Insurance Market Update & Intro to Alternative Risk Transfer

Presented by:

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September 2026

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(THIS INFORMATION HAS BEEN CONSOLIDATED FROM VARIOUS INDUSTRY SOURCES)

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Senior Vice President
Public Transit Practice Leader

- 24 Years of Insurance Brokerage Experience
- Worked with Alliant since 2005, specializing in Public Sector
- Public Transit Practice Leader
  - Clients include all modes of transportation across the country
    - Commuter Rail
    - Light Rail
    - Bus
    - Paratransit
    - Ferry
- Active member of APTA Risk Managers Group

Insurance Market & Financial Performance

Market Pressures…

Great Resignation & Quiet Quitting

Social Inflation/ Nuclear Verdicts & Legislation

Geopolitical

Cyber Attacks

Mass Shootings

Ukraine & Middle East War/Conflicts

Global insured Property losses for 2025 are projected to reach **$129 billion.** The 5-year annual average loss for insurers from natural catastrophes has grown to $155 billion as changes in hazard, societal, and economic behavior combine to drive more expensive disasters.

From July through December, loss activity slowed significantly, making it **one of the least costly third quarters since 2000**. Despite the quiet Q3 & Q4, 2025 losses remain **27%** above the 21st century average.

Aging Infrastructure

Climate Change

Inflation & Increased Loss Cost

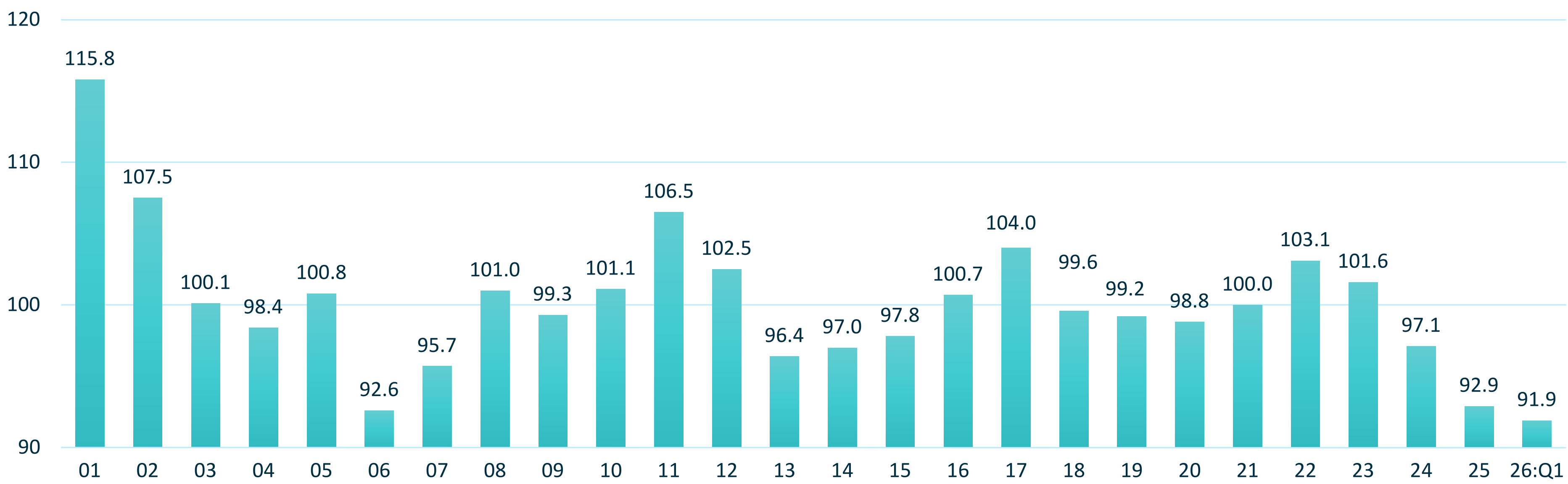
Natural Disasters

Supply Chain & Labor Shortage

Proliferation of “secondary” perils (SCS)

