STATE OF THE LINE REPORT

SUMMER 2023 CASUALTY

General liability industry trends and considerations

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Introduction

Sedgwick is known for taking a people first, tech forward, data driven approach to claims and productivity management. The extensive and diverse data we hold as the leading solutions provider in this space allows for sophisticated industry benchmarking and data analysis that can pinpoint trends, identify cost drivers, and track performance metrics. How we use our robust bank of data to benefit our clients and partners is one of our many differentiators.

This report is one such value-added offering. It provides an overview of the current metrics used for our general liability claim programs and contextualizes the trends we see in our book of business within the broader story of the industry environment. While the report can offer useful information for your organization, it is not meant to be used as a side-by-side comparison with the data from your particular claims program. It also includes insights from Sedgwick's expert practice leads to offer perspectives on the previous period and an outlook on trends to watch for in the months ahead.

Thank you for your continued business partnership. We look forward to continuing to bring you additional data driven insights.

Sincerely,

K. Max Koonce
Chief claims officer, Sedgwick

CASUALTY

General liability

Chris Frechette

VP, liability practice

The objective of this report is to provide an overview of our current metrics for our liability program and the current environment surrounding general liability (GL) claims and litigation.

Data parameters

For comparisons, the data is based on both insured and self-insured claims for all states across five years (July 1 through June 30) from 2019 through 2023.

Summary/key observations

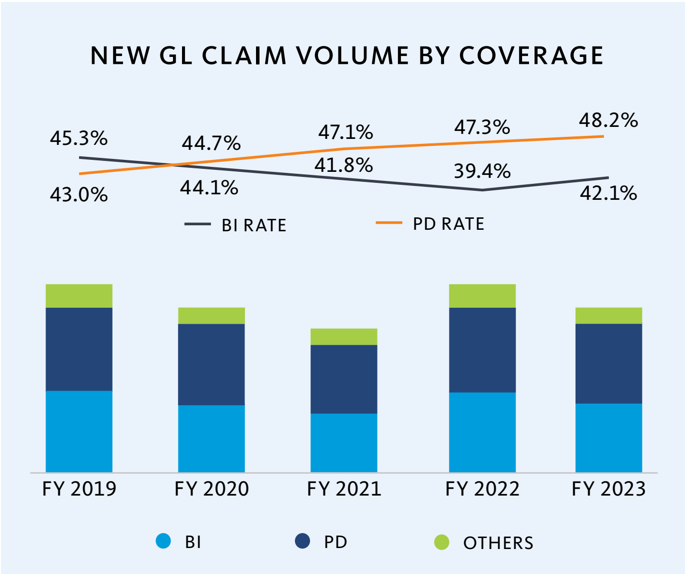
- 2023 GL new claim volume decreased slightly (-2.2%) from 2022.
- Average claims duration overall remained nearly flat, but the average duration of closed claims was up for both BI (+9.5%, four days) and PD (+6.5%, three days), resulting in a reduction in aged pending (two years or more).
- The denial rate on new claims increased slightly.
- The closure rate for all new GL claims was relatively flat.
- In 2023, total claims closed increased.
  - 5.1% of the claims closed were litigated claims.
  - The overall closure rate was up 0.4% and the closure rate for litigated claims was up 5% year over year (YOY).
- Currently, 54% of all GL claims that will at some point become litigated have representation in place within 24 hours of notice and nearly two-thirds will have representation in place within the first two weeks.
- Average paid increased in 2023 over 2022, driven by an increase in the average loss paid.
- The average paid on all closed litigated claims increased YOY; however, the average paid on closed litigated claims increased at a lower rate.
- Aged pending decreased by 1.1%.

