Q3 2023

Market Update

Insurance and business insights on current events and emerging trends from our business line and vertical leaders.

assuredpartners.com

Our Message

In the dynamic world of insurance, where challenges and opportunities demand our attention and adaptation, we are pleased to share our Q3 2023 Market Update – a resource that has become a cornerstone of our commitment to delivering exceptional service and innovative solutions.

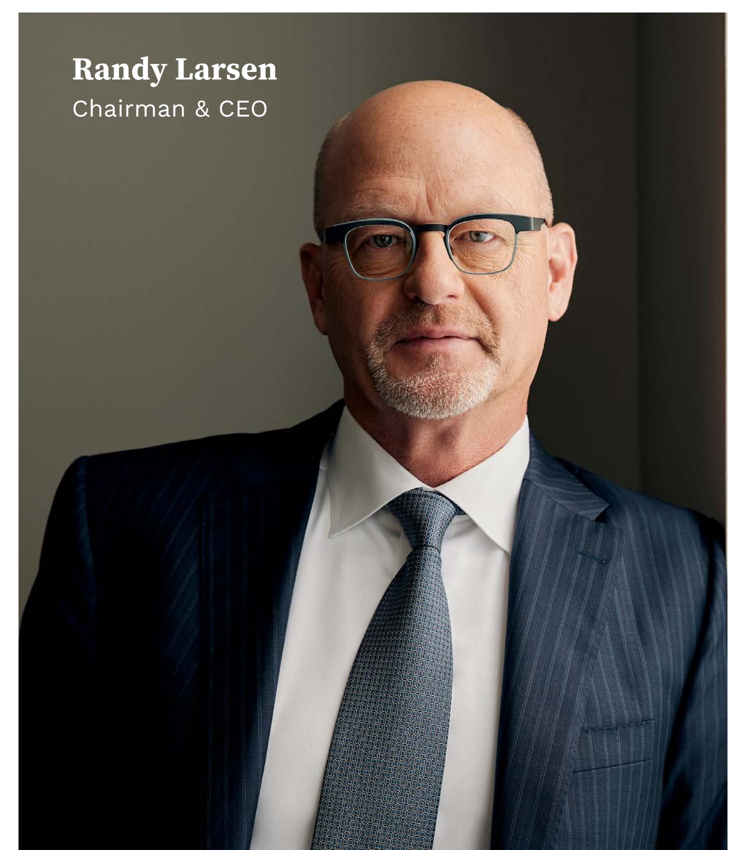
We invite you to explore the latest trends and insights. We're confident you will find it an invaluable resource for navigating complex terrains and market conditions.

Our dedication to service excellence and innovation extends to the report's exploration of employee benefits, personal insurance, and our 11 specialty verticals, with valuable insights from industry leaders. These perspectives are invaluable not only to the professionals within these sectors but also to those seeking to learn more.

We delve into the global supply chain's impact on insurance, cyber threats and the pressing need for enhanced cybersecurity measures, the increase in large medical and Rx claims, and artificial intelligence. We'll also provide insight into renewal strategies in a challenging market and the pivotal role of underwriter risk assessment in coverage and pricing determinations.

Our mission is clear: to deliver exceptional service and provide innovative solutions that empower your success. We are dedicated to your needs, committed to your growth, and relentless in our pursuit of excellence.

That is Power through Partnership.



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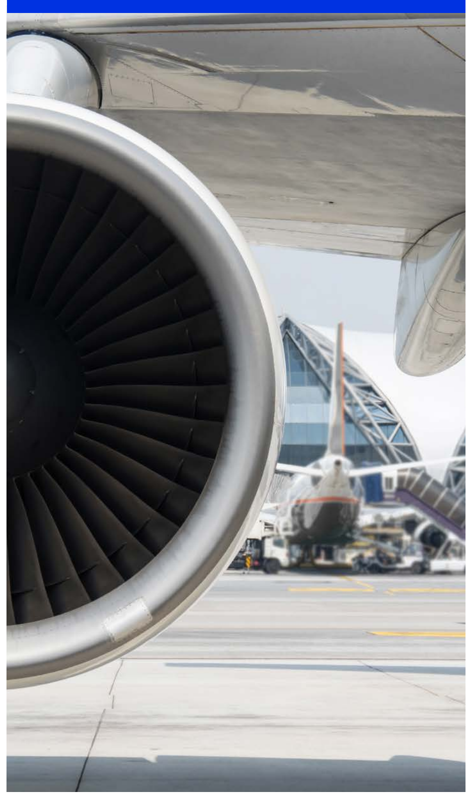

