are simultaneously defending existing portfolios and pursuing growth opportunities, offering favorable pricing and policy terms.
- Workers' compensation continues to serve as a cushion for buyers and insurers amid declining profitability in liability lines.
- As social inflation reshapes the third-party liability landscape, insurance buyers face escalating losses, reduced capacity, increased risk sharing, and soaring premiums.
- After an extended period of softness and strong competition, many public D&O carriers appear to now have "reduction fatigue." Most private and nonprofit D&O carriers have indicated that rates have bottomed out.
- While cyber rates continued to decline in the fourth quarter, insurers are pushing for flat renewals amid rising claims frequency and severity.



Cracks emerging behind economic strength

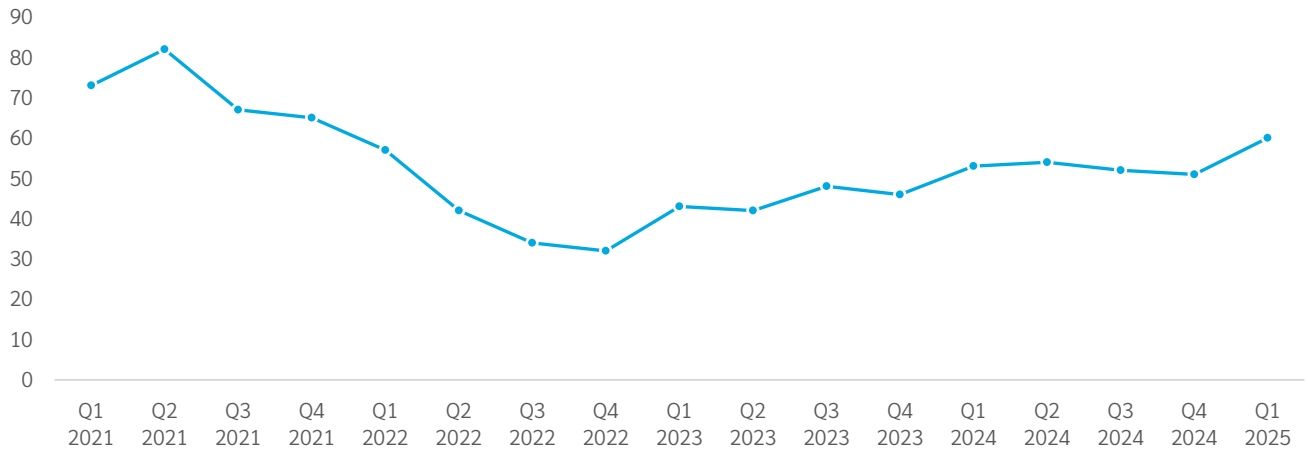
Entering 2025, the U.S. economy continues to demonstrate strength and resilience. In the fourth quarter of 2024, real gross domestic product (GDP) grew at an annualized rate of 2.3%, according to the U.S. Bureau of Economic Analysis (BEA).

The BEA attributed growth in the quarter primarily to increased consumer and government spending. A decline in investment, however, partially offset these gains. For calendar year 2024, real GDP grew by an impressive 2.8%, a slight drop-off from the 2.9% growth recorded in 2023.

Following the 2024 elections, corporate America saw opportunities ahead. The Conference Board Measure of CEO Confidence rose to 60 in the first quarter of 2025, its highest level in three years, based on a survey of 134 CEOs conducted from January 27 through February 10 (see Figure 1). Notably:

- 73% of CEOs said they planned to grow or maintain the size of their workforces over the next 12 months.
- 56% of CEOs said they expect economic conditions to improve over the next six months.
- 52% said they expect short-term prospects in their industries to improve over the next six months.

FIGURE 1: CEO CONFIDENCE HIT A THREE-YEAR HIGH IN THE FIRST QUARTER OF 2025.



Source: The Conference Board Measure of CEO Confidence

The Conference Board described the shift in executive views from the fourth quarter of 2024 as moving "from cautious optimism to confident optimism." But several weeks have passed since The Conference Board's survey was executed — and fears of a recession are reemerging as tariffs roil financial markets.

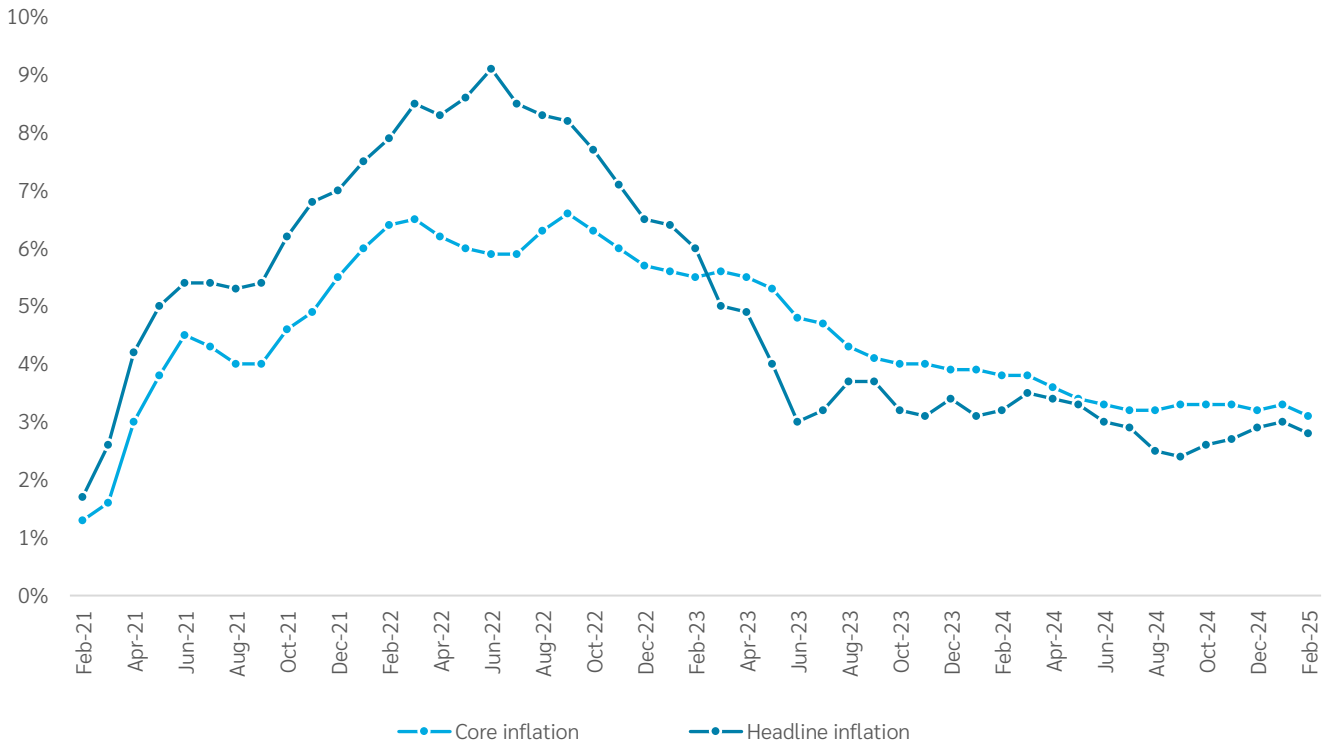
Consumers have a far more pessimistic view than the C-suite. In February, The Conference Board Consumer Confidence Index saw its largest monthly decline since August 2021, falling for the third consecutive month.

Growing debt is contributing to the American consumer's growing sense of exhaustion. Total household debt topped $18 trillion in the fourth quarter of 2024, according to the Federal Reserve Bank of New York, and the share of active credit cards making only the minimum payment reached a 12-year high in the third quarter, according to the Federal Reserve Bank of Philadelphia. Outstanding student loan debt grew to $1.62 trillion in the fourth quarter, according to the New York Fed.

The most significant factor weighing on consumers, however, is inflation, a key determinant of economic growth that has proven to be a stubborn challenge for policymakers.

In February, "headline" inflation — as measured by the U.S. Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI) — rose 2.8% from the previous year, a slight improvement from the 3.0% year-over-year increase recorded in January (see Figure 2). "Core" inflation, which excludes food and energy costs, rose 3.1% in February, down from 3.3% in January.

FIGURE 2: INFLATION HAS BEEN A PERSISTENT CHALLENGE FOR POLICYMAKERS.

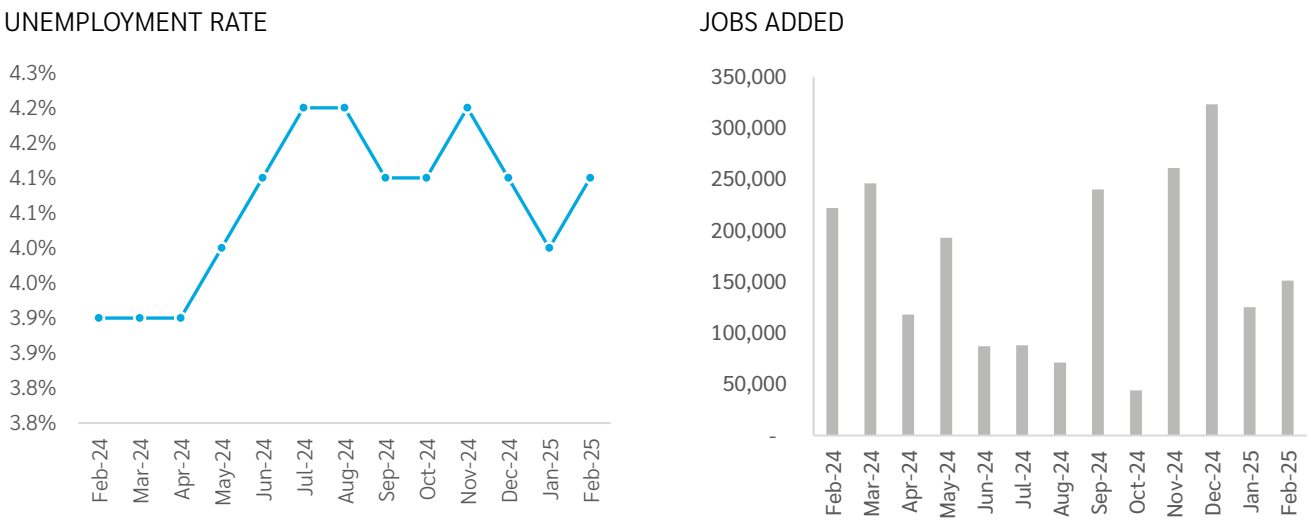


Source: U.S. Bureau of Labor Statistics

On one hand, this data highlights that inflation has eased considerably from relatively recent peaks — 9.1% for headline inflation in June 2022 and 6.6% for core inflation in September 2022. On the other hand, policymakers' progress in containing price increases has slowed since mid-2023. Moreover, headline inflation of 2.8% is still well above the Federal Reserve's target of 2%.