Market

- GL claim cost increased significantly in 2023, for both total and average incurred and paid.
- After reaching a high of 9.1%, the economic inflation rate for 2022 finished at an average of 8%. While the average for 2023 is projected to drop to 3.5%, the average through June was 4.9%.
- Economic inflation together with social inflation, continued supply chain disruptions and labor shortages are impacting claims costs at rates exceeding price increases. Vehicle repair costs increased by several times the rate of consumer price increases alone. Claim costs are being further impacted by shifts in treatment protocols.
- For 2022, the net combined ratio for the property and casualty insurance industry was estimated by S&P Global to be 102.4% and was forecasted to improve to 100% in 2023.
- The P&C industry recorded a $26.9 billion net underwriting loss for 2022, more than six times the loss recorded in 2021, according to the American Property Casualty Insurance Association (APCIA).
- Swiss Re forecasts premium growth of 7.5% overall, slowing rate gains in general liability but increasing in property and personal lines.
- Continued rate increases can be expected according to S&P Global, Swiss Re and Business Insurance News.
  - General liability rate increases are projected to be between flat and 5%.
  - Auto liability is predicted to increase by 5% to 10%.
  - Property increases are predicted between 10% and 20%, weighted by exposure to potential CAT claims. Exposures in some areas could see 25% to 40% increases.
  - Cyber increases have slowed with anticipated increases between flat and 10%.
  - Terrorism and political violence coverages are speculated to increase between 15% and 40%.
  - D&O is projected to decrease by 10% to 15%.
  - Surety is predicted to remain flat.

Volume

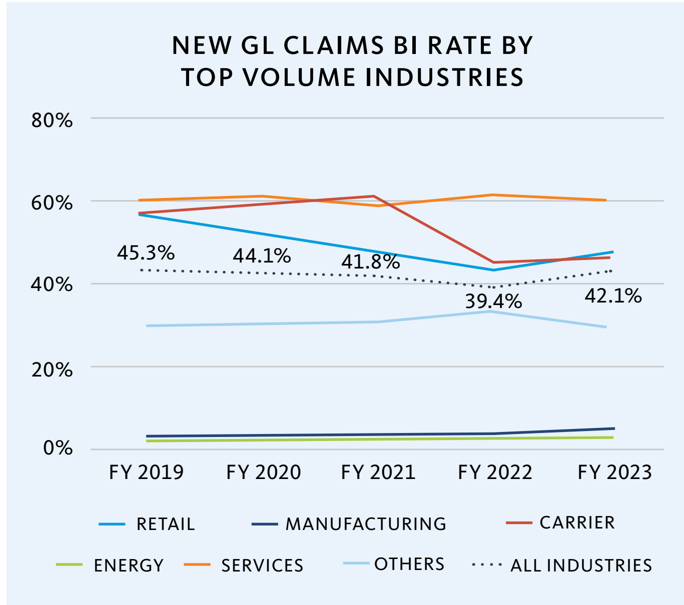
GL claim volume is down 2.2% overall in 2023 but up 4.6% in GL BI. PD claim volume increased 1%.