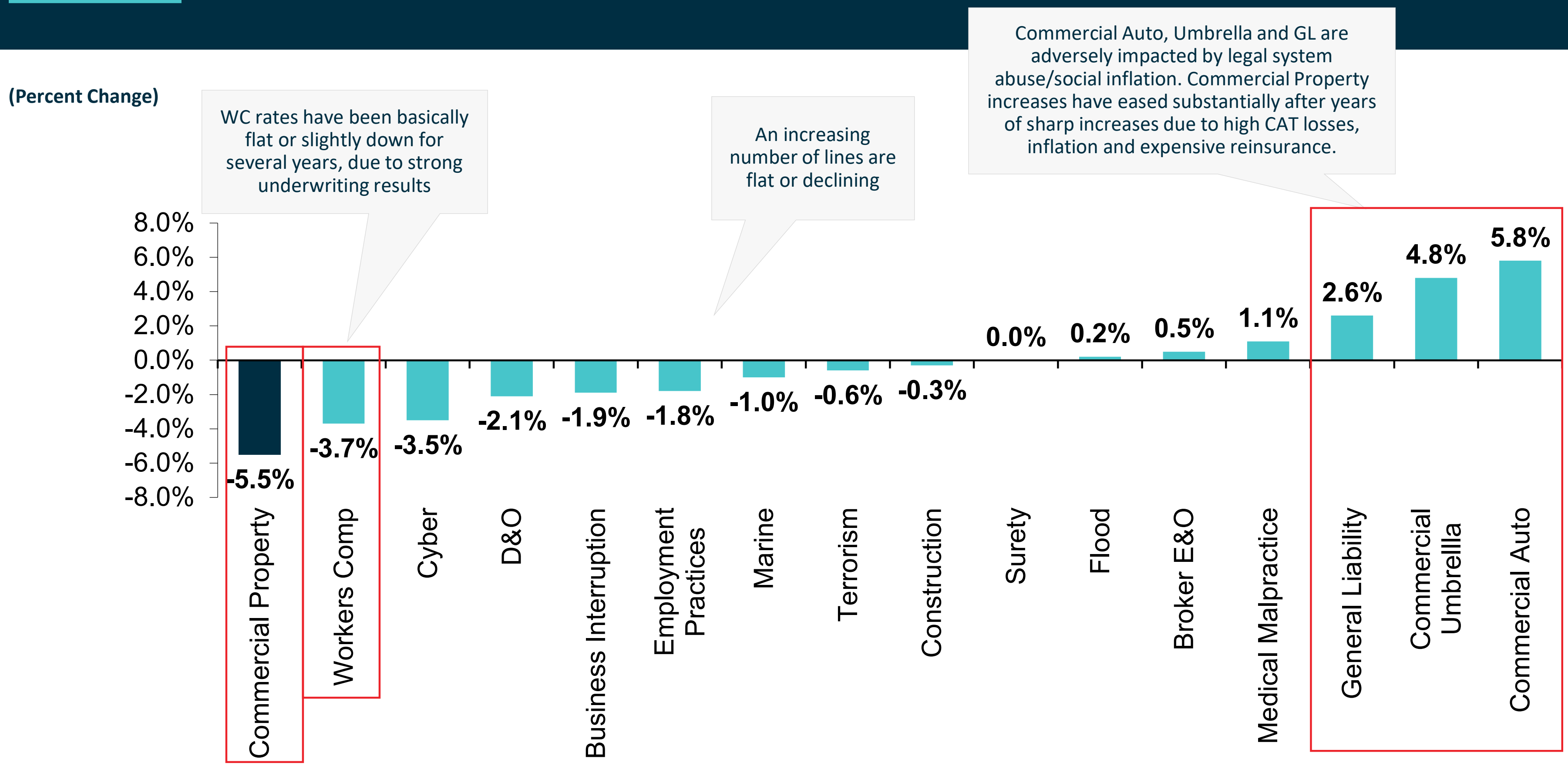
P/C Insurance Industry Combined Ratio, 2001-2026:Q1

- 2025 represented the end of a “generational” hard market in personal lines as well as a “benign” year for CAT losses
- These factors are “unlikely to recur,” suggesting that the recent level of success may be “fleeting”
    - *S&P Global Intelligence*



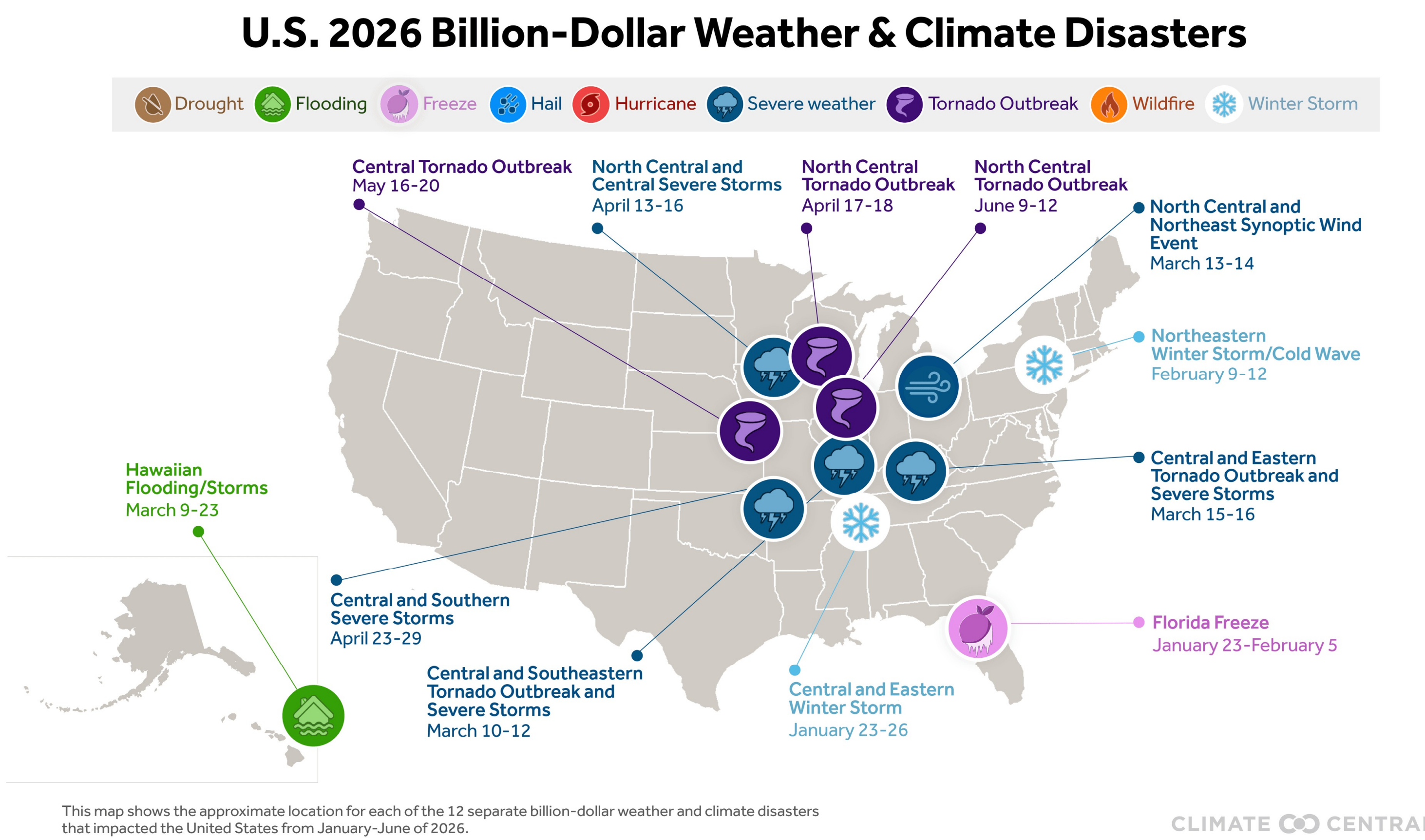
Sources: A.M. Best, ISO (2001-2023). S&P Global Intelligence (2024-2029F)..