The labor market, meanwhile, has shown surprising durability after appearing to cool in mid-2024. According to the BLS, employers added 125,000 nonfarm jobs in January and 151,000 jobs in February after larger-than-expected gains of 261,000 and 323,000 in November and December, respectively — fewer new jobs than anticipated, but still respectable totals (see Figure 3). The unemployment rate inched up to 4.1% in February from 4.0% in January.

FIGURE 3: THE LABOR MARKET REMAINS UNEXPECTEDLY ROBUST.



Source: U.S. Bureau of Labor Statistics

Anticipating continued progress against inflation in 2025, the Fed elected in the second half of 2024 to cut interest rates three times, by 100 basis points in total. But recent developments — including inflation's intractability, the labor market's surprising resilience, concern about tariffs, and overall economic uncertainty — have led the Fed to signal an indefinite pause on future rate cuts.

In written testimony submitted to the Senate Committee on Banking, Housing, and Urban Affairs before a February 12 hearing, Fed Chair Jerome Powell acknowledged the tightrope the Fed must walk. "Our monetary policy actions are guided by our dual mandate to promote maximum employment and stable prices for the American people… We know that reducing policy restraint too fast or too much could hinder progress on inflation. At the same time, reducing policy restraint too slowly or too little could unduly weaken economic activity and employment."

Interestingly, despite concerns some economic observers have expressed about its resurgence of late, "The labor market is not a source of significant inflationary pressures," Powell said. "Overall, a wide set of indicators suggests that conditions in the labor market are broadly in balance."

Minutes from the Federal Open Market Committee's (FOMC) January 28-29 meeting highlight "other factors… having the potential to hinder the disinflation process, including the effects of potential changes in trade and immigration policy as well as strong consumer demand. Business contacts in a number of Districts had indicated that firms would attempt to pass on to consumers higher input costs arising from potential tariffs."

Some recent activity suggests reasons for additional concern. For one, financial markets have been shaken by recent uncertainty, particularly around tariffs. From Election Day through February 19, 2025, the S&P 500 rose 361.39 points, reflecting investors' optimism as President Trump returned to the White House. But as the administration repeatedly switched between moving forward with and then pausing tariffs on Canada and Mexico, the index fell 469.03 points over just 18 trading days through March 17.

Recent stock market swings have eroded the wealth effect among the top 1% of Americans, who drive a significant share of discretionary spending. Wavering confidence among this group could eat into consumption, investments, and broader economic activity.

Following its most recent March 18-19 meeting, the FOMC revised its projection of real GDP growth for 2025 downward, to 1.8%; in December, the FOMC had projected 2.1% growth. The committee also projects real GDP growth of 1.8% in both 2026 and 2027.

Perhaps more troubling: As of March 18, the Atlanta Fed's GDPNow model — an unofficial forecast of current economic activity — indicated that U.S. real GDP will contract by 1.8% in the first quarter of 2025, further stoking fears of a recession.





Insurers steady after profitable 2024

Insurers had much to celebrate in 2024, benefiting from a strong economy and improved underwriting results. More importantly, those with diversified portfolios saw the highest investment yields since the Great Recession.

For U.S. P&C insurers, net written premiums increased by an estimated 8.7% in 2024, according to AM Best, which forecasts continued premium growth in 2025, albeit at a slower pace (see Figure 4). Insurers recorded a net underwriting profit of $22.9 billion in 2024, a vast improvement from 2023's $24.6 billion underwriting loss.

FIGURE 4: INSURERS BEGAN 2025 IN A STRONG FINANCIAL POSITION.

	2020	2021	2022	2023	2024 (estimate)
Net written premiums	$635.95	$965.94	$756.60	$835.67	$908.24
Year-end surplus	$899.66	$1,021.29	$953.88	$1,013.97	$1,084.40
Net investment income earned	$51.60	$54.27	$70.37	$70.24	$85.23
Accident year combined ratio (reported)	99.7	100.5	103.1	101.8	96.8
After-tax return on equity	6.7%	6.1%	4.6%	8.8%	15.6%

Source: AM Best

After realizing a return on equity of 15.6% in 2024, insurers' ROE is expected to normalize to 6.9% in 2025, according to an earlier AM Best report. This is partly due to slowing premium growth, rising loss severity, and increasing competitive pressures. Fed actions on interest rates may also impact new money returns.

Sustained rate momentum drove better commercial lines underwriting results in 2024. Personal lines showed

dramatic improvement due to enhanced risk selection, higher premiums, and more effective claims management.

The industry's estimated combined ratio improved five points in 2024 to 96.6, according to AM Best, which projects a 98.9 combined ratio for 2025. Outcomes, however, varied by line. In 2024, commercial auto and multiperil lines, for example, were challenged. Workers' compensation, meanwhile, remained profitable, although net profit margins shrunk.

Insurance buyers continue to benefit from a marketplace that is, by and large, predictable and stable, with the notable exception of third-party liability. Capacity and competition continue to fuel generally buyer-friendly conditions across most major lines, including property, workers' compensation, directors and officers liability (D&O), and cyber insurance.

January 1, 2025, property treaty renewals were orderly. With capacity abundant, coverage did not change much and rates fell more sharply than originally anticipated.

Reinsurer behavior as recently as January 1, 2025, suggests they are not looking to shrink their casualty books, as they are likely encouraged by continued rate increases across these lines, coupled with a healthy interest rate environment. Still, reinsurers remain concerned about adverse development and social inflation. Reinsurers are particularly concerned about reserving for the most recent loss years of 2020 through 2024.

"We expect 2025 to be a year of more earnings stability for the US P&C industry, against a backdrop of elevated uncertainties ranging from fiscal and monetary policy to tariffs and geopolitics," the Swiss Re Institute said in a recent report. This uncertainty about the macroeconomic environment has led to a degree of conservatism in the industry. Underwriters are carefully managing terms and conditions, tightening their risk selection, and cautiously deploying and pricing capital. Adverse reserve development also remains a concern.

As noted in recent editions of the *Lockton Market Update*, insurers continue to monitor three major potential headwinds.

SOCIAL INFLATION

NATURAL CATASTROPHES AND CLIMATE CHANGE

GEOPOLITICS

Social inflation

Social inflation remains an ongoing discussion point on earnings calls hosted by P&C insurers. Equity analysts are seeking additional insight into this topic, including how confident senior insurance executives are that premium rates will stay ahead of loss trends and whether to expect loss reserve increases.

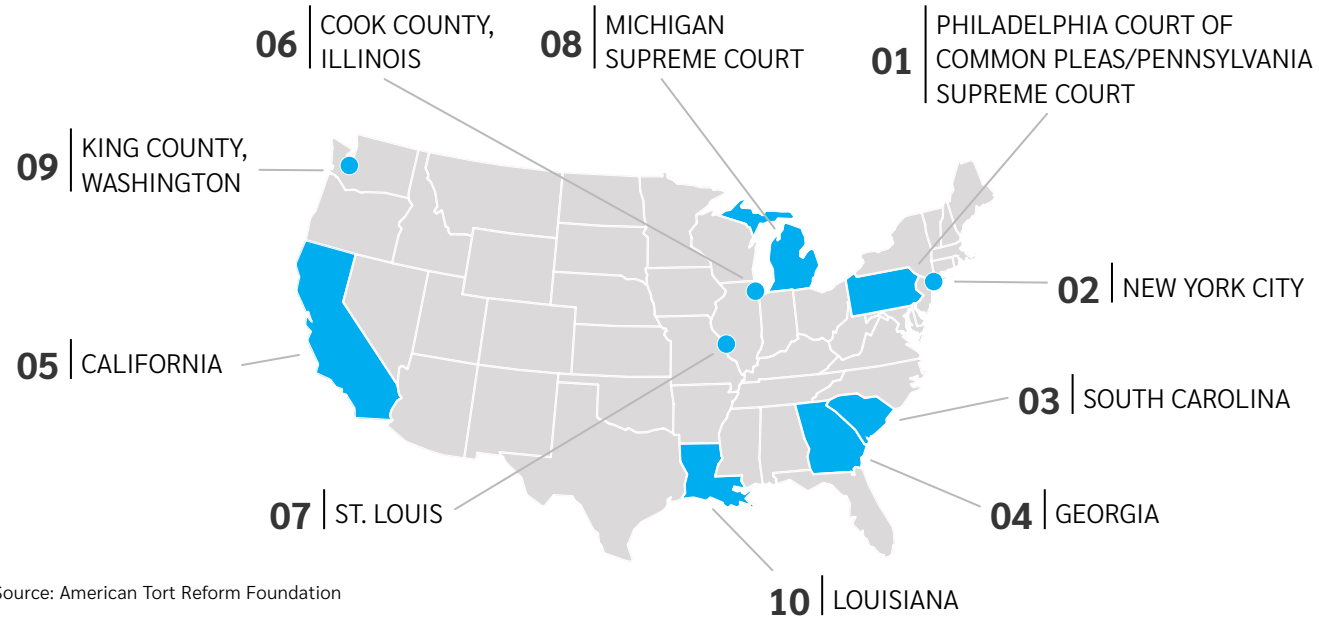
In January, Everest Group reported a $1.7 billion increase in prior-year loss reserves, reflecting the industry's ongoing struggles to contain social inflation. Other insurers have cited ongoing challenges with sexual abuse and molestation and asbestos. This highlights the challenges of occurrence policies, under which liabilities can manifest far beyond the end of policy periods.

