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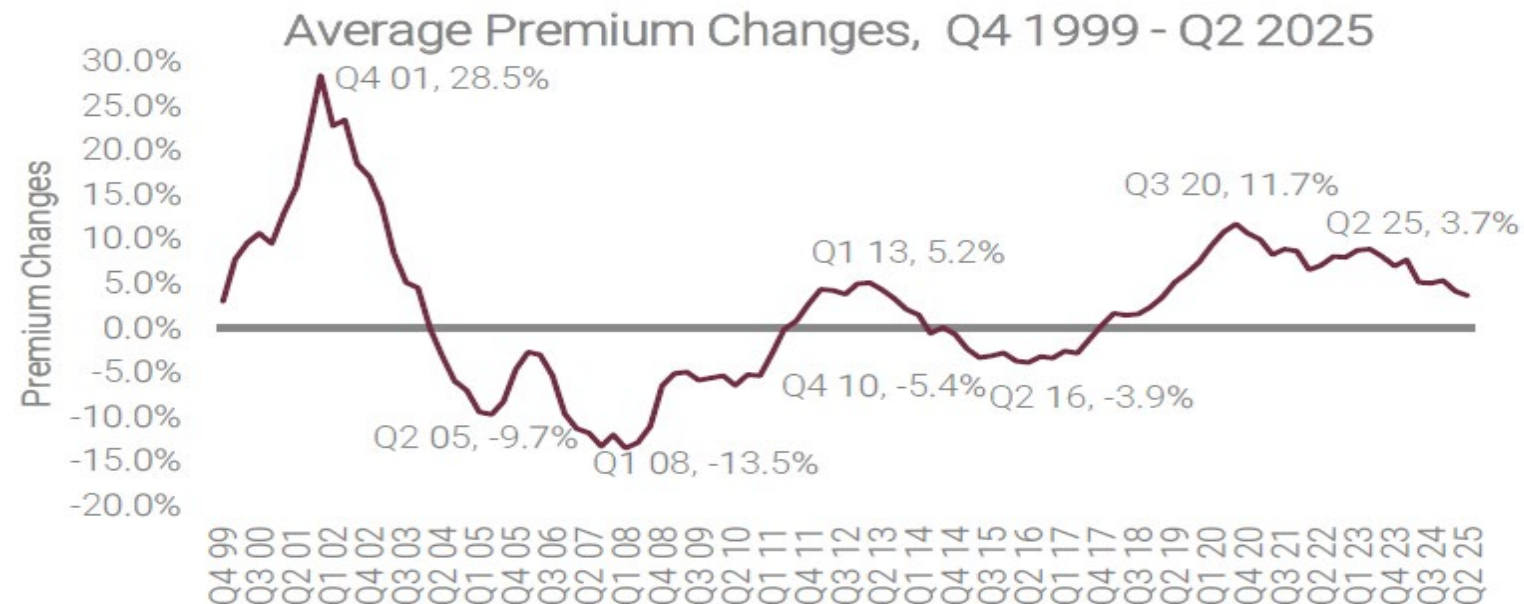
Commercial Insurance
Market Update **and**
Understanding Total
Cost of Risk