Change in Commercial Rate Renewals, by Line: 2026:Q1



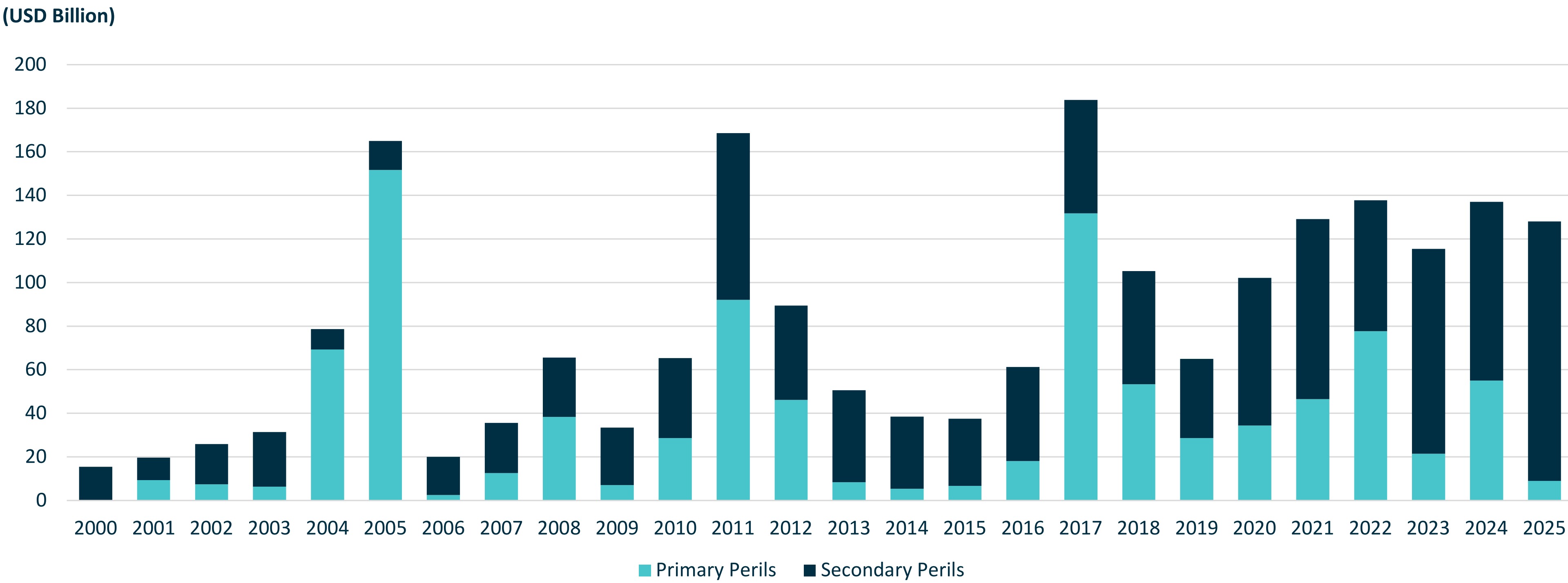
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Major U.S Losses in 2026 (through June)



Source: Climate Central
https://www.climatecentral.org/climate-services/billion-dollar-disasters

Global Insured Natural Catastrophe losses have exceeded $100b for five consecutive years



*Estimated losses in 2025 dollars
Source: Swiss Re Sigma, Moody's Ratings

Casualty Market Drivers

General Liability & Excess Liability

Increase in Catastrophic Losses

- Sexual Misconduct
- Law Enforcement Liability
- Lifetime Care Costs
- Punitive Damage Awards

Organized Plaintiff Bar

- Litigation Financing
- Settlement pressure driven by Nuclear Verdict Potential

Inflationary Pressures

- Social Inflation

Aging Infrastructure

Lack of market participation

Auto Liability

Cost of vehicles (inflation)

Cost to repair (technology)