Two factors may make social inflation an even greater threat to insurers in 2025:

01 THIRD-PARTY LITIGATION FUNDING. Outside funding continues to level the playing field and strengthen the plaintiffs' bar. "The combination of an emboldened plaintiff bar along with, quite frankly, this jet fuel that they have in their back pocket, otherwise known as litigation funding, continues just to up the [social inflation] game," said Rob Berkley, President and CEO of W. R. Berkley, during the insurer's fourth-quarter earnings call.

02 INCREASINGLY UNPREDICTABLE COURTS. Growing uncertainty around issues once thought to be settled remains a significant concern for U.S. insurers, as precedent can no longer be taken for granted. The Supreme Court's 2024 decision to strike down the concept of "Chevron deference" exemplifies this shift. This unpredictability is also increasingly evident in jurisdictions labeled "judicial hellholes" by the American Tort Reform Foundation, where judges, according to the ATRF, "systematically apply laws and court procedures in an unfair and unbalanced manner" (see Figure 5).

FIGURE 5: TORT REFORM ADVOCATES HAVE IDENTIFIED 10 "JUDICIAL HELLHOLES" ACROSS THE U.S.



Source: American Tort Reform Foundation

One positive development in this area: On March 20, the Georgia House of Representatives passed Senate Bill 68, which aims to curb excessive litigation in the state. As of this report's publication, the bill is now back for additional consideration by the Senate, which originally passed the bill in February.

If Senate Bill 68 is signed, as expected, by Governor Brian Kemp, Georgia would follow Florida, which enacted comprehensive tort reform in 2023. Georgia Senate Bill 69, which would require the registration of third-party litigation funders, was passed by the Senate in February but was still under consideration by the House as of this report's publication. It remains to be seen whether additional states will ultimately pass similar legislation.

Amid this more difficult litigation environment, capacity remains a challenge for liability insurance buyers. When rates in a specific segment of the insurance market rise, an inflow of new capital typically follows. That has not been the case for the liability market over the past few years, however, as insurers increasingly question their ability to generate adequate returns in liability lines.

Social inflation is also a factor in insurers' limiting or restricting coverage for certain risks. These may include assault and battery, sexual molestation, per- and polyfluoroalkyl substances (PFAS), and artificial intelligence.



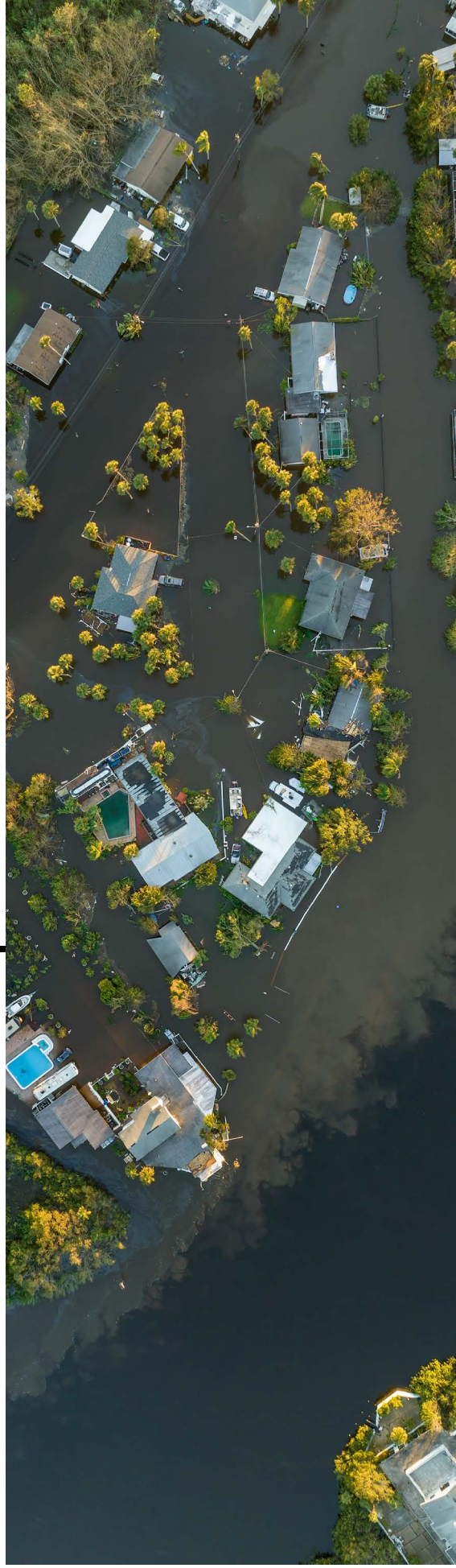
Natural catastrophes and climate change

Globally, insured natural catastrophe losses totaled $140 billion in 2024, according to Munich Re, making it the third-costliest year on record. 2024 was also the hottest year on record, according to Munich Re, with "annual average temperatures reaching around 1.5°C above pre-industrial levels for the first time." In the U.S., 27 weather and climate disasters totaling $1 billion or more in economic losses were recorded in 2024, according to the National Centers for Environmental Information, just under the record of 28 such events in 2023.

Insurance industry research and advisory firm Dowling & Partners has pegged potential losses from the recent Southern California wildfires at between $30 billion and $50 billion. Although the fires impacted personal lines to a greater degree than commercial lines, an active hurricane season could make 2025 a game-changing year for insurers.

"Fifteen years ago, adjusting for inflation, $100 billion was considered the benchmark for an outsized [catastrophe] year," said Peter Zaffino, Chairman and CEO of AIG, during the insurer's fourth-quarter earnings call. "Assuming we have an active but not abnormal wind season, which is realistic given the 2024 hurricane season experience... 2025 could be a year of more than $200 billion of insured catastrophe losses.

"This could recalibrate the entire industry," Zaffino concluded.





Geopolitics

A recent S&P Global report may have said it best: "A world ordered for decades by globalization and geoeconomics has quickly become a world grounded in geopolitical risk." Among the many potential trouble spots for multinational insurers and businesses are:

- RUSSIA AND UKRAINE. In February, Trump administration officials began talks with Russia about a potential end to the war with Ukraine, but no concrete progress appears to have been made as of this writing. Notably, U.S. officials excluded the European Union from these negotiations, heightening tensions with America's traditional allies. President Trump and Ukraine President Volodymyr Zelenskyy also engaged in a public spat regarding the war in late February.
- A POTENTIAL GLOBAL TRADE WAR. The rising threat of tariffs has created friction between the U.S. and key trading partners, including Canada, Mexico, China, and the European Union. The potential for retaliatory measures has raised concerns over free trade and supply chain disruptions.
- THE MIDDLE EAST. With the recent ceasefire agreement between Israel and Hamas appearing to have ended in mid-March, tensions will remain strained in the region.

For multinational businesses, worries about higher costs, uncertainty in long-term planning, and potential shifts in sourcing strategies are growing. Policymakers also fear that escalating trade tensions could undermine the economic and competitive benefits of existing agreements. These include the United States–Mexico–Canada Agreement, reached in 2018 as a replacement for the North American Free Trade Agreement.

Domestically, Republicans and Democrats continue to argue over immigration, taxes, spending, and regulation. At best, this is a recipe for slow progress around some fundamental challenges. At worst, it raises the political temperature and the potential for civil unrest.

Our recommendations

01 **Start renewal planning early.** Assess market conditions well in advance of renewal to anticipate challenges.

02 **Reassess risk appetite and retentions.** Given evolving market and economic conditions — and higher attachment points and stricter terms imposed by insurers — buyers should reevaluate their risk tolerance and consider adjusting retentions or self-insured layers to optimize cost efficiency.

03 **Highlight risk management and loss prevention measures in underwriting submissions.** Insurers are becoming increasingly selective, favoring buyers that differentiate themselves through strong safety protocols, claims management, and legal defense strategies.

04 **Leverage claims data and analytics.** Buyers with robust claims data and strong loss modeling capabilities are in a better position to negotiate structure, pricing, and terms. AI-driven insights can also help buyers predict social inflation trends, nuclear verdict risk, and emerging exposures.

05 **Take a global approach to marketing insurance programs.** Strategically accessing domestic and international carriers, including Lloyd's syndicates and Bermuda-based reinsurers, can help unlock capacity and improve terms.

06 **Revisit policy language and coverage terms.** Buyers should thoroughly review exclusions, loss triggers, and policy definitions to avoid unintended gaps in coverage. Insurers may also be open to reconsidering restrictions imposed during past hard markets. Buyers should also periodically reassess carving out certain coverage from standard liability policies and building standalone programs for more volatile and higher-profile exposures.

07 **Monitor legislative, regulatory, and judicial trends.** Staying abreast of federal and state activity around sensitive topics, such as diversity, equity, and inclusion and tort reform can help buyers anticipate risks and adjust coverage limits.

08 **Explore alternative risk options.** Captives, risk retention groups, parametric solutions, and more may offer more efficient ways to deploy capital and mitigate critical risks.



The insurance buyer's view



A Q&A with Brian Rogers

Director, Risk Finance & Insurance, Tyson Foods

Lockton: *How would you describe the state of the insurance market today?*

Brian Rogers: I'd describe it as dynamic, and in the midst of some transformation.

I've been in my role of leading insurance procurement for Tyson Foods for close to six years, and in that time, I've seen a lot of ups and downs. Other risk managers tell me that I've lived a 30-year risk management career in just those six years. We've gone through a 100-year pandemic, the constant threat of climate change, new emerging risks that are popping up all the time, and now we've got war exposures.

And I think all of that is forcing both the insurance marketplace and senior executives within companies to be creative — to think things through and accept new ways of approaching risk. That includes new insurance facilities, creative financial structures, and opportunities to provide more efficient risk financing options, whether you're looking to retain risk or transfer it to insurers.

Lockton: *What's your biggest challenge as an insurance buyer?*

Rogers: I'd say it's the derisking environment we're seeing. We're seeing some insurers push for rates to stay the same, but they're cutting limits and restricting terms and conditions. For a lot of insurers, it's difficult to effectively price right now, and that's part of why we're seeing some new exclusions.

Those exclusions can put pressure on an entire tower, from both a pricing and terms and conditions perspective. That forces buyers to find new markets to support their programs or, if they're already tapped out there, get creative. That means trying to get more out of captives or exploring alternative risk options so they can ensure they have the same amount of coverage as they have historically.