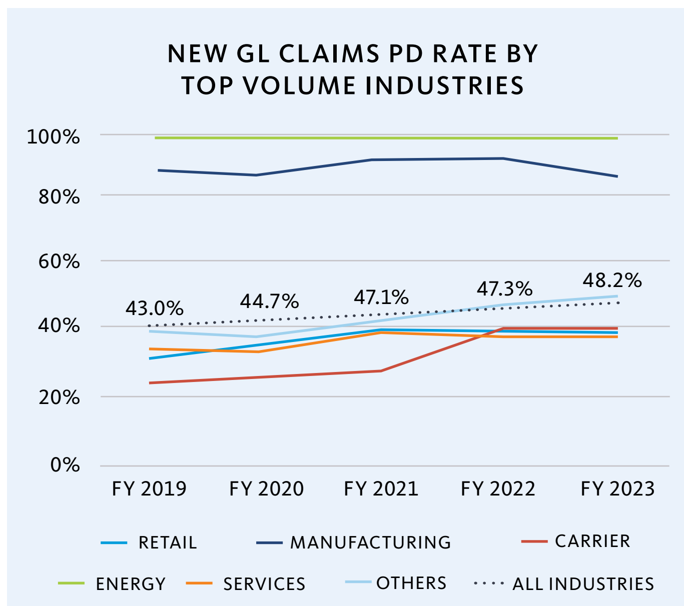


New GL claims

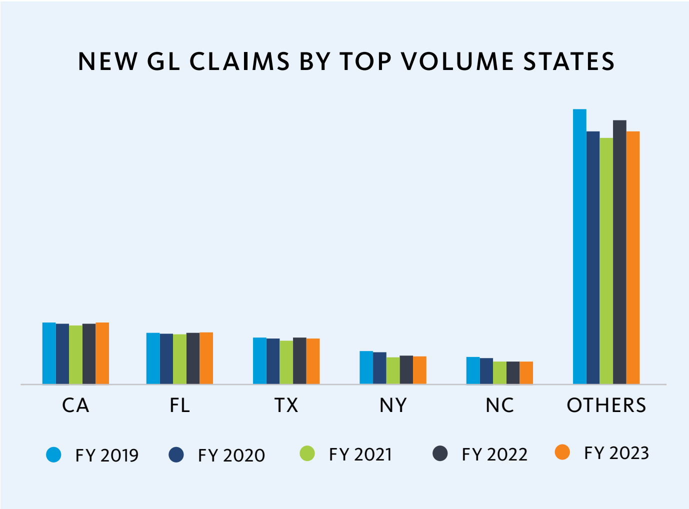
	2019	2020	2021	2022	2023	AAPC
% chg.		-7.6%	-4.5%	8.0%	-2.2%	-1.6%

The overall BI claims rate increased to 42.1%, with the five top volume industries split and all reversing directions from trajectories 12 months ago.

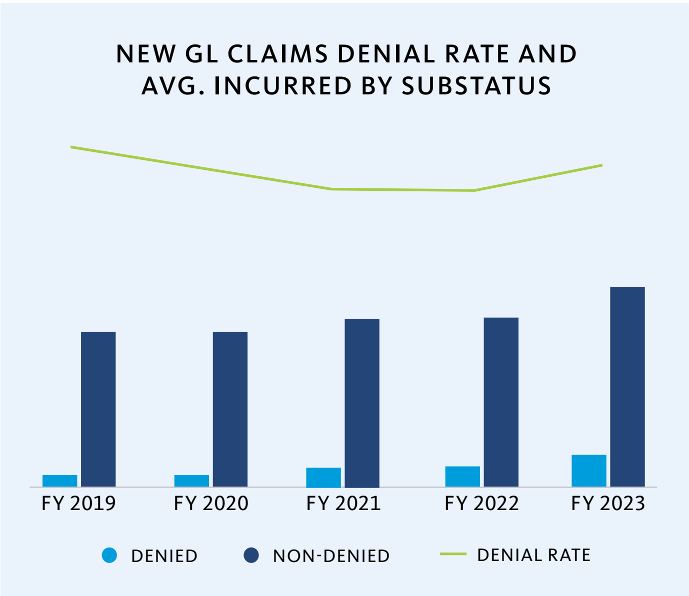




The five states generating the highest number(s) of new Sedgwick-handled general liability claims are: California, Florida, Texas, New York and North Carolina. Combined, they account for 41% of the general liability new claim volume. From FY 2022 to FY 2023, California, Florida and North Carolina claim counts increased and claim counts for Texas and New York decreased.

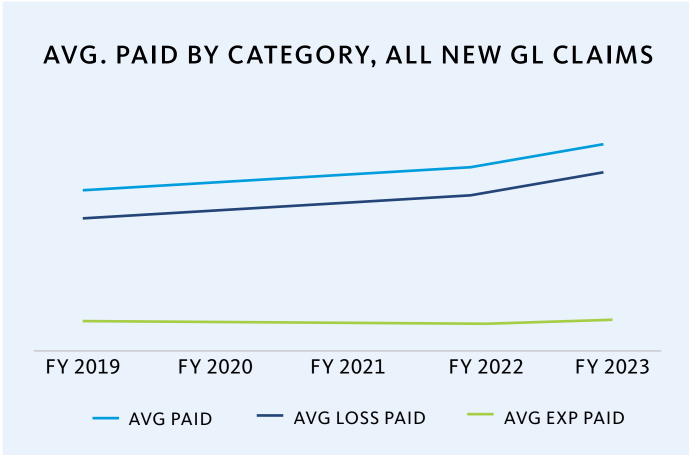


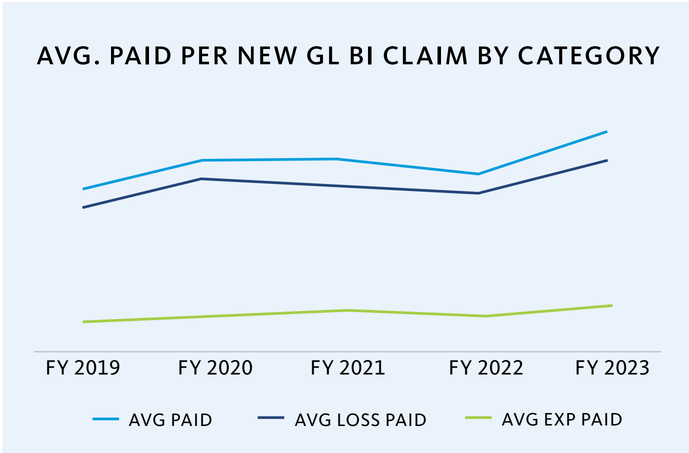
After decreasing steadily from 2019 through 2021, denial rates began to increase in 2022 and increased further in 2023. The average incurred increased for both denied and accepted (non-denied) claims in 2023 in comparison to 2022