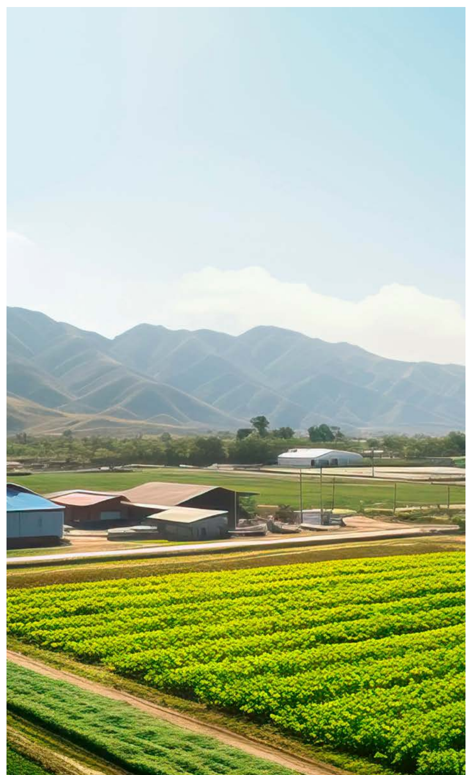

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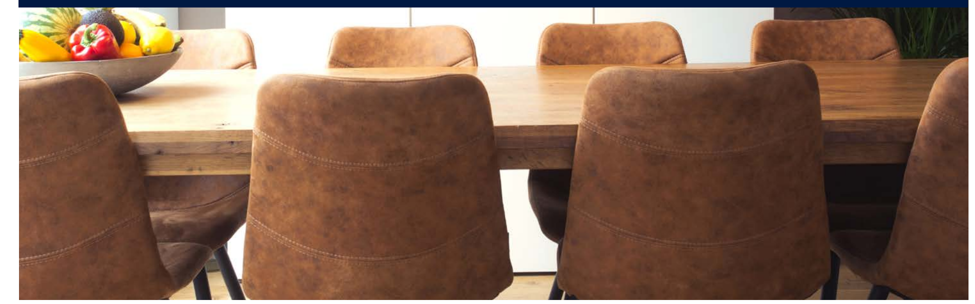

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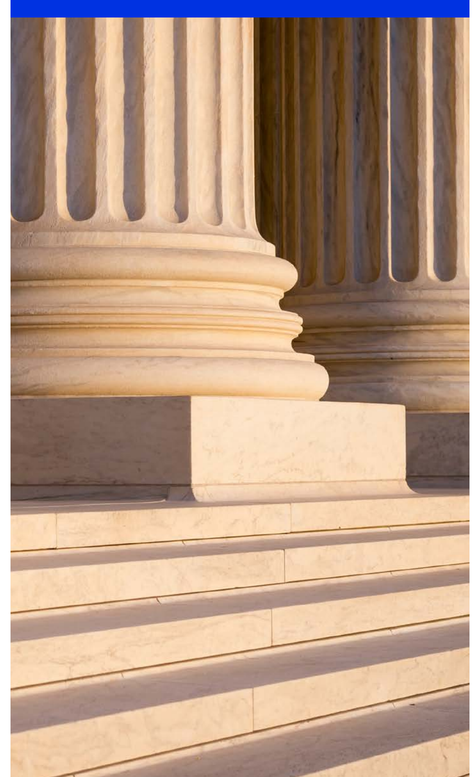

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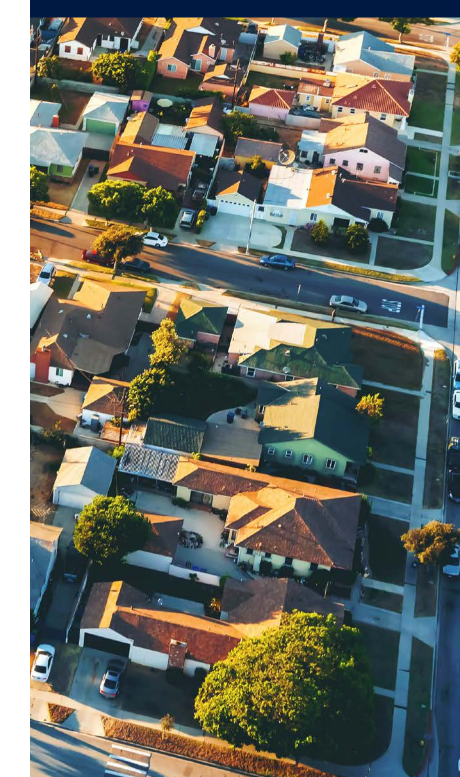