And as buyers, we have to constantly reevaluate our program. We have to keep asking whether the program is actually protecting us and our balance sheet, both in the short term and the long run.

Lockton: *What kind of additional support do you want from insurers?*

Rogers: We want to see them expedite the process of producing viable options — from both a pricing and coverage terms perspective — that allow us to protect against risks in the long term. We want them to be able to better understand their risks so we can level out those peaks and valleys of pricing.

A big problem for us is that we sometimes see pricing whiplash — rates go down one year, and then the next they increase significantly. So more sophistication by the insurers and a more consistent experience that smooths out those peaks and valleys would obviously be a big benefit to us from a financial budgeting standpoint. Ensuring carrier partners understand your business and educating them about emerging risks in your business class can also lead to coverage solutions.

Lockton: *What kind of support are you looking for from your insurance brokers?*

Rogers: My department oversees global insurance placements in more than a dozen countries, but we're expected to be extremely lean. So we need to be able to trust our broker partners to deliver value. That means, one, understanding our business and the insurance markets, and two, being able to provide data analytics to help us answer the question we're always asking: "What's the optimal way to manage this risk?"

It's especially important that our broker deliver in useful and relevant analytics because that's one of the hardest things for us to do internally. Good data can also help me explain key decisions to senior leaders. Quantitative analysis communicated clearly and easily to executives without any insurance background can help us earn their trust and confidence.



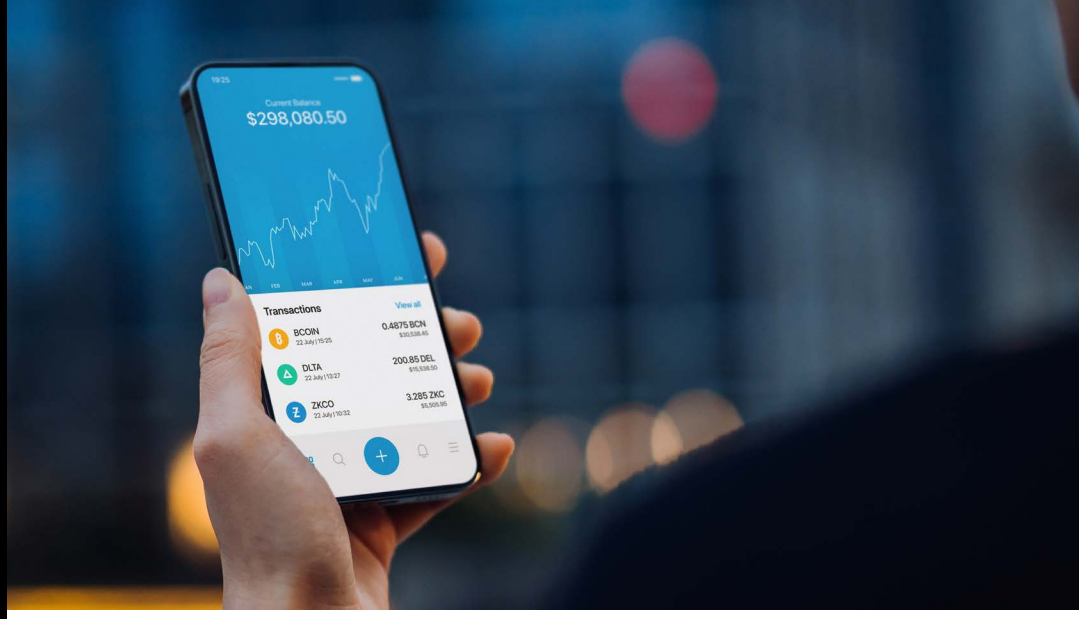
Lockton: *What advice would you offer to other insurance buyers and risk professionals?*

Rogers: First, I'd say be proactive. Make sure you keep your finger on the pulse of what's going on in the industry and in your organization, whether it's property, employee safety, or product quality — for us, that's food safety. Maintain a dialogue with the people in your organization and ask what they're concerned about for the next few years, and pair that with an enterprise risk management view to figure out what's next — what risks are going to be important over the next 10 or 20 or 30 years. You should also expect the same from your carriers and your broker partners. Are they constantly thinking about what's next?

My primary job is no longer just the basics of understanding our exposures, gathering our existing policies, and reviewing our insurance programs. It's now more about understanding and looking at what we need to address 12 to 24 months from now and finding solutions for those challenges.

Second, you need to choose your insurers carefully. You want to work with carriers that are committed to being long-term partners and helping you avoid big swings in pricing, but price can't be your only target when putting an insurance program together. You must make sure that your top insurance partners are going to be there to support you if you have a catastrophic loss, or to help address emerging new risk solutions that may not be covered under your current program.

Those kinds of losses are occurring more and more frequently, and if you suffer a big loss, you're going to need to rely on your insurer. Setting up a structure such as tier 1 and tier 2 groups of insurers — just as a complex business's treasury team may do with a group of banks — is also important, so you have sufficient bench strength if there becomes a sudden need to change carriers.



Digital asset opportunities fuel insurer competition

The insurance market for digital assets is thriving, with new market entrants adding capacity, expanding terms, and driving competition. This market expansion is enabling broader coverage options, particularly in key areas such as D&O, custody/specie, and crime insurance.

While several traditional insurers have recently entered the market, much of the capacity comes from the growing appetite of other traditional insurers already serving the digital asset market and from newer insurers specifically focused on the digital asset ecosystem. For most buyers, pricing is generally decreasing for all forms of coverage and insurers are being more flexible on terms and conditions, including for regulatory coverage.

Crime and custody insurers are eager to grow, offering coverage more comparable to what is available in the traditional financial institution bond or commercial crime markets, and expanding coverage for key risks, such as extortion. Underwriting remains stringent, but the amount of interest and capacity offering computer crime coverage continues to increase — a plus for digital asset firms. Insurers, for example, are revising policies to better address the complexities of digital asset storage, moving beyond the simplistic distinction between “hot” and “cold.”

London-based insurers, meanwhile, are showing greater interest in writing D&O coverage for digital asset firms, which U.S. insurers were already relatively comfortable offering. D&O programs now offer broader Side C entity coverage than before, and insurers are becoming more willing to narrow or remove exclusions for cyber risks and theft of assets in custody.

Cyber and technology errors and omissions (E&O) insurers are offering more meaningful solutions for the ecosystem. For example, some tech E&O insurers are increasingly offering coverage for damages that equate to the loss of asset value, which historically has been excluded or limited under tech E&O policies.

With regulatory oversight of digital assets solidifying — particularly in Europe and Asia — insurers are asking more questions about what companies are doing to comply with new rules. Underwriters are specifically inquiring about licensing requirements, where applicable, along with the steps companies are taking to protect the safety of assets under their control. Insurers are asking specific questions about risk management protocols, including what other forms of insurance coverage companies are purchasing. Underwriters are also probing companies about how they would have responded to various security events involving other digital asset market participants.

The regulatory environment in the U.S. is less mature, but there is great anticipation that the Trump administration will take a more friendly approach to digital assets, as the president promised on the campaign trail. One positive change that has already taken place is the Securities and Exchange Commission's (SEC) rescission of Staff Accounting Bulletin 121, which was previously published under the Biden administration in 2022 and was seen as a significant hurdle to banking industry investment in digital assets.

While we expect to see substantial positive activity from the Trump administration, some uncertainty remains both in the U.S. and internationally. Individual states may take a more hands-on approach to digital assets as the federal government looks to loosen regulation. Meanwhile, many of the laws that have been enacted elsewhere have not yet been tested and could ultimately be revised or reworked.

Claim trends for digital asset firms are generally benign. Crime and custody-related claims activity is limited, and D&O and other management liability claims are fairly similar to those in other industries. Much of the sector's claims activity is tied to regulation or bankruptcy.

Digital asset buyers should expect to see a competitive market for the foreseeable future, although conditions for the industry will be partially driven by trends in the broader insurance marketplace. In this environment, it's essential that digital asset firms work with experienced brokers that understand the nature of their business and their most critical risks. They should also ensure they are working with insurers that can be relied on in the event of a sizable loss or claim.



Property insurance market grows more competitive

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

NON-CAT EXPOSED

15% rate decrease to flat



-50% 0% 50%

CAT-EXPOSED/CHALLENGED OCCUPANCIES

20% to 5% rate decrease

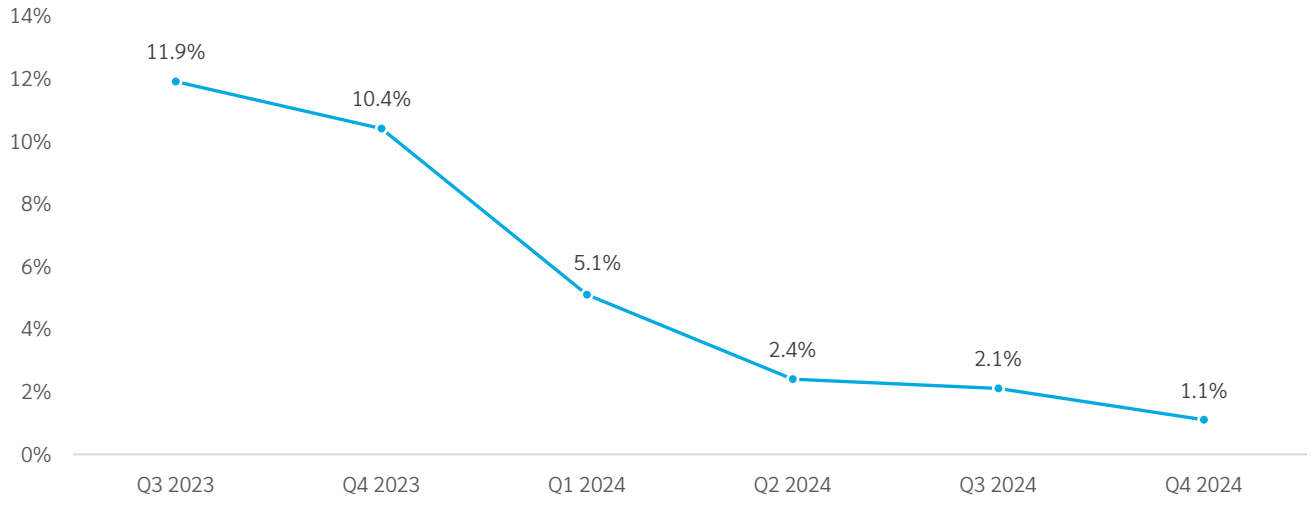


-50% 0% 50%

[1] Note: Rate ranges presented here reflect expected renewal outcomes — as of the *Lockton Market Update* publication date — over the next quarter for the majority of insurance buyers. These should not be taken as a guarantee of any specific result during renewal negotiations. Depending on risk profiles, loss histories, account specifics and other factors, individual buyers may renew their programs outside of these ranges.