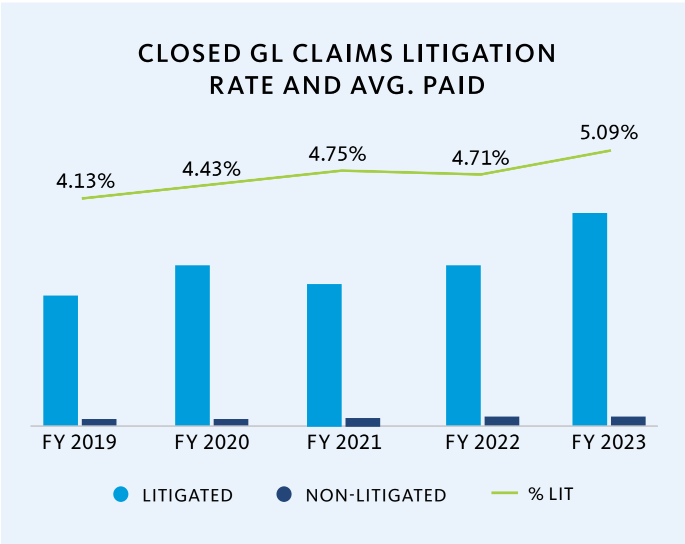
Costs

Average paid for new claims has continued to increase overall across all new GL claims over the past five years. Florida and Texas are the top Sedgwick states for higher dollar claims.

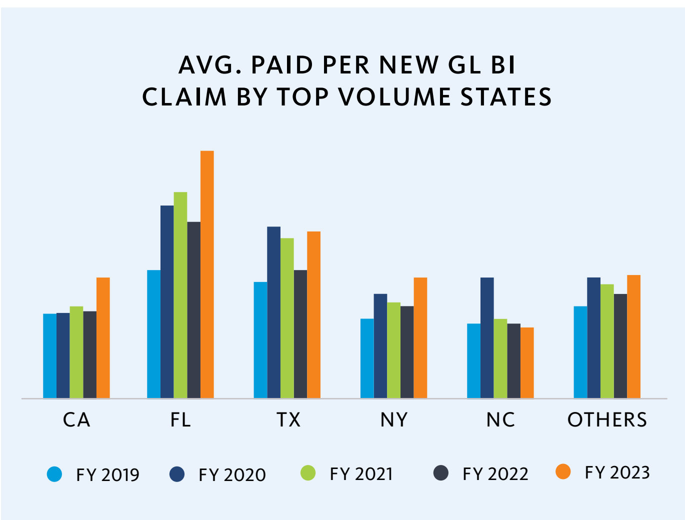




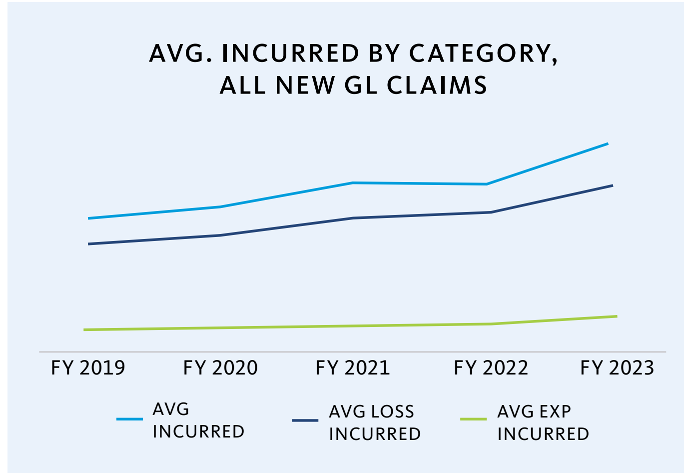
The average total paid on closed GL claims increased for litigated claims and decreased for non-litigated claims. The average paid on a closed litigated claim is significantly higher than the cost of a non-litigated claim.