Fatality Trends

Distractive Driving – Cell Phones

Robotaxis

Rising medical costs

Rapid rise of litigation costs

Use of Autonomous Driving

Increased fleet use of Electric Vehicles

Workers Compensation

Aging Workforce

Medical Cost Inflation

Cancer & PTSD Presumptions

Workplace Violence

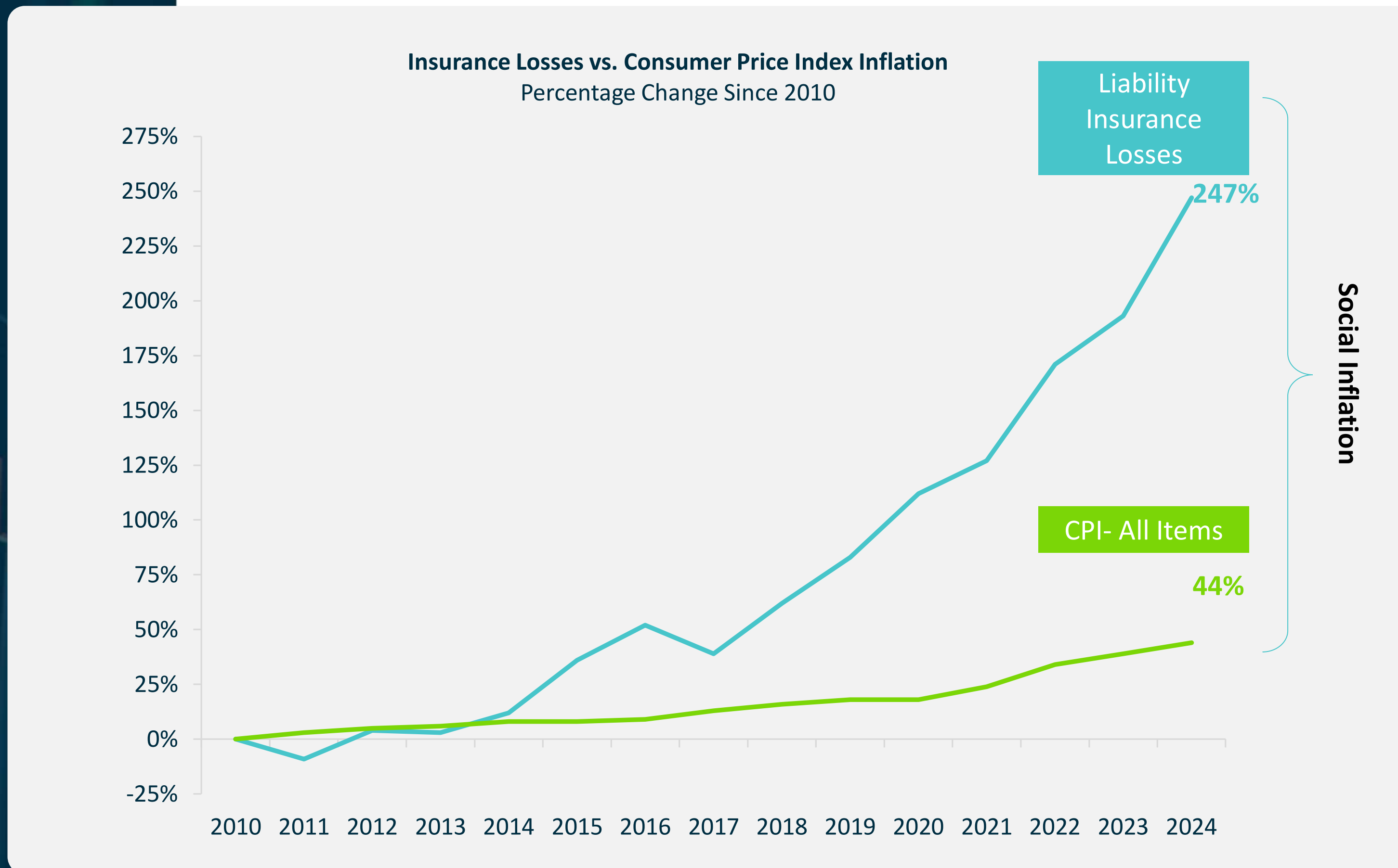
Medical Service Delays

Out of State Exposure

Accident Survivability

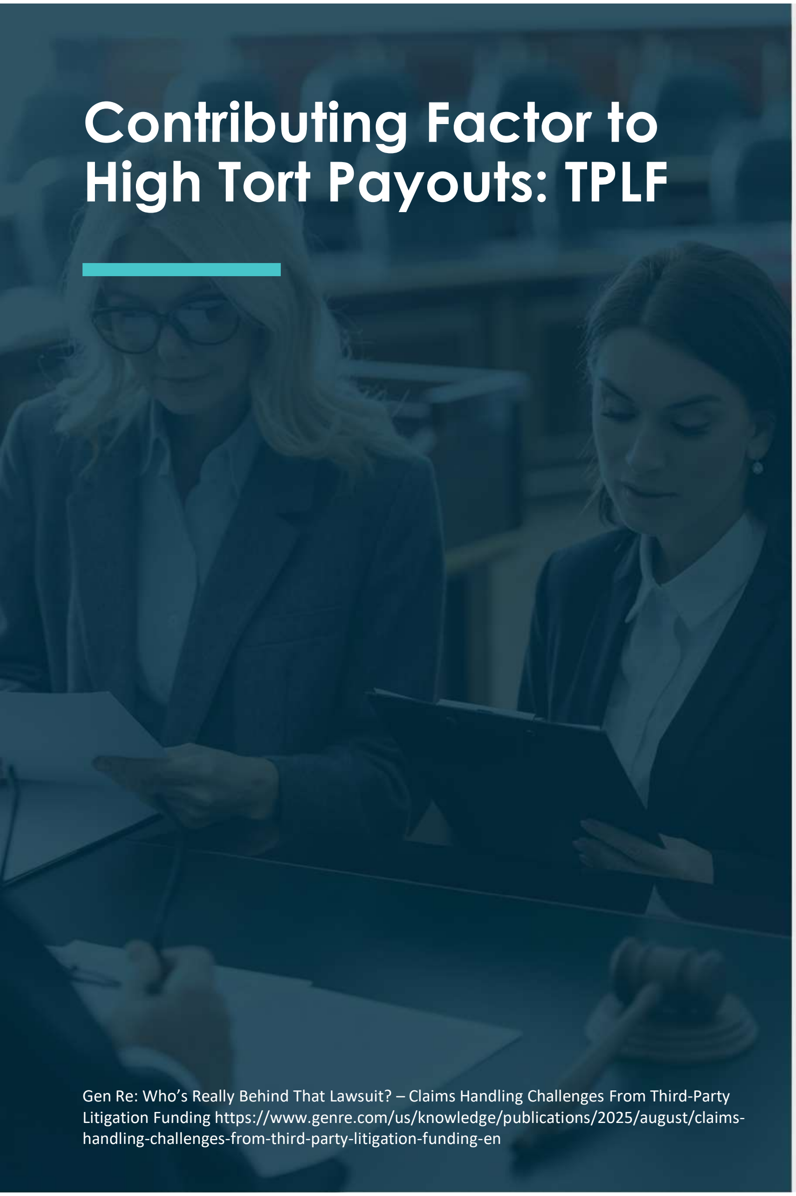
Mental Health

Insured Losses vs. Consumer Price Index Inflation



Source: APCIA via BLS Federal Reserve Economic Data and S&P Global Market Intelligence.