Property insurance market conditions continue to improve for most buyers. In the fourth quarter of 2024, median property rates rose 1.1%,, according to Lockton data (see Figure 6).

FIGURE 6: THE PROPERTY INSURANCE MARKET HAS BECOME MORE BUYER-FRIENDLY OVER THE LAST YEAR.



Source: Lockton P&C Edge Benchmarking Report, Q4 2024; median rate changes year over year shown

Although inflation and climate change continue to drive up exposures, they have not deterred competition. Commercial property insurers are actively defending their existing portfolios while also pursuing growth opportunities. In addition to improving pricing, buyers can generally secure more favorable terms and conditions, reducing instances of nonconcurrencies.

Notably, shared and layered placements remain more competitive than single-carrier placements; during the hard market cycle, rates for shared and layered programs rose more than rates for single-carrier placements, which means rate relief in the current environment is more significant for these programs. Oversubscription, however, is common, creating challenges for buyers, which must balance long-term insurer relationships against emerging market opportunities. Several carriers continue to pursue middle market opportunities, resulting in competitive conditions for that space.

Natural catastrophes generated $140 billion in insured losses in 2024, according to Munich Re. Hurricanes Helene and Milton were considered near-misses that, in a worst-case scenario, could have significantly added to this total.

The southern California wildfires in early 2025 — projected to cost insurers an estimated $30 billion to $50 billion, according to Dowling & Partners — are viewed as a potential *earnings* rather than *capital* event, and personal lines are expected to be hit harder than commercial property. However, their ultimate impact on the market remains uncertain, and much depends on how the rest of the year progresses.

As expected, January 1, 2025, reinsurance treaty renewals proceeded in an orderly manner. As firm order terms neared their effective dates, pricing continued to improve for profitable buyers. Attachment points secured by reinsurers in 2023 largely held, with most negotiations focused on pricing relief. Looking ahead, June 1, 2025, treaty renewals for Florida insurers are expected to favor buyers.



Workers' compensation remains a bright spot for insurers

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

GUARANTEED COST

5% rate decrease to flat

-50% 0% 50%

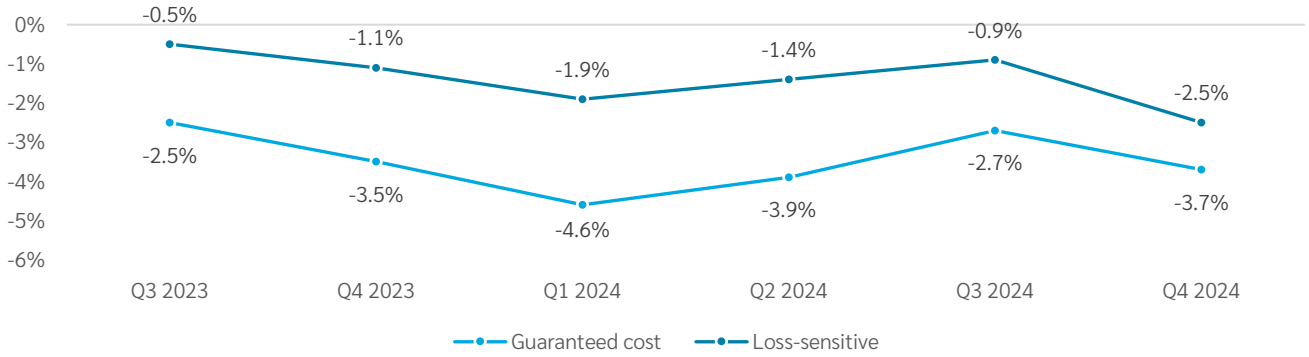
LOSS-SENSITIVE

5% rate decrease to flat

-50% 0% 50%

Workers' compensation remains an attractive line for commercial insurers, to the benefit of buyers. Median rates for guaranteed cost programs fell 3.7% in the fourth quarter, according to Lockton data (see Figure 7). For loss-sensitive programs, median rates fell 2.5%.

FIGURE 7: WORKERS' COMPENSATION PROFITABILITY CONTINUES TO DRIVE COMPETITION.

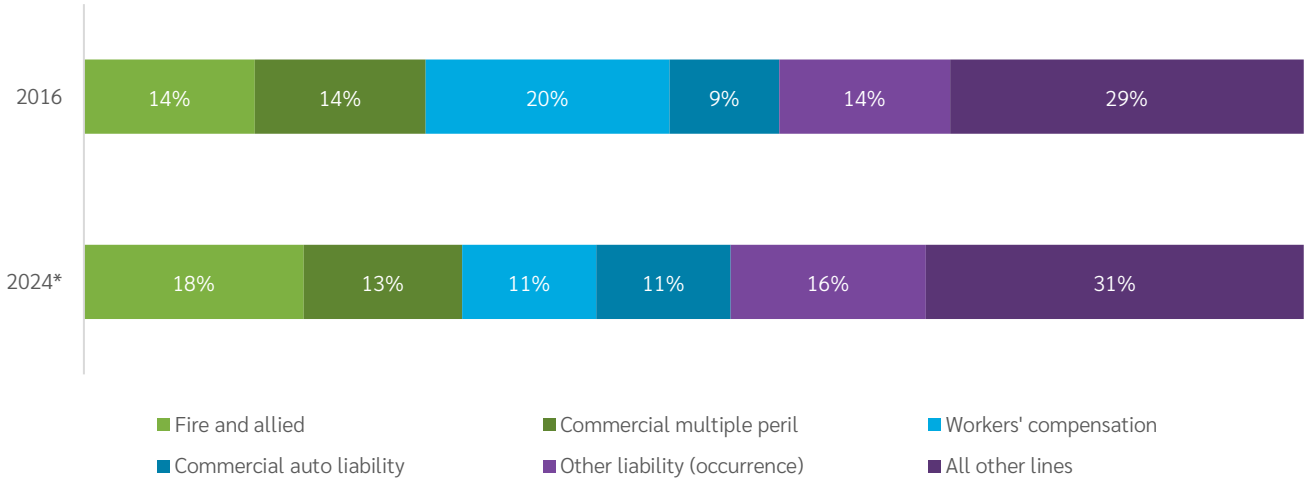


Source: Lockton P&C Edge Benchmarking Report, Q4 2024; median rate changes year over year shown

Workers' compensation continues to provide a key cushion for insurers amid declining profitability in liability lines. It also remains an important negotiating tool when structuring broader insurance programs, allowing buyers to leverage its strong performance to optimize terms and pricing for other coverages.

Workers' compensation profitability, however, has "become less of a tailwind" for insurers, according to the Swiss Re Institute. While workers' compensation accounted for 20% of total commercial premiums in 2016, it made up just 11% of total premiums through the first nine months of 2024 (see Figure 8). Declining rates and higher deductibles have also squeezed margins.

FIGURE 8: WORKERS' COMPENSATION'S SHARE OF COMMERCIAL PREMIUMS HAS SHRUNK OVER THE LAST DECADE.



Source: S&P Capital IQ, Swiss Re Institute; 2024 figures are for first nine months of calendar year

In early 2023, workers' compensation carriers projected that the market would firm due to shrinking profit margins and an anticipated rise in claim frequency and severity. Wage inflation, remote work, and employee turnover were also cited as potential drivers.

Ultimately, the shift many carriers anticipated did not occur. At the start of 2025, carriers are less vocal about an impending change, although they continue to watch several market trends.

Medical inflation remains a key concern for underwriters, fueled by provider consolidation as hospitals continue to acquire physician groups. Claims with reported losses of $2 million or more are also increasing in frequency, according to the National Council on Compensation Insurance (NCCI). This is driven by medical advances, the rising cost of specialized treatments, increasing life expectancy for severely injured workers, and expanded use of high-cost pharmaceuticals and procedures.

Among other areas, insurers are closely monitoring an evolving regulatory environment at both the state and federal levels and assessing the impact these changes could have on premiums, claim payments, and compliance standards.

At the state level, insurers are considering potential impacts from New York's broad interpretation of mental duress in workers' compensation cases. The state's legal framework allows employees to file claims for what are referred to as "mental/mental" claims — those for work-related stress, anxiety, and post-traumatic stress without physical injury.

A number of states currently allow mental/mental claims, but only for first responders. Recently, more states have been considering amending their workers' compensation statutes to allow compensable mental/mental claims for workers in other professions. This can increase claim frequency and severity and contribute to higher costs for employers and insurers.

Meanwhile, there is speculation that President Trump will support — as the Biden administration did — the reclassification of marijuana as a Schedule III drug under the Controlled Substances Act. This could expand its inclusion in employer-sponsored health insurance and workers' compensation programs.

Conversely, the Trump administration is expected to withdraw its defense of the Biden-era Department of Labor rule on independent contractor classification under the Fair Labor Standards Act. The 2024 rule broadened the criteria for classifying workers as employees, raising labor costs and increasing workers' compensation exposures. If reversed, it could reduce payroll-based insurance costs.

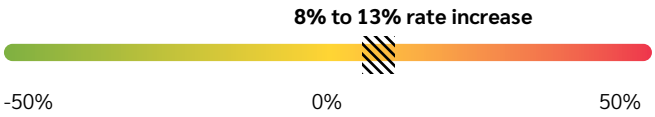
Insurers and employers are also watching how the Trump administration will move forward on immigration enforcement. Stricter policies could drive up wages by reducing the labor pool, especially for the construction, agriculture, and hospitality sectors. Smaller workforces could lead to longer hours, job strain, and higher workplace injury rates.