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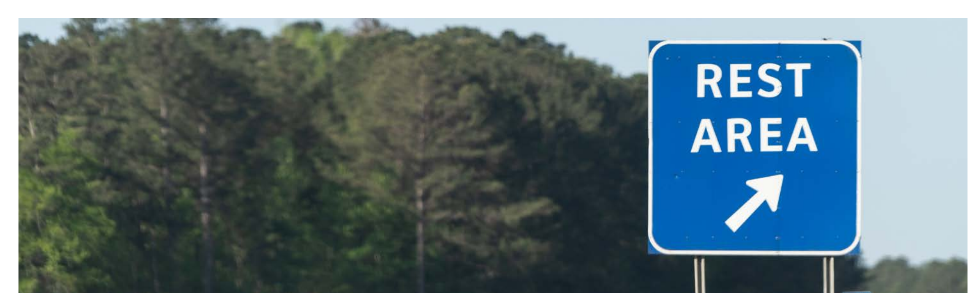

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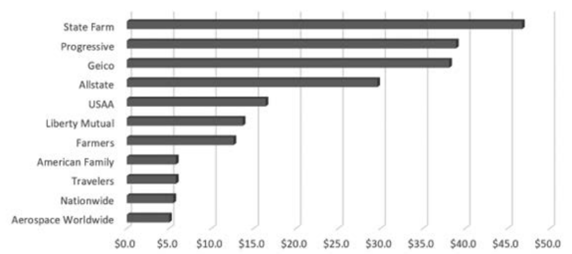
INSURANCE UPDATE

One of the big reasons why the aviation insurance market is so unique is because of its small size. This can make the premiums and associated underwriting environment volatile, with different industry subsets often affecting the performance of the whole. Not only is the relative premium volume small, so is the number of providers, whether primary underwriter or aerospace reinsurer. This is because of the few specialists qualified to underwrite such a unique portfolio and who also have the willingness to take on the sometimes catastrophic exposure that is aviation. And often, the same company that insures or reinsures airlines is the same company that also insures or reinsures general aviation operators.

So how small is small? Take a look at the chart that compares the top 10 U.S. auto insurer's annual premium in the U.S. alone with the entire estimate of aerospace-related premiums around the globe.

With total worldwide aviation premiums only coming in between $5B and $6B USD annually, what happens around the world literally has

Largest US Auto Insurers Annual Premium vs. Worldwide Aviation Annual Premium ($ Billions | July 2023)



implications for aviation insurance rates in the United States. For example, while the stranding of hundreds of western jetliners in Russia doesn't seem as though it should impact U.S. aviation insurance, it does so because the potential for one set of claims that is twice the size of the global annual aerospace premium sends a marketplace ripple effect from a reinsurance, underwriting, and pricing standpoint.

While the above small-marketplace dynamic does impact aviation insurance in general, operators and their insurance broker ultimately have the most influence over a specific insurance outcome from year to year. Since it is a small world when it comes to aviation underwriting, making sure there is a proactive program in place to mitigate operational risk, including a robust initial and recurrent training regiment, is fundamentally important. Then, properly telling that story to the right group of underwriters is also paramount, along with the ability to negotiate the best combination of coverage and premium terms available, even amidst a small market like aviation.

Eric Barfield
Aerospace Vertical Leader

WELCOME

AssuredPartners Aerospace is pleased to welcome Joe Braunstein as Managing Director. He joins us with over 20 years of aviation insurance and leadership experience at two of the largest insurance brokerage firms in the world. In his new role, Joe will lead the AP Aerospace client and carrier relationship strategy, help direct and coordinate business opportunities, and assist with optimizing critical sales and service functions for the entire team. He will report to Eric Barfield, Aerospace President, who remarked, "Joe's reputation of integrity and excellence aligns perfectly with our own culture and core values. He is uniquely qualified to help our team rise to a new level of client engagement and industry leadership."