Contributing Factor to High Tort Payouts: TPLF



Third-Party Litigation Funding

01 **Increasing the *volume of litigation***

External capital through TPLF has enabled law firms – including small law firms – to expand plaintiff recruitment efforts through increased advertising

02 **Increasing *settlement values***

Plaintiffs are seeking greater recoveries to satisfy their obligations to the funder. Because the rates of repayment are so high, plaintiffs are rejecting fair settlement offers to seek extra money to make up the amount they must repay

03 **Increasing *litigation costs***

Since plaintiffs are receiving money up front, they have little incentive to settle a case early and reasonably, which will lead to longer and costlier litigation. Businesses and insurance carriers will have to decide whether they are willing to pay more early on to resolve a case or pay the extra costs and expenses to litigate

04 **Increasing *frivolous claims***

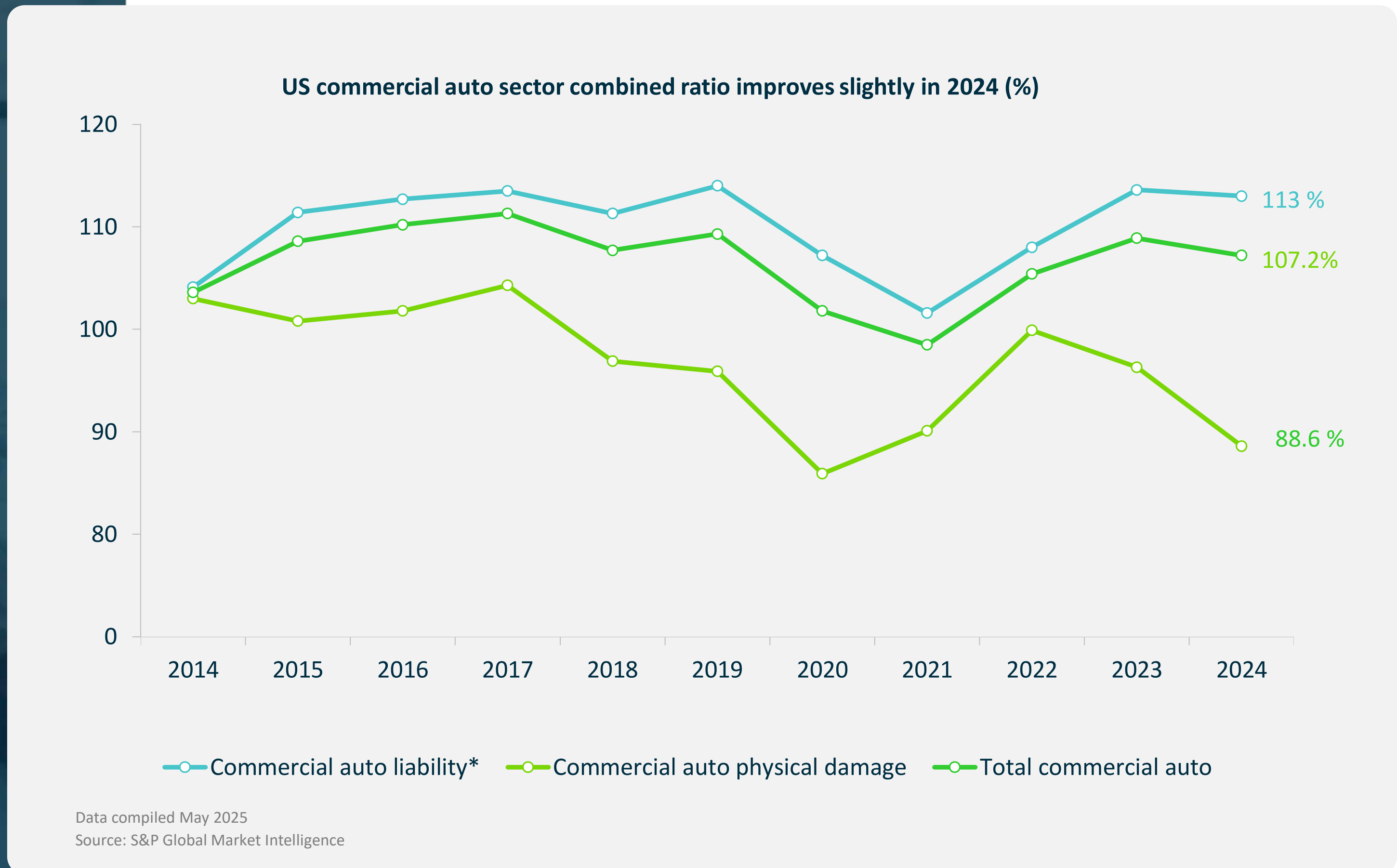
TPLF may incentivize plaintiffs to pursue frivolous lawsuits, especially in cases where the potential payout is very large, such as cases involving Commercial Auto and Umbrella policies