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Commercial Insurance Update

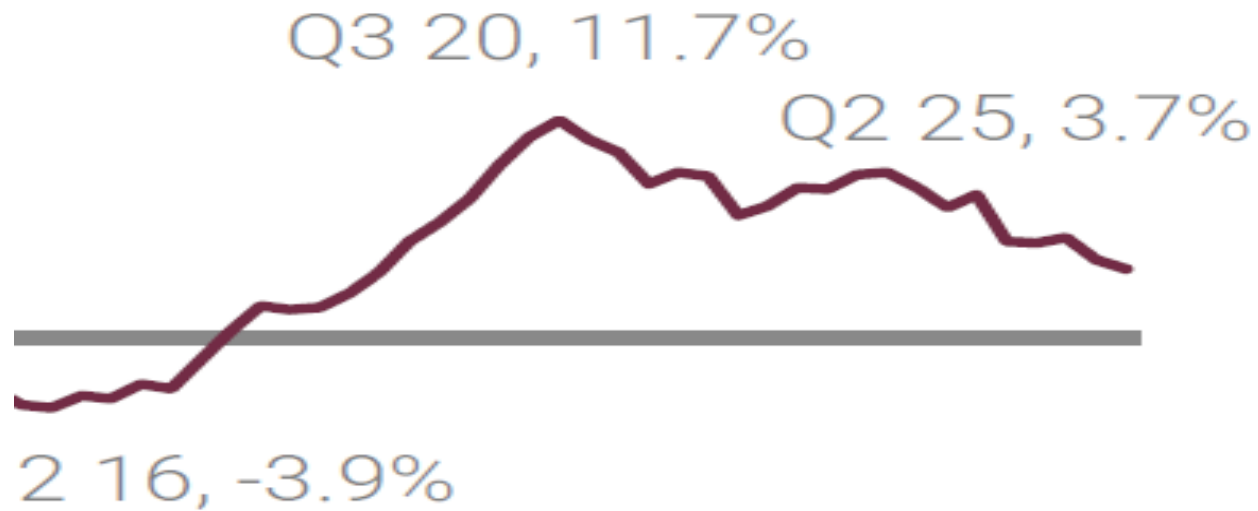
- Premiums across all account sizes rose by an average of 3.7% in Q2 2025, down from the 4.2% recorded in the previous quarter. This was the 31st consecutive quarter of premium increases.



Source: The Council of Insurance Agents & Brokers



Commercial Insurance Update



The market is not “soft”... however, the data suggests the market has been “softening.”

Q2 16
Q1 17
Q4 17
Q3 18
Q2 19
Q1 20
Q4 20
Q3 21
Q2 22
Q1 23
Q4 23
Q3 24
Q2 25

Commercial Insurance Update

KEY NUMBERS AT A GLANCE

- 3.7%: average premium increase across all account sizes
- 31: number of consecutive quarters of increased premiums across all account sizes
- 4.2%: average increase in premiums for small accounts, highest among all account sizes
- 4.0%: average increase in premiums for medium accounts
- 2.9%: average increase in premiums for large accounts, a 45% decrease from Q1 2025



Commercial Insurance Update

BY-LINE SECOND QUARTER 2025 PREMIUM CHANGES RANGED FROM -1.8% TO +11.5%

	COMM'L AUTO	WORKERS COMP	COMM'L PROPERTY	GEN'L LIABILITY	UMBRELLA	AVERAGE
Second Quarter 2025	8.8%	-1.8%	1.9%	3.9%	11.5%	4.9%
First Quarter 2025	10.4%	-2.6%	2.9%	4.2%	9.5%	4.9%
Fourth Quarter 2024	8.9%	-1.8%	6.0%	5.3%	8.7%	5.4%
Third Quarter 2024	8.5%	-1.4%	7.9%	4.8%	8.6%	5.7%
Second Quarter 2024	9.0%	-2.2%	8.9%	5.1%	7.2%	5.6%
High	28.6%	24.9%	45.4%	26.0%	51.9%	35.3%
Low	-11.6%	-12.3%	-15.0%	-13.6%	-13.5%	-13.2%

Source:
The Council of Insurance Agents & Brokers



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PREMIUM CHANGES IN OTHER LINES

	2025	High	Low
Broker E&O	0.6%	15.4%	-4.5%
Business Interruption	1.5%	28.8%	-10.2%
Construction	1.9%	38.7%	-10.7%
Cyber	-1.5%	34.3%	-2.1%
D&O Liability	-2.5%	32.4%	-8.7%
Employment Practices	-1.8%	21.9%	-8.1%
Flood	1.0%	8.6%	-2.7%
Marine	0.4%	4.5%	-10.6%
Medical Malpractice	1.1%	32.5%	-4.1%
Surety Bonds	0.1%	11.2%	-2.3%
Terrorism	-0.1%	10.4%	-3.6%