AGRIBUSINESS

INSURANCE UPDATE

Renewal Strategies in a Tough Market

The key to understanding your renewal and where you stand in the marketplace is simple – start early and ask questions. Agribusiness carriers have not been immune to the effects of the reinsurance expenses, and everyone is being impacted, from traditional farm accounts to large diversified commercial agribusiness operations. Although property seems to be the most impacted line of coverage, many carriers are taking a closer look at the overall account and seeking to keep only best-in-class clients based on their management philosophy towards safety and best practices, as well as their commitment to future capital investments.

There are a few things every insurance buyer can do to help make their renewal go smoother.

- Contact your agent at least 90 day before your renewal if you have not heard from them to start the process.
- Be ready to provide information about any recent or planned capital investments.
- Review your maintenance programs and housekeeping standards to share with your agent. Discuss your limits, deductibles, and risk appetite.
- Be open to sharing your claims investigation, training programs, and risk management practices with the insurance companies.
- Talk to your insurance advisor and carrier about their suggestions regarding your limits and deductibles.
- Create loyalty with your insurance carrier by negotiating fair renewals, multi-year pricing, and risk management plans.

Gina Ekstam
Agribusiness Vertical Leader

> "The key to understanding your renewal... start early and ask questions."

EMPLOYEE BENEFITS

“Employers are already concerned about what they pay for health premiums…,” noted Drew Altman, Kaiser Family Foundation (KFF) President and CEO.

While we await KFF’s 2023 survey results, it’s worth noting that in 2022, the average annual premiums for employer-sponsored health insurance were $7,922 for single coverage and $22,463 for family coverage – similar to the average premiums in 2021.

Altman adds that larger increases are imminent in 2023, and given the tight labor market and rising wages, it will make it hard for employers to shift costs to workers when costs spike. [Click to see the 2022 KFF Employer Health Benefits Survey.]

Geoff Christian, MBA, CWCC, Employee Benefits Captives Leader and Executive Vice President, Benefits Division, suggests APLUS, a group captive program specific to AssuredPartners, as a cost-containment alternative to traditional medical insurance.

“Employers that choose membership in a captive program can experience stability, control, and transparency monthly, while reducing their medical spend,” says Christian. He adds, “The APLUS program gives accountability, sharing of best practices with peers, and access to clinical tools not available in the traditional market.” Companies that qualify for the APLUS captive can realize premium returns and underwriting profit based on performance.

Contact Geoff Christan at 304-720-5978 or geoff.christian@assuredpartners.com for information on cost containment strategies for your organization’s benefit program.

PROPERTY & CASUALTY

“The use of alternative insurance strategies – such as captives – continues to go up as the traditional commercial insurance market remains chaotic,” states Nick Napolitano, Captive Practice Leader at AssuredPartners. Napolitano notes, “It’s not just the tumultuous market, but also the potential savings a company can realize using non-traditional risk management strategies.” His statement is supported by AM Best’s** recent market segment report, “Feasibility and Utility Sustain Captives’ Excellent Profitability.”

The study found that the expansion of captive use correlates to the savings captives have retained over the past four years. Between 2018 and 2022, captives accumulated $9.4 billion in savings! This amount comprises $4.1 billion in surplus growth and $5.3 billion in dividends that would have gone to commercial insurers for coverage in the traditional market.

“Hardening market conditions across most property & casualty lines of business have made the environment beneficial for captive insurance,” says Dan Teclaw, director, AM Best.

He added, “Even in less turbulent markets, captives can fine-tune their risk appetites to maximize owner returns on capital through appropriate risk appetite and selection in underwriting.” [Click to read the full report.]

Use of alternative coverage solutions should continue to grow as the traditional insurance marketplace premiums increased for the 23rd consecutive quarter, according to [The Council of Insurance Agents and Brokers*** (CIAB) market report for Q2 2023]. At 9.8%, medium-sized accounts saw the highest increase, and commercial property reported the highest increase of all lines with 18.3%.