05 **Increasing *premiums***

The increased cost of TPLF is being passed down to the policyholder, resulting in higher insurance premiums. TPLF pushing up settlement and verdict size has had the greatest effects on premiums. In the first quarter of 2025, Commercial Auto and Umbrella had the highest average increases in premiums out of all lines of 10.4% and 9.5%, respectively

Gen Re: Who's Really Behind That Lawsuit? – Claims Handling Challenges From Third-Party Litigation Funding https://www.genre.com/us/knowledge/publications/2025/august/claims-handling-challenges-from-third-party-litigation-funding-en

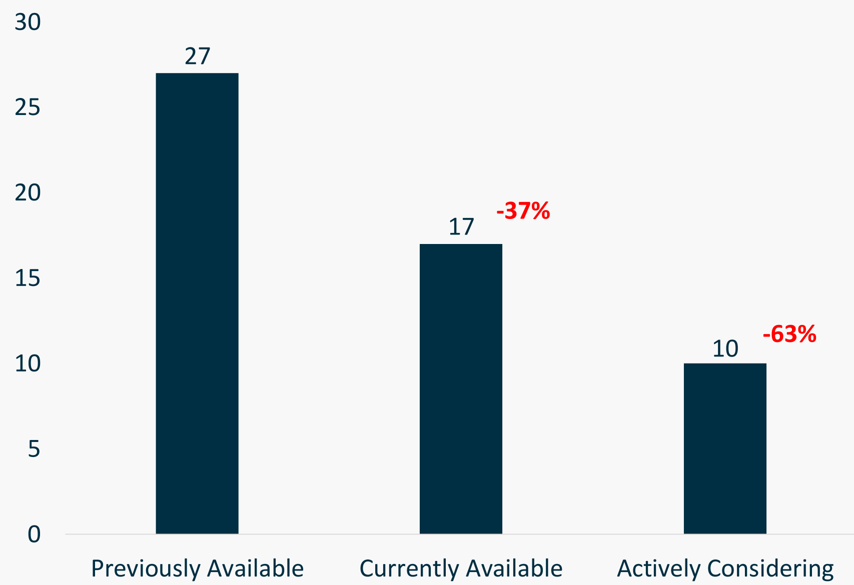
Commercial Auto Combined Ratio



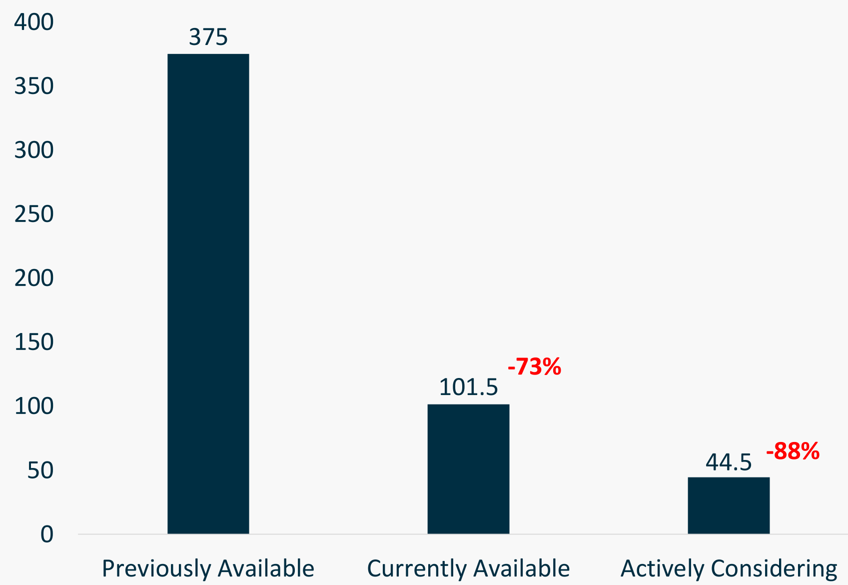
Domestic Capacity

Historical vs. Current Public Entity Liability Market Participation *(*approximate 10 year to present)*

Number of Markets



Combined Limits (in millions)



Per Occurrence Limits only. Not reflective of restriction in Aggregates

Layer Relativity

01 Syndication of tower layering/participants

02 Implications of Layer: 1) Relativity (up/down); and 2) Parity (within)

THEN

25m X 15m X SIR

15m X SIR

SIR

NOW

5m X 35m X SIR

5.5m X 29.5m X SIR

10m X 19.5m X SIR

2m p/o 9.5m X 10m X SIR	5m p/o 9.5m X 10m X SIR	2.5 p/o 9.5m X 10m X SIR

5m X 5m X SIR

5m X SIR

SIR

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Rail Liability & Wider Transit Market

Market Trends

- **Rail Liability** – Recently Increased cap putting continued pressure on an already limited marketplace – ***Most Operators had to procure Additional $79M of limit this year***
  - Low Frequency / High Severity
- Auto Liability is continuing to see higher severity due to:
  - Faster/riskier driving and increased medical costs
  - Higher costs and delays with replacement parts and labor
  - Higher costs of rental or replacement vehicles
- Challenges in hiring and retaining qualified, experienced operators due to retirement, increase in wages, and reduction in number of routes needed.
- Technology advancements impacting Transit Systems:
  - Collision Avoidance Technology Systems (Mobileye, etc.)
  - Onboard Cameras
  - Data stream allows for Route and Operator analysis
- **Areas of Market Focus**:
  - Aggregation
  - Attachment point sensitivity
  - Additional exclusions (PFAS)

- **2026 business** will continue to be underwritten on an account-by-account basis, however, the current rate environment within the Transit space is not projected to soften over the next 12 months.
  - There is continued pressure for increased premium on renewals coupled with increased SIRs and limit changes
- **Direct/E&S Market**
  - Limited lead market capacity available
  - Continued pressure on SIRs (specifically for those loss driven accounts)
- **Bermuda/London Market**
  - Ample capacity available, albeit approximately 60% of markets have a **minimum attachment point of $10M**
    - This results in pricing largely dependent upon lead/lower attached markets

Sources: AmWins Public Entity Casualty Practice H1 2026 Update; Price Forbes

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Liability Outlook

Excess / Rail Liability continues to face upward pressure

Specific Problem areas that continue to persist

- Increasing Demand for High Limits
- Aggregate limits – Many carriers are looking to cap their exposure
- Attachment point/Retentions are being closely examined
- Changing capacity – Incumbent reductions & new entrants
- Underwriter scrutiny on Law Enforcement and Sexual Abuse/Misconduct coverages
- Emerging Exclusions: Is AI next?