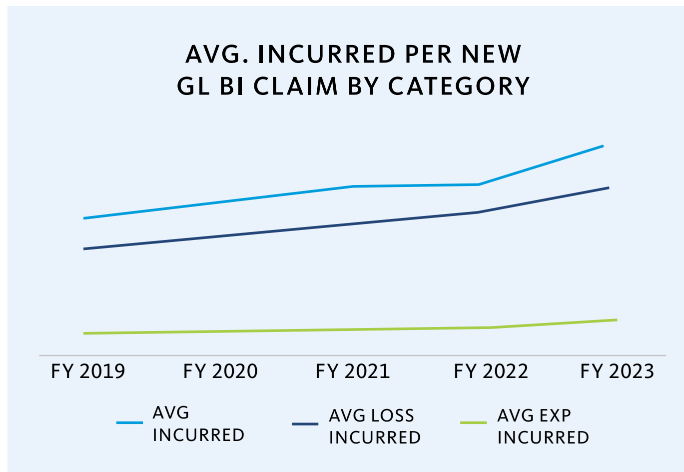


Florida leads higher volume claim states in average paid, followed by Texas and California.



The average incurred loss for all new GL claims continues to increase YOY. Growth in the average loss incurred continues at a greater rate than average expenses and continues to outpace inflation.



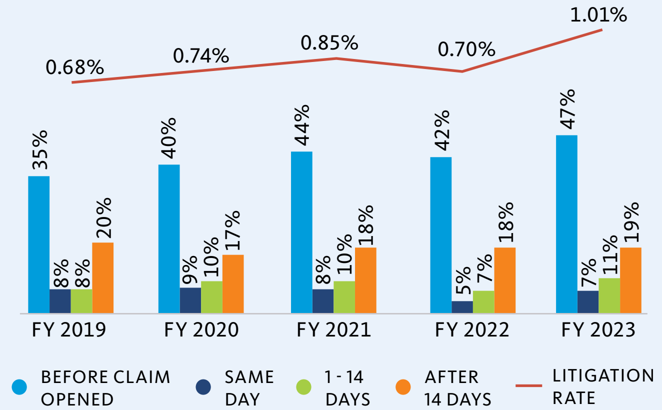


The number of claims with an incurred value of $10K or more continues to slowly increase. In 2017, claims with an incurred of $10K or more accounted for 64% of the total incurred. Currently, claims with an incurred of $10K or more account for 82.1% of the total incurred.

Litigation

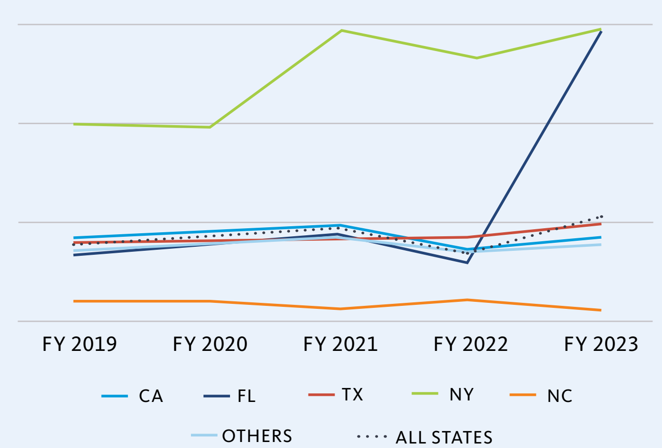
The litigation rate for new GL claims increased to 1% (an all-time high). More than half (54%) of all claims that will at some point involve litigation have attorney representation already in place within the first 24 hours of investigation. Attorney representation being in place prior to notice was up 5.5% from 2022 to 2023, and up 11.8% from 2019 to 2023.