Nick Napolitano
Captives Vertical Leader

**KFF is the independent source for health policy research, polling, and journalism. Their mission is to serve as a nonpartisan source of information for policymakers, the media, the health policy community, and the public.*

***AM Best is a global credit rating agency, news publisher and data analytics provider specializing in the insurance industry. Headquartered in the United States, the company does business in over 100 countries with regional offices in London, Amsterdam, Dubai, Hong Kong, Singapore and Mexico City.*

****The Council of Insurance Agents & Brokers is the premier association for the top regional, national and international commercial insurance and employee benefits intermediaries worldwide. Council members are market leaders who annually place 85% of U.S. commercial property/casualty insurance premiums and administer billions of dollars in employee benefits accounts. With expansive international reach, The Council fosters industry wide relationships around the globe by engaging lawmakers, regulators and stakeholders to promote the interests of its members and the valuable role they play in the mitigation of risk for their clients. Founded in 1913, The Council is based in Washington, D.C.*

INSURANCE UPDATE

According to the [Council's June 2023 P/C Market Survey](), commercial insurance buyers' premiums increased for the 23rd consecutive quarter. The survey showed an average increase of 8.9%, with most reporting increases in line with the prior quarter. Commercial Property showed the highest increase. Commercial auto remains a challenge, and excess liability, especially in the heavy highway class, remains difficult with higher pricing and restricted capacity. Workers' Compensation slightly decreased, cyber policy renewals moderated, and cyber capacity improved.

The surety industry remains soft with excess capacity. However, with loss ratios increasing for many carriers, driven mainly by severity, industry execs are monitoring things closely. A recent report published by a top ten surety writer outlined several developing trends the industry must monitor due to their impact on claims costs. Claims departments are faced with contractors that have grown too quickly, and revenues have outpaced operations and internal controls.

Items that may be areas of concern for these accounts, which underwriters must monitor, are:

- Underbillings (unapproved change orders; were all costs covered at the time of bid?)
- Overbillings (is the contract balance sufficient to cover the cost of the remaining scope?)
- Nonconforming work
- Unpaid bills
- Delays

These items are impacting surety loss ratios and have caused the cost of claims to increase significantly.

Kyp Ross
Construction & Surety Vertical Leader

INDUSTRY UPDATE

Mega projects across the country for bridges, highways, airport terminals, EV battery plants, chip facilities, and data centers are keeping overall construction revenues up. However, the number of projects available is dropping. The Dodge Momentum Index, which measures non-residential building planning, was 6.5% lower in August due to fewer commercial opportunities available in the marketplace.

The institutional sector (healthcare, education, and amusement) dropped by 14.8%, while retail and warehouse construction dropped by 1.6%. Overall levels are still above last year's numbers, but it does appear that the industry may be headed into some headwinds.

The American Institute of Architects' recent data shows their activity being flat, with slowdowns in public sector projects and issues caused by financing on others.

Higher interest rates have caused many projects to be postponed or canceled due to financial proformas that contemplated lower capital costs.

The search for talent is still challenging. Supply chains have improved, but certain items remain difficult to procure, and lead times, while shorter than a year ago, are still far longer than traditional durations. Material costs continue to be well above historical levels.

MARKET UPDATE

The renewable energy sector is rapidly expanding, prompting insurers to increase their capacity to capitalize on this growth. This shift is driven by insurers divesting from coal projects, with 41 primary and secondary insurers reducing or withdrawing coverage for coal projects from 2017 to 2022. To sustain revenue, these insurers are transitioning from fossil fuel underwriting to renewable energy.

However, sustainable growth in renewable energy insurance faces challenges due to the industry's inherent risks. Losses in renewable energy can be substantial due to the technology's scale and complexity, coupled with exposure to natural disasters. Maintaining healthy loss ratios in this sector remains uncertain.

Simultaneously, insurance companies grapple with economic pressures like inflation and recession threats. High inflation increases loss expenses, leading to higher loss ratios. The looming recession risk arises from rising interest rates, labor shortages, and reduced economic activity.

Ongoing supply chain disruptions, worsened by labor shortages and geopolitical conflicts, impact raw material shortages, construction delays, rebuilding costs, and losses for insurers. Labor shortages in industries like construction result in increased wages, further affecting construction costs and challenging insurers to adapt risk models accordingly.

The insurance market is evolving rapidly, influenced by economic factors, supply chain disruptions, natural disasters, and social inflation. Insureds should be tapping into the expertise of their insurance broker to ensure they are being appropriately represented in the marketplace. Underwriter risk comfortability plays a major role in determining the underlying coverages and associated pricing an underwriter is willing to provide.