Insurers reporting YOY **loss cost increases from the high single digits to 15%+.** Pricing will be based on losses and jurisdiction.

Additional Considerations

- Best in class risks continue to differentiate themselves with markets
  - Data is king
  - Risk management & risk control
- Alternative Risk/Structured Solutions

Case Study

North County Transit District

Disclaimer

This is case study is for illustrative purposes only. Details have been modified to simplify the example. Furthermore, there are several factors that impact an insured's insurance program; exposure basis, loss history, geographical area, legal environment, contractual obligations, the insured's own risk tolerance, etc.

NCTD AT A GLANCE

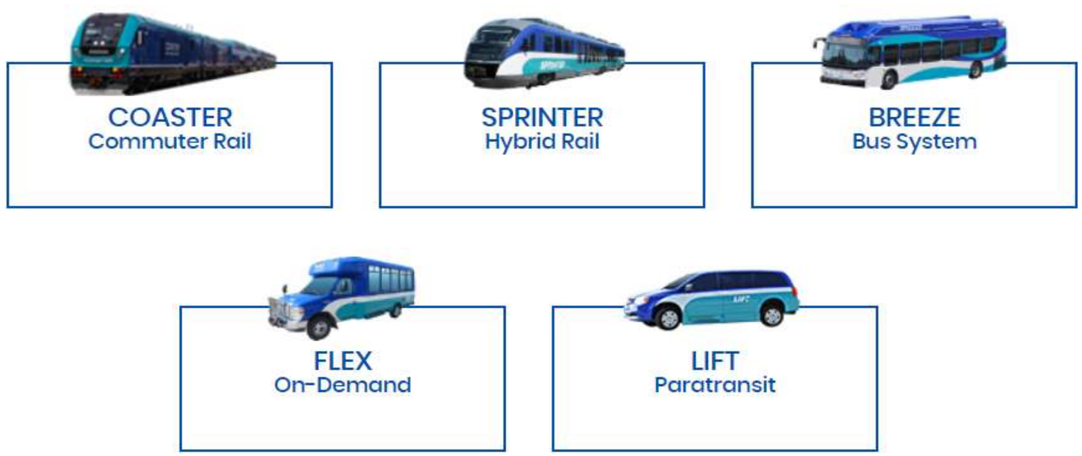
Located San Diego County, CA

Established in 1975 by California Senate Bill No. 802 to plan, construct, and operate public transit in North San Diego County.

Provides about 7.6 million passenger trips per year, across all modes.

Coaster (rail) ~1 million rail passengers per year, 41 miles of track, 8 stations.

NCTD shares the use of its tracks with rail partners Amtrak, Metrolink and BNSF. Amtrak and Metrolink operate more than 264 commuter trains on our tracks every week while BNSF moves freight.



Liability Insurance Structure - *2015*

Includes Rail Liability, Auto Liability, General Liability, Public Officials E&O, EPL

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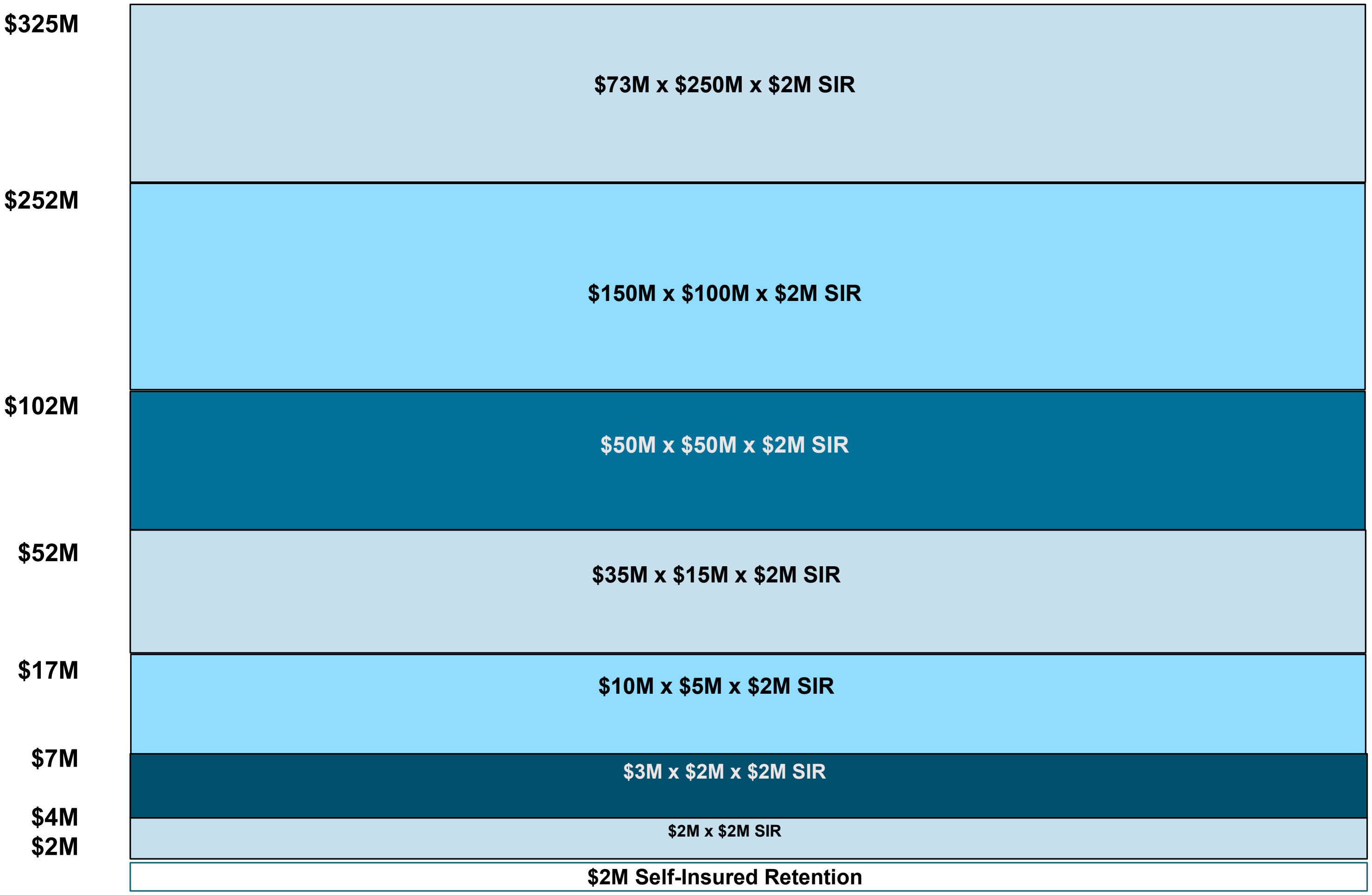
Liability Insurance Structure - *2020*