Finally, as the new administration continues to reduce the size and scale of the federal workforce, cuts at the Occupational Safety and Health Administration are almost inevitable. This raises renewed concerns about workplace safety and compliance.

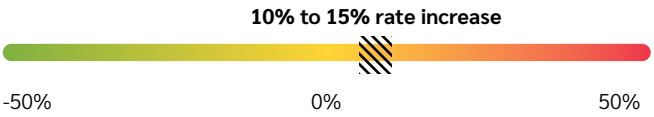
Social inflation continues to threaten liability insurers

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1]

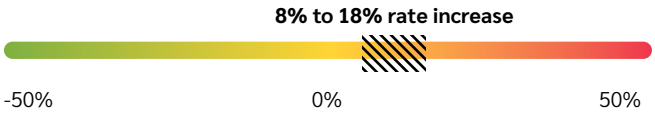
GENERAL LIABILITY



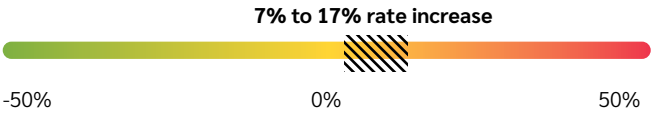
AUTO LIABILITY



LEAD UMBRELLA

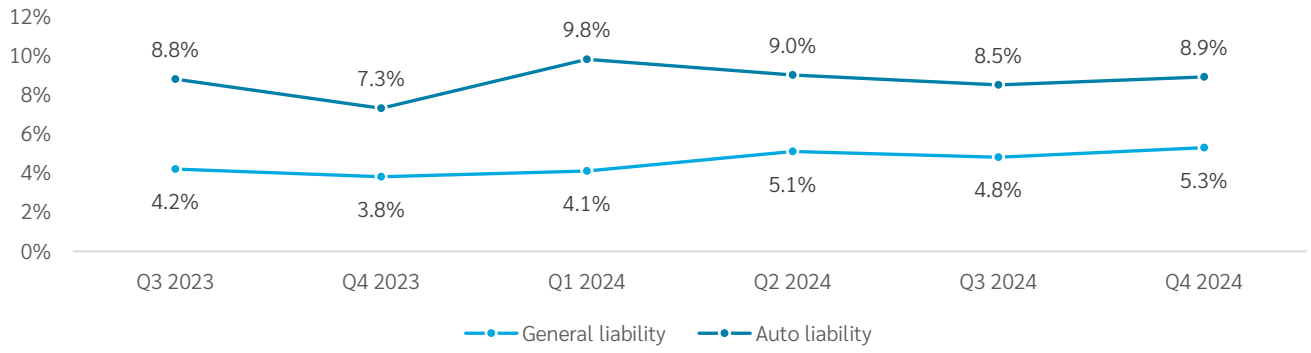


EXCESS



Continuing a pattern that has become all too familiar, liability premiums continue to rise, driven by escalating loss trends. According to data from the Council of Insurance Agents & Brokers (see Figure 9), general liability rates rose 5.3% on average in the fourth quarter, and auto liability rates rose 8.9% on average.[2]

FIGURE 9: GENERAL LIABILITY AND AUTO LIABILITY RATES CONTINUE TO RISE AT A CONSISTENT PACE.

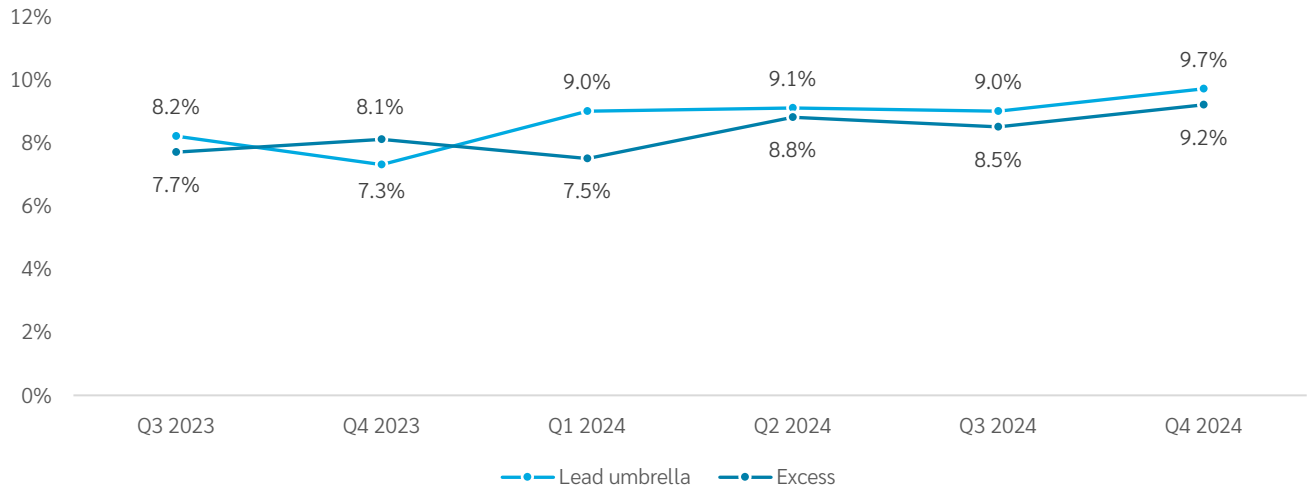


Source: Council of Insurance Agents & Brokers; average rate changes year over year shown

[2] Charts in this report using Lockton P&C Edge Benchmarking data show median rate changes year over year. Median figures, however, are not available for Figure 9, which uses data from CIAB.

Median lead umbrella price per million rose 9.7% in the fourth quarter, according to Lockton data (see Figure 10). Median excess casualty price per million rose 9.2% in the fourth quarter.

FIGURE 10: UMBRELLA AND EXCESS CASUALTY RATE INCREASES ACCELERATED IN THE FOURTH QUARTER.



Source: Lockton P&C Edge Benchmarking Report, Q4 2024; median rate change s year over year shown; figures shown on a PPM basis and do not reflect true, exposure-adjusted rate changes

As social inflation reshapes the third-party liability landscape, insurance buyers face escalating losses, reduced market capacity, increased risk sharing, and soaring premiums. Once a highly predictable market segment, liability insurance remains volatile, driven by surging nuclear verdicts and a well-organized plaintiffs' bar backed by third-party litigation funding. Certain high-risk industries, including trucking, construction, and healthcare continue to face unique challenges.

In the past, insurers have relied on historical loss experience to estimate reserves and set premiums. Amid social inflation, however, historical data has become an unreliable predictor of future risks. This has prompted a shift toward more conservative underwriting and deployment of capital. Insurers are carefully managing retentions, adjusting attachment points, restricting capacity, and tightening terms and conditions. At the same time, continued adverse reserve development is forcing insurers to reassess reserving strategies and adjust pricing models.

Occurrence-based policies, in particular, remain challenging. Insurers struggle to accurately predict, price, and reserve for losses that can take decades to emerge. "Reviver" statutes have further complicated the outlook for sexual abuse and molestation claims, reopening litigation for cases previously barred by statutes of limitations and triggering a surge in claims and settlements. Asbestos-related liabilities remain an ongoing problem, with litigation persisting despite decades of remediation efforts.

Insurers are also finding it difficult to underwrite and price a variety of emerging risks, for which historical loss data is often lacking. Concerns are building around algorithmic liability, biometric data, fossil fuels, electric vehicles and social media mental health claims, all of which are increasingly subject to litigation.

Similarly, insurers are worried about massive, unpredictable claims — as previously seen with asbestos — from litigation stemming from the widespread use of per- and polyfluoroalkyl substances (PFAS), also known as "forever chemicals."

Meanwhile, so-called "judicial hellholes" — jurisdictions where courts consistently favor plaintiffs — are a significant challenge for insurers and businesses facing litigation. Tort reform remains a fragmented, state-by-state effort, with highly uneven progress. In 2023, Florida implemented substantial reforms, while as of this writing, Georgia's legislature is advancing two bills intended to curb excessive litigation. Further progress will require strong, effective advocacy from consumers, businesses and insurers.

The Trump administration's regulatory approach and staff cuts at key agencies could also increase uncertainty in oversight and enforcement. A shift away from the Biden administration's aggressive focus on consumer protection may also present new risks.

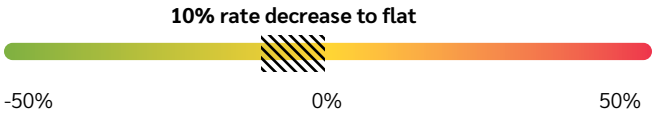
These trends are prompting more rigorous underwriting guidelines from casualty reinsurers. Reinsurers are requiring more detailed actuarial experience data from cedents and are pressing them for more clarity on how they underwrite specific exposures. This puts more pressure on primary underwriting guidelines.



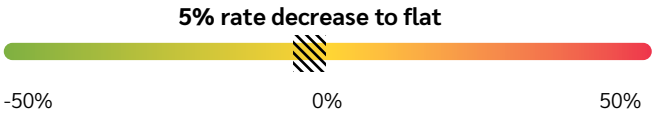
D&O rate reductions beginning to taper off

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1, 3]

PUBLIC



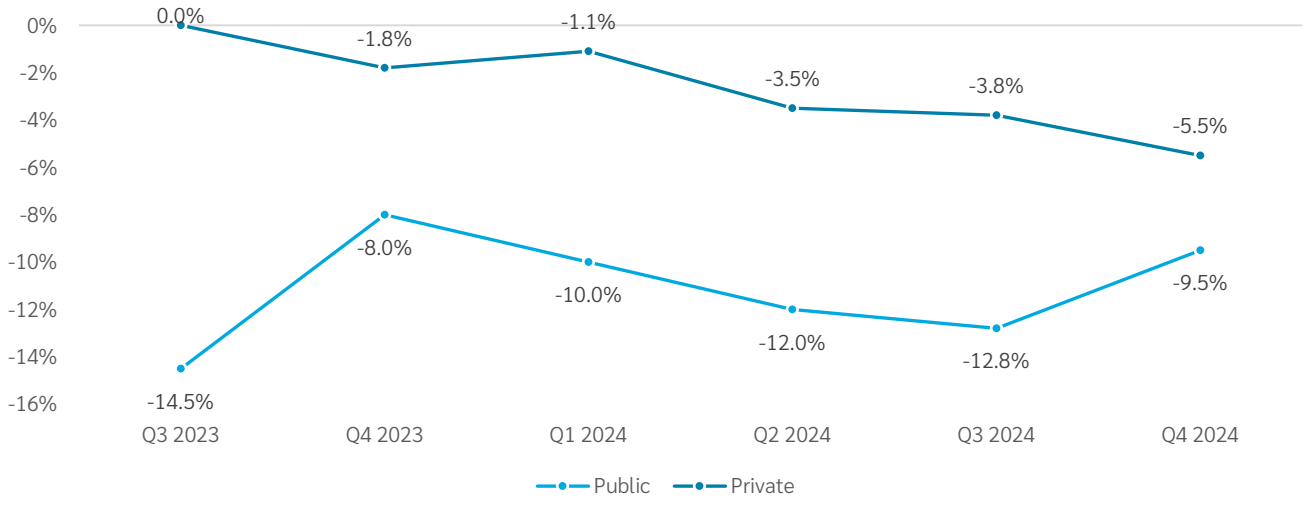
PRIVATE



[3] For total programs.