Trevor Gilstrap
Energy Vertical Leader

SUCCESS STORY

In 2022, one of our clients faced a significant liquidity challenge – the need to replace a letter of credit security agreement with a major financial institution, an essential requirement for their Power Purchase Agreement (PPA). Our Surety team stepped in to secure a solution – a large surety bond in lieu of a letter of credit that freed up cash for business growth. In addition, it was also one of the first PPA Bonds in the industry.

This achievement opened the door to a series of transformative insurance opportunities. Throughout 2023, our team has been entrusted with helping several alternative energy companies improve and enhance their property & casualty programs – a reflection of our unwavering commitment to progress.

In the face of challenges, we have shown that innovation, dedication, and partnership can create not just success, but a thriving future. The fourth quarter brings with it promises of even greater achievements. Together, we are charting new horizons, one success story at a time.

MARKET UPDATE

Employee Benefits

In our last quarterly market update, we focused on the increase in large Medical/ Pharmacy claims and the resulting pressure on healthcare spending. We are still feeling the volatility in the stop-loss market (or pooling point in fully-insured plans), trend is accelerating, gene therapy drugs are rapidly getting FDA approval, and this story will likely continue for several years.

One of the quieter storylines is what is happening to hospitals fiscally and to the inpatient delivery model. Our current hospital models are financially-challenged, and the impact will be felt as the pressure on reimbursement rates accelerates. This will lead to more aggressive network contract negotiations, making them more visible to impacted members.

According to a recent Advisory Board report*, **outpatient care is growing at twice the rate of inpatient care, and hospital margins are down 31% from 2019 to 2022**. With supply chain expenses up 6% during that same period, we would expect to see some impact on margin. Hospitals are trying to manage that inflation while experiencing revenue reduction resulting from the shift to outpatient care, the decentralization of many services, and absorbing the time and expense to attract and retain RNs. We expect providers to contact patients during negotiations with the carriers, so be prepared for a more public and disruptive network contracting process.

> “Outpatient care is growing at twice the rate of inpatient care.”

Jim Hartz
SVP, National Employee Benefits Practice Leader

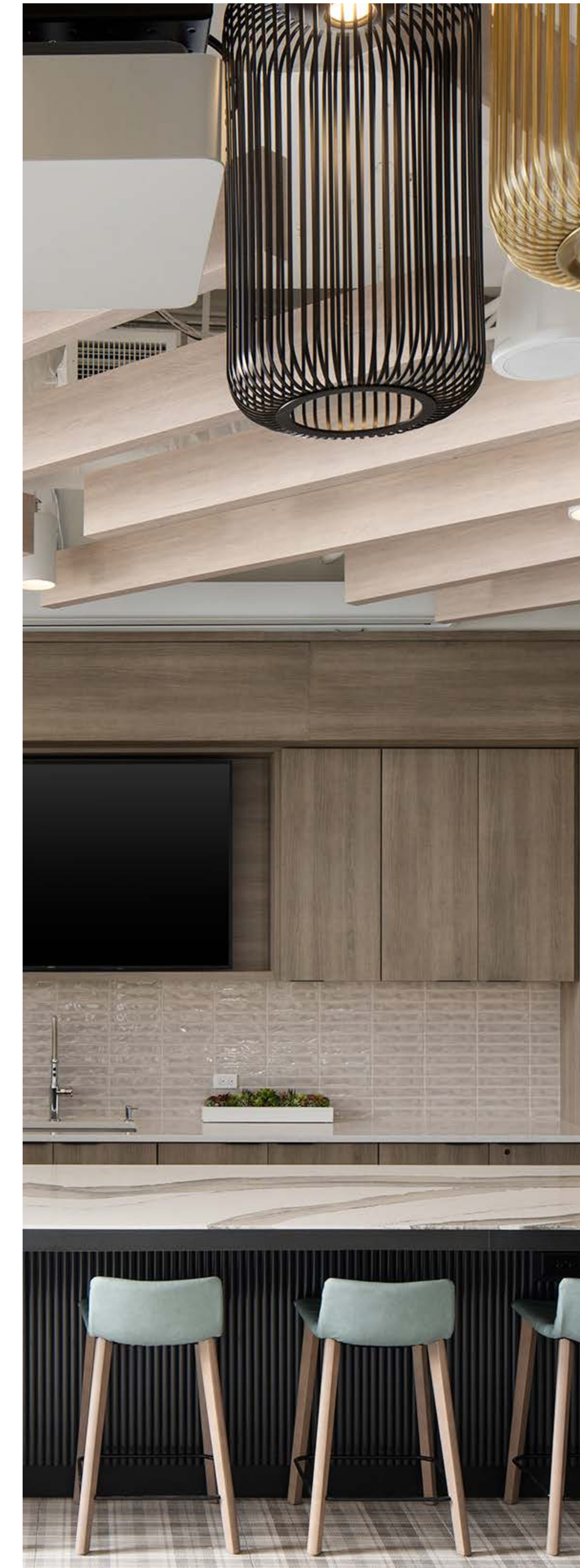
The story doesn’t end with the current financial pressure. Advisory Board also reports that **150 rural hospitals closed between 2016 and 2021, and 217 hospitals closed their labor and delivery departments between 2011 and 2022**. So what is happening? We are in the early stages of shifting from hospitals to a more fractured care model!