Source:
The Council of Insurance Agents & Brokers



Commercial Insurance Update

Northeast

	1 Down more than 30%	2 Down 20% - 30%	3 Down 10% - 19%	4 Down 1% - 9%	5 No Change	6 Up 1% - 9%	7 Up 10% - 19%	8 Up 20% - 29%	9 Up 30% - 50%	10 Up more than 50%	N/A Not Sure
Broker E&O	0.0%	0.0%	0.0%	6.0%	39.0%	17.0%	0.0%	0.0%	0.0%	0.0%	38.0%
Business interruption	0.0%	0.0%	0.0%	8.0%	44.0%	31.0%	3.0%	0.0%	0.0%	0.0%	14.0%
Commercial auto	0.0%	0.0%	0.0%	0.0%	3.0%	53.0%	36.0%	3.0%	0.0%	0.0%	5.0%
Commercial property	0.0%	0.0%	0.0%	36.0%	6.0%	44.0%	6.0%	3.0%	0.0%	0.0%	5.0%
Construction risks	0.0%	0.0%	0.0%	0.0%	44.0%	39.0%	0.0%	0.0%	0.0%	0.0%	17.0%
Cyber	0.0%	0.0%	3.0%	47.0%	31.0%	11.0%	0.0%	3.0%	0.0%	0.0%	5.0%
D&O	0.0%	0.0%	8.0%	42.0%	36.0%	8.0%	3.0%	0.0%	0.0%	0.0%	3.0%
Employment practices	0.0%	0.0%	3.0%	33.0%	53.0%	6.0%	0.0%	0.0%	0.0%	0.0%	5.0%
Flood	0.0%	0.0%	0.0%	0.0%	67.0%	19.0%	0.0%	0.0%	0.0%	0.0%	14.0%
General liability	0.0%	0.0%	0.0%	0.0%	28.0%	61.0%	6.0%	0.0%	0.0%	0.0%	5.0%
Marine	0.0%	0.0%	0.0%	3.0%	69.0%	11.0%	0.0%	0.0%	0.0%	0.0%	17.0%
Medical malpractice	0.0%	0.0%	0.0%	0.0%	53.0%	14.0%	3.0%	0.0%	0.0%	0.0%	30.0%
Surety bonds	0.0%	0.0%	0.0%	0.0%	67.0%	3.0%	0.0%	0.0%	0.0%	0.0%	30.0%
Terrorism	0.0%	0.0%	0.0%	6.0%	67.0%	3.0%	0.0%	0.0%	0.0%	0.0%	24.0%
Umbrella	0.0%	0.0%	0.0%	0.0%	6.0%	50.0%	28.0%	11.0%	0.0%	3.0%	2.0%
Workers' compensation	0.0%	0.0%	3.0%	36.0%	47.0%	8.0%	0.0%	0.0%	0.0%	0.0%	6.0%



Total Cost of Risk

- Definition: The total cost incurred by an organization to manage its risks.
- Goes beyond insurance premiums.
- Provides a framework for strategic decision-making on risk retention and transfer.
- Goal: Lower TCOR while maintaining appropriate risk protection.



Total Cost of Risk

Components of TCOR

- Insurance Premiums – The cost of purchasing insurance coverage.
- Retained Losses – Out-of-pocket costs from uninsured losses and deductibles.
- Risk Control Costs – Expenses for safety programs, cybersecurity, and compliance.
- Administrative Costs – Salaries, legal fees, and consulting.
- Residual Costs – Indirect costs like downtime, reputation damage, and customer loss.



Total Cost of Risk

TCOR in Practice – Cyber Liability Example

Scenario:

A mid-sized retailer/distributor with online operations.

Risks:

- Data breaches leading to customer data loss.
- Business interruption from ransomware.
- Regulatory fines.