The D&O market is stable for most public and private insurance buyers. In the fourth quarter, D&O rates for public companies fell 9.5%, according to Lockton data (see Figure 11). D&O rates for private companies and nonprofit organizations fell 5.5%.

FIGURE 11: IN THE FOURTH QUARTER, D&O PRICING CONTINUED TO FALL.



Source: Lockton P&C Edge Benchmarking Report; median total program rate changes year over year shown



Public D&O

After an extended period of declining rates and strong competition, many carriers appear to now have "reduction fatigue." For mature public companies, rates are trending flat to down 10%. De-SPACs — companies formed via the merger of special purpose acquisition companies (SPACs) and private companies — may be able to secure rate reductions.

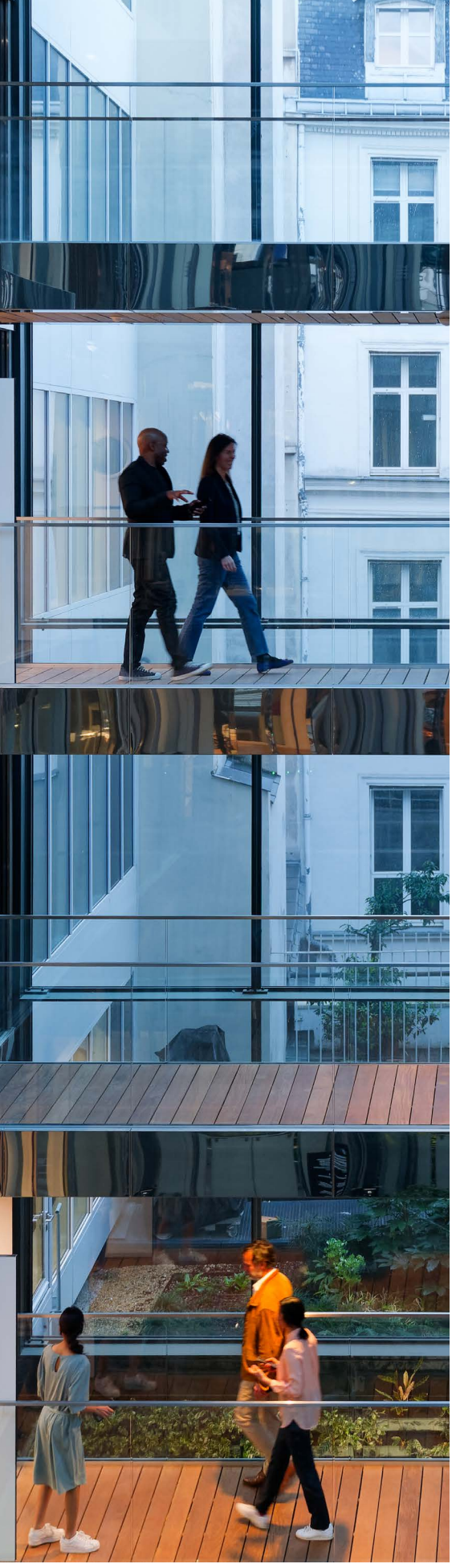
Despite the departure of some longstanding carriers, capacity is plentiful. Insurers are still eager to compete, although there is not as much premium pressure on incumbents in the current market. Favorable terms and conditions are generally attainable, but insurers are considering them on an individual risk basis. Insurers are taking varied approaches to entity investigation coverage, in terms of both breadth of coverage and pricing.

Insurers are cautiously optimistic about the SEC and other federal regulators taking a more business-friendly approach under the second Trump administration. On February 10, President Trump signed an executive order directing the Department of Justice to pause investigations and enforcement actions under the Foreign Corrupt Practices Act. While this may reduce regulatory scrutiny, it could also heighten reputational and compliance risks for companies operating globally.

Meanwhile, the administration's stance on diversity, equity, and inclusion (DEI) could influence board and leadership composition, potentially impacting corporate governance and investment risk. Business leaders also face an increasingly complex environment of competing federal and state regulations, as states where Democrats are in power try to blunt the impact of the Trump administration, particularly around hot-button issues such as DEI and environmental, social, and governance (ESG) investing.

Other cracks are starting to appear. In 2024, 694 public and private companies filed for bankruptcy, the most since 2010, according to S&P Global Market Intelligence. Also in 2024, plaintiffs filed 225 securities class-action lawsuits in federal and state courts, up from 215 in 2023, according to Cornerstone Research and the Stanford Law School Securities Class Action Clearinghouse. AI- and COVID-19-related filings increased, while suits under the Securities Act of 1933 and those related to SPACs, cybersecurity, and digital assets decreased.

Underwriters continue to be cautious of some emerging industries, such as cannabis. Insurers are also more closely scrutinizing companies in financial distress and all public companies' approaches to cybersecurity and AI.



Private/nonprofit D&O

Although some private and nonprofit D&O buyers can still secure rate reductions at renewal, most carriers have indicated that rates have bottomed out. Good risks are increasingly renewing flat or with slight reductions, typically of 5% or less.

The soft market cycle of the last 12 to 24 months has seen most private and nonprofit buyers achieve material reductions in rate and/or spending, depending on their exposures. Where they can, insurers are trying to hold the line on rate to start 2025. Most healthcare D&O buyers face difficult market conditions.

Capacity is stable. One well-known insurer recently exited the D&O market, but this is not expected to have a material effect on pricing or appetite. Carriers are more aggressive in competing for new business when they see genuine opportunities to win accounts. In these situations, insurers may offer broader coverage, better pricing, or more flexible terms.

However, when an incumbent carrier is strongly positioned to retain a client — due to a longstanding relationship, favorable claims history, or other competitive advantages — other insurers are less likely to compete aggressively. This dynamic creates a more complex renewal environment for insureds looking to negotiate better terms with their current carriers.

Private and nonprofit buyers are closely watching economic trends. Bankruptcy remains a key loss driver for private companies, though claims costs have been lower than expected in the past two years. Heavily levered companies are particularly concerned about the Fed's decision to pause rate cuts, which could constrain their ability to refinance maturing debt. However, progress in controlling inflation and favorable tax policy could improve profitability for many organizations.

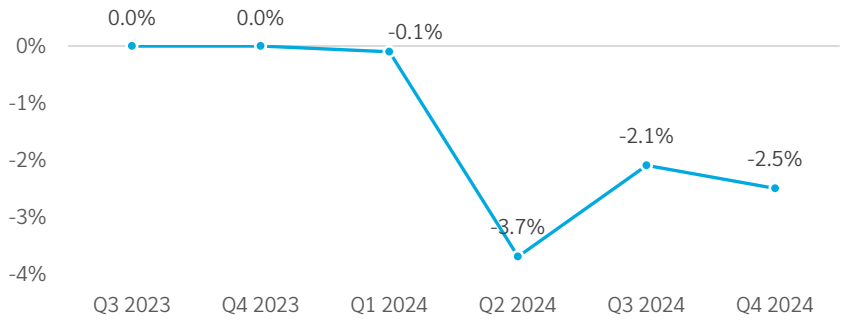
Businesses and insurers are watching the Trump administration's approach to DEI, which could to lead to more claims, especially for government contractors. These could include claims brought by employees and state and federal regulators alleging company policies and practices violate civil rights laws, *qui tam* litigation against federal contractors under the False Claim Act, and lawsuits brought by shareholders.

EPL market remains competitive as insurers eye DEI risks



As in the D&O market, stable market conditions persist for employment practices liability (EPL) buyers. In the fourth quarter of 2024, EPL rates fell 2.5%, according to Lockton data (see Figure 12).

FIGURE 12: EPL CONDITIONS REMAIN FAVORABLE TO BUYERS.



Source: Lockton P&C Edge Benchmarking Report; median total program rate changes year over year shown

EPL insurers have indicated that we have reached the bottom of the market. For most buyers, results at renewal are predictable; good risks are renewing flat or with slight reductions.