% OF LITIGATED NEW GL CLAIMS FROM DATE OPENED TO DATE ATTORNEY REPRESENTED



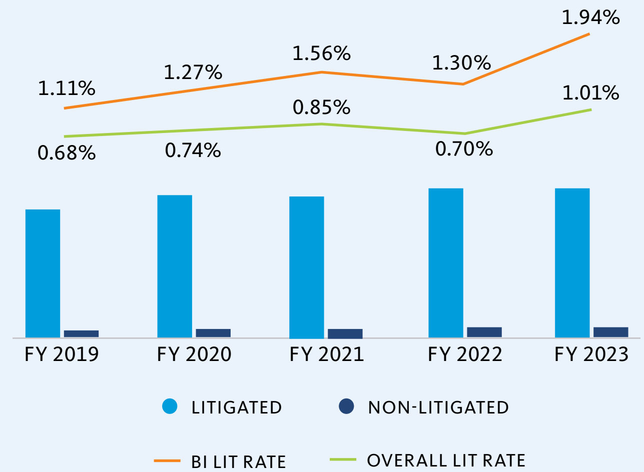
The state of New York remains a litigation cost driver with a litigation rate that has for years been more than double that of the next highest states; however, Florida has surged due to the thousands of lawsuits filed by Florida plaintiff attorneys prior to the passage of Florida's comprehensive tort reform act in March. The Florida litigation rate increased 573% YOY (2023 to 2022) and drove the overall litigation rate increase.

NEW GL CLAIMS LITIGATION RATE BY TOP VOLUME STATES



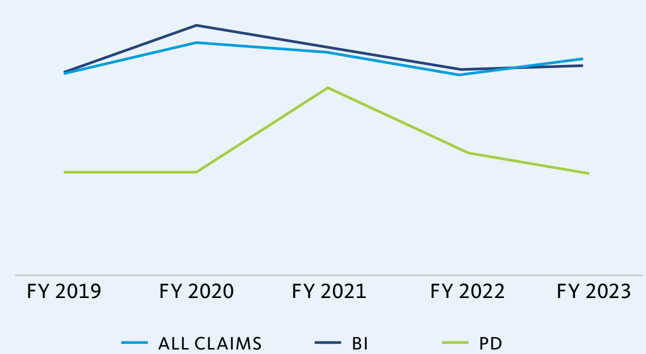
The overall cost of claims continues to increase; however, recently the increase in the cost of litigated claims has increased more than the cost of non-litigated claims.

LITIGATION RATE AND AVG. INCURRED PER NEW GL BI CLAIM



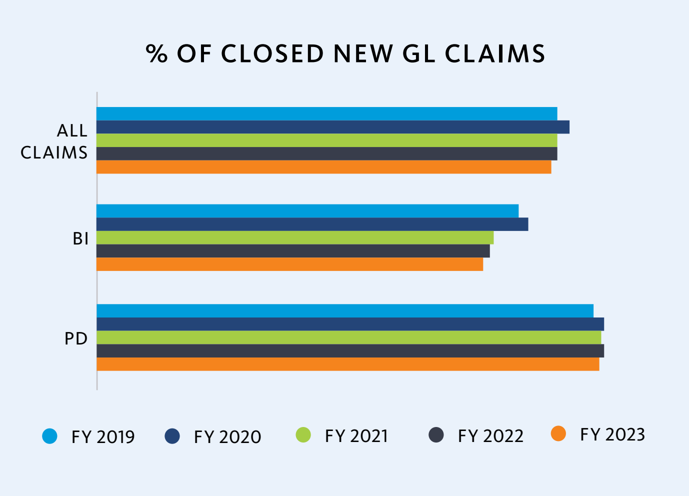
Average defense attorney cost increased 3.1% in 2023.