TCOR Impact:

- **Premiums:** Cyber liability insurance premiums.
- **Retained Losses:** Deductibles on claims, small breaches handled internally, policy exclusions or lack of policy.
- **Risk Control Costs:** Investment in firewalls, employee training, and regular system updates.
- **Administrative Costs:** IT security staff salaries, compliance audit expenses.
- **Residual Costs:** Loss of customer trust and potential PR campaigns.

Key Insight: Proactive cybersecurity investments can reduce claims frequency and premium costs, lowering TCOR over time



Total Cost of Risk

The Cost of Inaction

- Focuses on what it could *cost you not to act*. It's often used in risk management, operations, or maintenance planning.

Example 1:

If a safety inspection costs \$5,000 but skipping it could lead to a \$200,000 injury claim, the cost of inaction is high.

Example 2:

Action: Invest \$25,000 in MFA, endpoint detection, and cyber awareness training.

Inaction: 10% chance of \$400,000 ransomware attack → \$40,000 expected cost.

Outcome: \$15,000 net risk reduction.



Total Cost of Risk

The Cost of Inaction – The Math

Given a .1% chance of event happening on any given day, what is the probability that it happens in a calendar year?

Step 1. $1 - .001 = 0.999$ (Chance it doesn't happen on a given day)

Step 2. $.999^{365} = 0.694$ (Chance it doesn't happen in a given year)

Step 3. $1 - 0.694 = 0.306$ (30.6% chance it DOES happen in a given year)



Total Cost of Risk

TCOR in Practice – Directors & Officers (D&O) Example

Scenario:

A tech startup seeking venture capital funding.

Risks:

- Shareholder lawsuits alleging misrepresentation
- Regulatory investigations
- Breach of fiduciary duties

TCOR Impact:

- **Premiums:** D&O insurance policy premiums.
- **Retained Losses:** Legal fees within policy retention, policy exclusions.
- **Risk Control Costs:** Board training on fiduciary responsibilities, strong corporate governance policies.
- **Administrative Costs:** Legal counsel for regulatory compliance.
- **Residual Costs:** Reputational damage affecting investor confidence.

Key Insight: Building strong governance frameworks can reduce exposure and lead to lower D&O premiums, decreasing overall TCOR.



Total Cost of Risk

TCOR in Practice – Construction Industry Example

Scenario:

A regional general contractor managing commercial building projects.

Risks:

- Workplace injuries
- Property damage
- Subcontractor liability
- Construction defect claims

TCOR Impact:

Premiums: Workers' compensation, general liability, builders risk, and umbrella policy premiums.

Retained Losses: Deductibles for equipment theft, small claims under GL policy, subcontractor disputes, CRT, policy exclusions.

Risk Control Costs: Safety training programs, PPE investment, site inspections, quality assurance processes, Mock OSHA Inspections.

Administrative Costs: Risk manager salary, third-party safety consultants, claim reporting systems.

Residual Costs: Project delays from OSHA violations, reduced reputation from safety incidents, lost bid opportunities.

Key Insight: Investing in pre-hire safety training, subcontractor risk transfer protocols, and regular audits can reduce incident frequency and improve insurability, ultimately lowering the total cost of risk.



Total Cost of Risk

Strategies to Optimize TCOR

- **Proactive Risk Management:** Implement robust risk control measures (e.g., cybersecurity protocols, governance policies).
- **Risk Retention Analysis:** Adjust deductibles and retentions to balance risk and premium costs.
- **Analyze the Cost of Inaction:** Understand the actual cost of doing or not doing something.
- **Broker/Carrier Negotiations:** Regularly review and negotiate insurance coverages.
- **Data-Driven Decisions:** Use loss history and predictive analytics to make informed insurance and risk management decisions.

Total Cost of Risk

Final Thoughts

1. TCOR provides a holistic view of risk management costs
2. Strategic management of TCOR leads to long-term savings.
3. It is a marathon, not a sprint!



Questions?

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