Includes Rail Liability, Auto Liability, General Liability, Public Officials E&O, EPL

RAIL Liability Insurance Structure - *2026*

Rail Liability Only

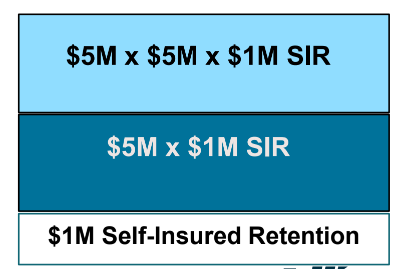
PUBLIC ENTITY Liability Insurance Structure - *2026*

Limits Shown do not reflect the applicable Policy Aggregates for each layer

Includes Auto Liability, General Liability, Public Officials E&O, EPL

Public Officials Liability & Employment Practices Liability

*PE Tower Provides Excess Coverage, beginning with the Starstone layer attaching at $10M.



Introduction to Alternative Risk Transfer & Insurance Pools

Alternative Risk Transfer
Defined

Alternative Risk Transfer (ART) - blended risk retention/transfer solutions which serve as an alternative to, or enhancement of, conventional commercial insurance - is growing in popularity as insureds seek bespoke flexibility for an increasing array of risk scenarios.

For Rail Operators the current method of insuring the liability exposure can hardly be considered "traditional", but for the sake of argument let's just call it that for purposes of today's discussion.

Examples Of Alternative Risk Transfer

- Loss Sensitive Solutions
- Captives
- Parametric Products
- ***Risk Sharing Pools***

Source: *Allianz Global Corporate & Specialty (AGCS)*

March 1986

Joint Powers Authorities (JPA) became a popular Workers' Compensation conduit to place coverage in the late 1970's.

In the late 80's, Liability coverage was also purchased through JPA's.

Characteristics of a Pool / JPA / Mutuals

- A formal agreement between two or more similar entities to "pool" funds to pay for insurable financial losses. Can be formed for Workers' Compensation, Liability or Property. **Works like a small membership owned and managed insurance company**.

- Governed by a Board of Directors made of individuals from the member agencies. Day to day operations managed by Committees (Coverage Specific, Finance, Oversight).

- Staff required to run all administrative aspects.

- Actuary projects self funding requirements.

- Third Party Claims Administrators adjust claims.

- Pools also provide industry focused **services** to their members. **Loss Control**, claims administration and many other different types of risk related services can by provided at a discounted rate.

Sample Governing Structure of a Pool

Member Entities

Board of Directors

Liability Committee

Finance Committee

Program Managers (staff)

Actuary | Claims Admin | Investment Manager | Safety / Loss Control | Financial Auditor | Insurance Broker | Accounting

Sample Pool Structure

50M Total
Pool Limits

25M Layer of Reinsurance/Excess Insurance

25M

10M Layer of Reinsurance

15M

10M Layer of Reinsurance

5M

5M Pooled Layer

Individual Members Can Select Lower Retentions

Pros and Cons of Pooling

Advantages

- Preferred pricing through group purchase
- Ability to Self Insure
- Less Reliant on the Insurance Industry
- Direct Access to Reinsurance Market
- Opportunity to return money to members
  - Retrospective Rating
  - Dividends
- Broader Coverage – You write your own Policy (aka Memorandum of Coverage)
- Invest premiums
- No Profit Loading
- Long Term Stability
- Partnership vs. Adversarial

Disadvantages

- Potentially a LARGE financial outlay at the creation of the Pool.
- Vulnerable during early years, until financially mature
- A multi-year commitment
- Not guaranteed cost: All premiums (aka Member Deposits) are estimates and assessments are possible
- Success of program is based on loss performance of the group. JPA's can develop adverse risk
- Still reliant on insurance industry for reinsurance / high excess limits
- Closing a JPA is difficult

Q&A

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Thank you!

Please contact us if you would like a copy of this presentation.

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