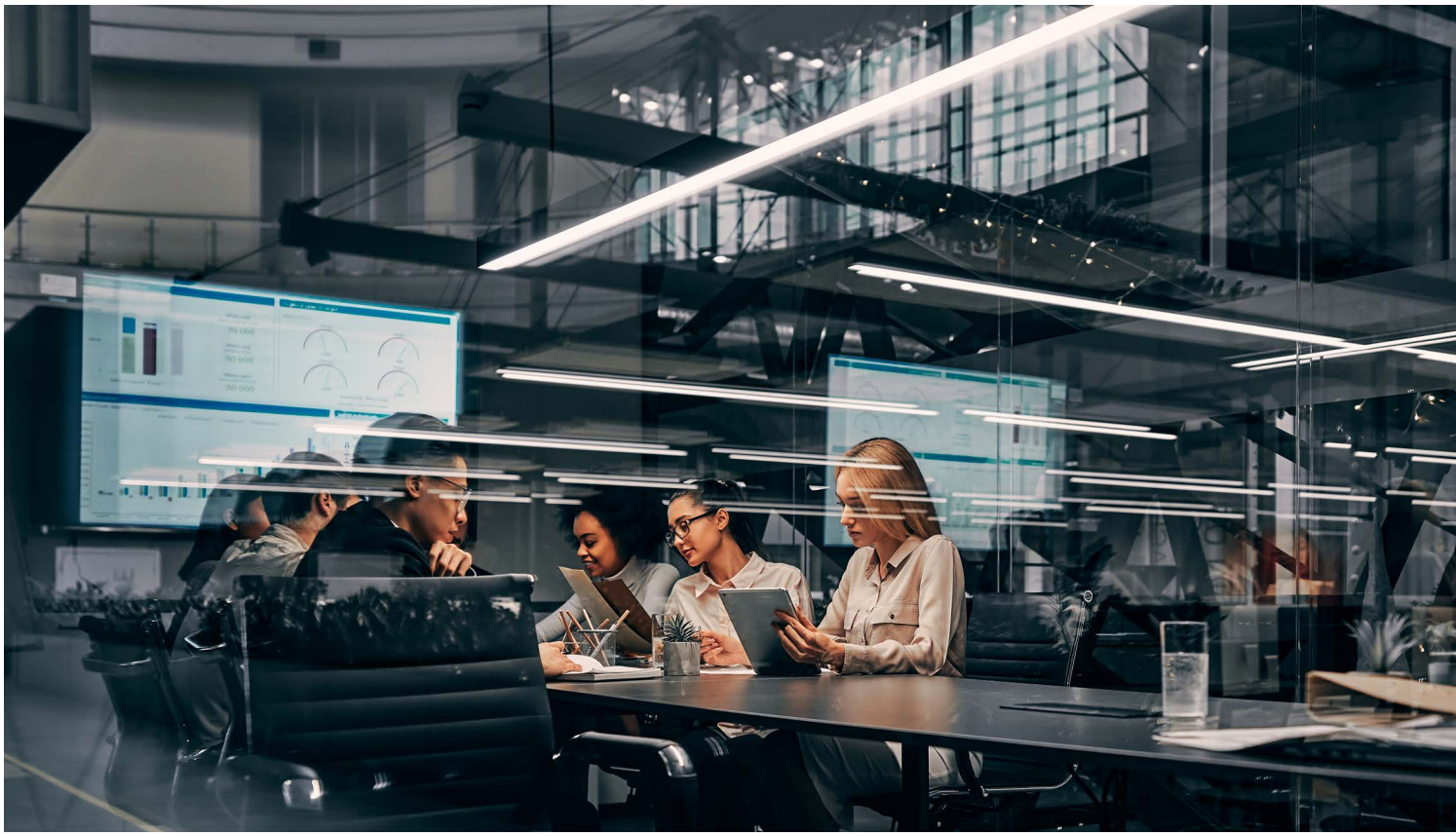
Overall capacity is strong and stable. Although no major insurers have exited the market, one carrier has begun to nonrenew stand-alone EPL policies, unless they can secure another management liability program, such as D&O or fiduciary liability, for a buyer.

Underwriters also continue to scrutinize employers undergoing workforce reductions and those with high wage earners. California-domiciled risks remain difficult to place; insurers are scrutinizing employers with large California workforces and/or recent claims arising in the state. EPL carriers are often applying retentions starting at $150,000 or more for California employers and offering only limited coverage, if any, for wage and hour defense costs.

Many carriers are nevertheless offering other coverage enhancements to win business. These include affirmative biometric information limits and coverage for defense costs for claims brought under the Worker Adjustment and Retraining Notification Act of 1988.

At the state level, plaintiffs' attorneys are aggressively pursuing action under a recently enacted pay transparency law in Washington. The attorneys general of Texas and several other states, meanwhile, are scrutinizing employers' DEI practices and policies, which also appears to be a priority for the Trump administration.

In addition to specific implications for government contractors, President Trump's recent executive orders regarding DEI offer a preview of potential future action on this issue. The Trump administration's guidance to date suggests that employers may face more regulatory investigations and enforcement activity and continued litigation. Discrimination, harassment, and hostile work environment claims filed by historically protected classes will likely continue; "reverse discrimination" claims may also increase.

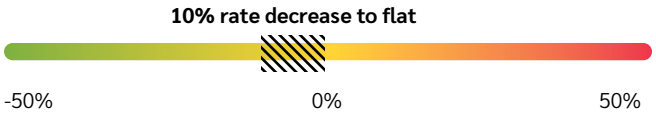




Signs of firming emerging in cyber market

EXPECTED RANGE FOR RATE CHANGES NEXT QUARTER[1, 4]

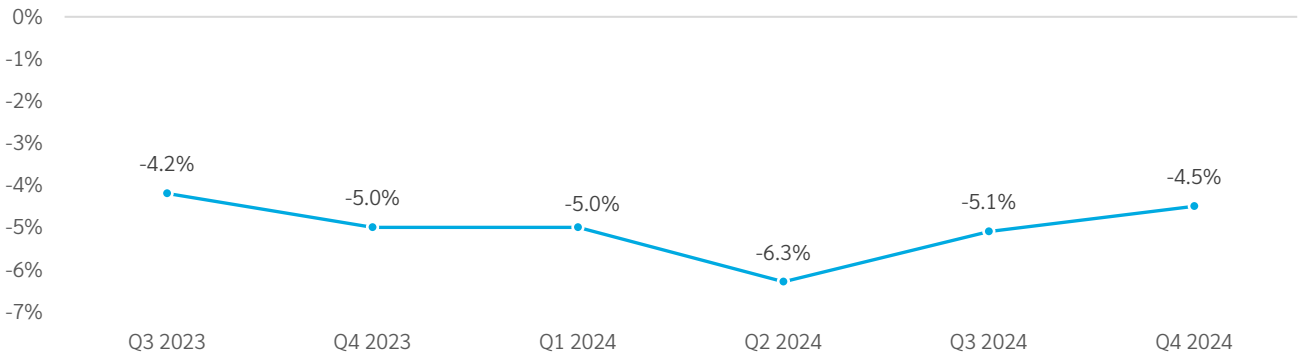
CYBER



[4] For total programs.

The cyber insurance market remains generally favorable to buyers, although signs of some firming are emerging. In the fourth quarter, median pricing for total cyber insurance programs fell 4.5% (see Figure 13).

FIGURE 13: THE MARKET FOR CYBER INSURANCE REMAINS HIGHLY COMPETITIVE.



Source: Lockton P&C Edge Benchmarking Report; median total program rate changes year over year shown

While rates continued to decline in the fourth quarter, cyber insurers are pushing for flat renewals amid rising claims frequency and severity. Ransomware attacks are growing more sophisticated, technology disruptions are on the rise, and evolving privacy regulations are expanding litigation risks.

While reinsurers are examining their appetite and closely monitoring their deployed capacity, cyber is perhaps the only long-tail line for which reinsurance market conditions are favorable. This is largely due to primary cyber insurers' work to rebalance their own portfolios. This includes avoiding overexposure to healthcare risks and large companies, and exercising caution around offering certain terms and conditions — notably, policy language related to the wrongful collection of data. Some primary cyber insurers continue to offer favorable terms, but only for additional premium.

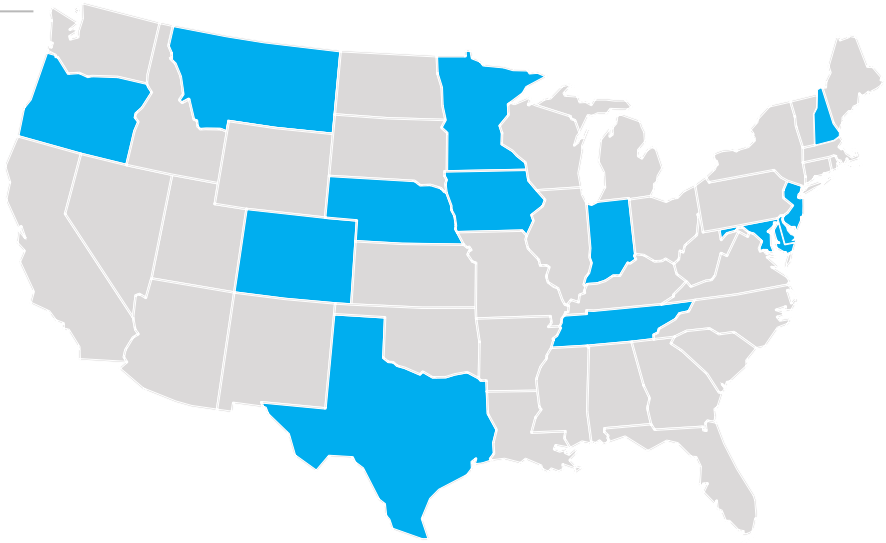
Privacy risks are a notable concern for cyber insurers, as the plaintiffs' bar aggressively pursues class-action litigation around website tracking technology. As litigation becomes more difficult and costly to resolve, insurers are beginning to take a harder line with companies that have significant privacy exposure.

The evolution of ransomware threats compounds this danger. With attackers focusing more on data exfiltration than encryption, businesses can now face costly privacy litigation even if they pay a ransom. And plaintiffs no longer see ransom payments as a demonstration of defendants' good faith efforts to mitigate privacy risks.

Although the Trump administration is generally focused on reducing the government's regulatory footprint — and has pursued budget and staff cuts at the Cybersecurity & Infrastructure Security Administration, among other agencies — its broader stance on cybersecurity remains unclear. In January, the Biden administration's Department of Health and Human Services (HHS) proposed a new rule that would require HIPAA-regulated entities to conduct annual risk analyses and implement risk management plans. It remains uncertain whether HHS under President Trump will advance or modify the proposed rule.

States, meanwhile, continue to enact their own, often strict, privacy laws. According to the International Association of Privacy Professionals, new privacy laws or portions of laws took effect in January in 10 states (see Figure 14). Additional laws or portions of laws will take effect in eight states in the second half of 2025.

FIGURE 14: NEW PRIVACY LAWS TAKE EFFECT IN WHOLE OR IN PART IN 14 STATES IN 2025.



Source: International Association of Privacy Professionals



UNCOMMONLY INDEPENDENT

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