NEW GL CLAIMS AVERAGE DEFENDING ATTORNEY COST

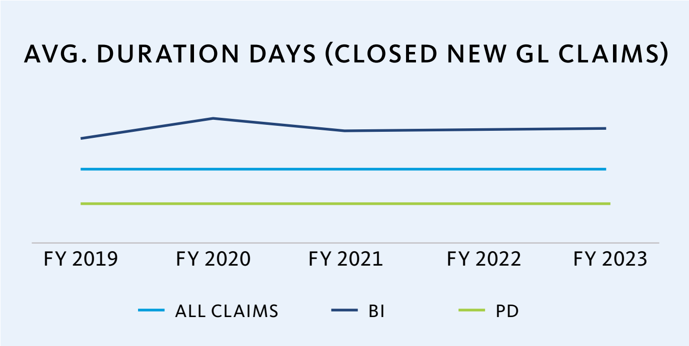


Closure rates

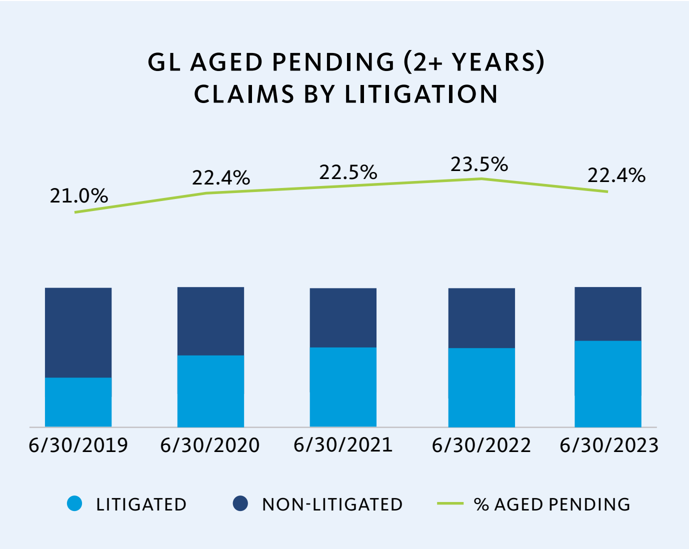
Liability closure rates for new claims for 2023 were down slightly.



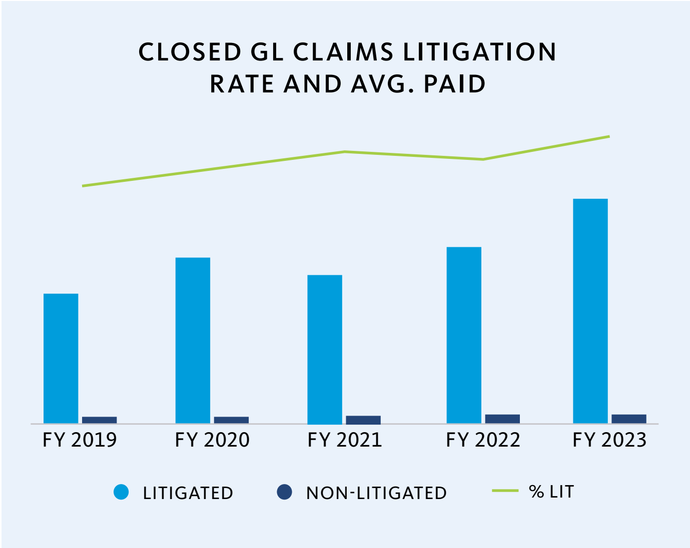
The average duration of all GL claims remained flat, but the duration of closed GL claims was up slightly.



The percentage of pending aged two years or more decreased by just over 1%. Within aged pending, the non-litigated aged pending decreased by 9.7% and the litigated aged pending increased by 4.0%.



Litigated claims currently represent 5.09% of the total closed claim volume yet they account for the majority of the total dollars paid on closed claims.



Considerations for 2023

SEDGWICK TRENDS

Both incurred and paid amounts continue to increase. The average incurred increased by 25.6% in 2023 and is 49.3% higher than in 2019. The average paid increased by 19.5% — up 38.8% since 2019. Increased claim costs continue to be exacerbated by external factors including:

- Falling, but still elevated, inflation.
- Increases in medical care and hospital costs outpacing the rate of inflation
  - Consumer Price Index data shows that since 2000, and through June of 2023, the price of medical care, including services, insurance, drugs and medical equipment, has increased by 114.3%. In contrast, prices for all consumer goods and services rose by 80.8% during the same period.
- Shifts in medical treatment toward costly diagnostics and surgeries.
- Continued supply chain disruptions.

The litigation rate for GL claims has now passed 1%, an all-time high for frequency, driven primarily by the Florida filings triggered by their recent tort reform. The cost of litigated claims has continued to increase, most recently increasing 5% to another all-time high average severity of nearly $140,000 per claim. The percentage of claims that are litigated earlier, including the number of claims with representation in place before first notice, continues to increase. The cost of non-litigated claims is also increasing, but the cost of closing litigated claims is increasing at twice the rate. The average cost of litigated claims has increased to more than 32 times the relative cost of non-litigated claims.

Claims are being litigated sooner — more often with an increasing cost. The cost of larger and litigated claims is growing at an accelerated rate. The average annualized increase to incurred costs for claims valued at $100K or less has averaged less than 2% per year, but the annualized increases to incurred costs for claims valued over $100K have risen by 7.55% for each of the past five years.

INDUSTRY CONCERNS

Inflation is expected to return to near typical rates by year-end but is still at 4.9% as of June 2023 and impacting claim costs to a degree greater than normal economic inflation rates.

Supply chain issues — including increased construction and repair costs, fuel prices, availability of parts for manufactured goods and repairs, and medical supplies — continue to compound the effects of inflation on claim costs. Labor shortages also continue to disrupt. Associated Builders and Contractors report that the construction industry, for example, needs over 600,000 more workers to meet current demands. The interim use of substitute — and sometimes sub-standard — products and parts and the inexperience of new workers pose additional risks and exposures as industries work through these headwinds.

Cyber liability remain a concern. Increases in business email attacks, malware and ransomware are expected throughout 2023 as cyber attackers become ever more sophisticated. Pricing is showing signs of normalizing as projected in the last report. Widespread event risk and aggregation risk (multiple customers affected by a single incident), as well as E&O capacity, remain chief concerns.

The annual average of **natural catastrophes with damages exceeding $1 billion** over the past five years is up over 50% compared to the previous decade. These increases in both frequency and severity are driving higher rates in property primary and reinsurance coverages, but there is evidence that rates may still be lagging the exposure. In addition to the substantial direct costs, the impact of natural catastrophes is significantly impacting costs in other lines due to labor and resource availability and supply chain disruptions.

The **growing cost of litigated cases** continues to outpace that of non-litigated cases despite adjustments to account for inflation.

- **Litigation funding:** Tens of billions of dollars continue to be invested into litigation funding globally with the U.S. accounting for more than half. Concerns with litigation funding include increasing the duration of litigated matters, plaintiffs being less inclined to seek resolution in hopes of securing an extreme verdict, and the outsized influence of those not necessary to the litigation process. States are beginning to expand regulation of third-party litigation funding by mandating licensure and disclosure requirements, further regulating interest rates, and equating the financing with loans, thus bringing it under lending and consumer credit law scrutiny. Only four courts require disclosure of third-party litigation finance: New Jersey and Delaware U.S. District courts and Wisconsin and West Virginia state courts. In May, Montana passed a law requiring disclosure of any litigation financing agreement and limited fees to 25% of any judgment. Louisiana had a similar law pass the Senate only to be vetoed by the governor. Congress updated the drafted Litigation Funding Transparency Act of 2018 in 2021 but the act remains unpassed.
- **Social inflation:** Juries continue to dictate that when someone is injured, "someone" else must pay — and that "someone" is inevitably the party perceived to have deep pockets. A corporate tortfeasor who has (or who can be painted to have) acted with disregard can be a target for inflated awards. Corporate mistrust leads the list of suspected causes. A recent Pew Research survey found that 71% of those surveyed feel corporations negatively affect the country.

- **Nuclear verdicts:** Jury trial results in 2023 extended the trend of growing plaintiff verdicts including:
  - $35 million to the family of a Georgia college student who drove off a roadway and hit a large planter. The jury found that the planter was a danger to the public.
  - $860 million to the family of a Texas woman killed when a crane blew over in inclement weather striking her building.
  - $44 million to a homeowner in Texas who was shocked when he attempted to address a power line that was touching trees on his property.
  - $46 million to a man in California who was paralyzed by an injury sustained at his Jiu-Jitsu class.
  - $85 million to a woman in Alabama who lost her eye after a crash in a vehicle in which the airbag was found to have deployed defectively.
  - $107 million to the family of a California janitor who had mesothelioma and died. The jury found that he had been exposed to asbestos.
  - Georgia rose to the top of the judicial "hell holes" list recently after a string of nuclear verdicts including a $1.7 billion award against Ford Motor Company.

  A Marathon Strategies study on nuclear verdicts found:

  - Nuclear verdict amounts increased by 178% compared to the five years prior to the COVID-19 pandemic.
  - Court closures interrupted the trend in 2020.
  - The sum of nuclear verdicts nearly quadrupled in the two years following 2020, increasing from $4.9 billion to over $18.3 billion in 2022.
  - In 2022, the number of nuclear verdicts doubled with the median amount increasing from $21.5 million to $41.1 million.
  - There were 20 awards over $100 million and four over $1 billion in 2022.

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