The largest health systems will continue to pick through what’s left in M&A to fill gaps in geography or niche specialties across the care continuum; however, we shouldn’t ignore the long-term trend of certain types of care moving away from hospital-centric models (rural markets in particular) toward a more fractured system where the services are not centralized. This will create access issues for patients or members, and navigating care will likely get more complex.

Does the future look bright? Well, it looks different! When we want a glimpse into the future, we often look at what types of startups and early-stage companies are funded by industry leaders, venture capital, and private equity firms.

Digital Behavioral Health (BH) funding by venture firms topped $12B from 2018 to 2022. During roughly the same period, over 1,000 BH startups were created. Fertility technology startups received nearly $1B in 2022, and private equity firms have acquired OB/GYN practices at almost 150% of the rate of 10 years ago. These are great examples of the types of services and solutions that will likely be delivered differently than we are experiencing them today.

** Advisory Board, “The State of the Healthcare Industry Heading into 2024,” October 4, 2023*



GOVCON/A

INDUSTRY UPDATE

Federal Contractors Face More Regulations

The last several months have presented an onslaught of challenges for federal contractors, especially those working in construction.

On August 8, the regulations that federal construction contractors work under were given a major update for the first time in decades. The overhaul consisted of more than fifty changes – from prevailing wage rate determinations for employees to how fringe benefits should be paid and tracked. Roughly 825 pages of new guidance published by the Department of Labor (DOL) clarified the full extent of these expansive updates and revisions. In particular, construction contractors doing business under the Davis-Bacon Act (DBA) will feel a greater impact from these new guidelines with respect to the requirements of the DBA and prevailing wage.

Additionally, in September, the Department of Labor's Office of Federal Contractor Compliance Programs (OFCCP) released a new schedule letter and expansion of the itemized listing of audit materials a contractor needs for their affirmative action plans. This was followed by an advanced announcement of the roughly 1,000 companies doing business with the federal government that will be audited over the next year.

Continued Emphasis on Cybersecurity

For contractors, the developing cyber requirements still exist under the Cybersecurity Maturity Model Certification (CMMC), which is constantly evolving. Collectively, these new regulations add to an ever-growing list of compliance demands a contractor must meet. At AssuredPartners, we are doing our best to help contractors navigate these new requirements with a keen eye on how insurance decisions play into the risks and rewards of contracting, informed by comprehensive experience.

> "Challenges like a Department of Labor audit or discovering an exposed liability are manageable with the right strategy."

Self-Funded Benefit Plans as a Contractor Solution

The Department of Labor has indicated a degree of interest and activity regarding self-funded plans; therefore, so are we. Creating a compliant self-funded benefit plan for contracts covered by the Davis-Bacon and Service Contract Acts will rely on certain design aspects, funding requirements, and more. We can proudly say that we have assisted numerous contractors this year in coming back into compliance. Challenges like a Department of Labor audit or discovering an exposed liability are manageable with the right strategy and solution. That's where we come in.

Rely on the AssuredPartners GovCon team to analyze your program, determine if it meets the DOL's requirements for self-funded plans, and make changes necessary today to help you avoid costly compliance penalties tomorrow. We believe in power through partnership to support contractor success!

Taylor Boon
GovCon Solutions Vertical Leader

INDUSTRY UPDATE

UAW Strike

There is currently disruption in the American Automotive Manufacturing Industry. A strike by the United Auto Workers could lead to further issues across the automotive supply chain. The UAW makes up a small percentage of the manufacturing labor market, but the impact of a strike could cause a drastic decrease in revenues or even shutdowns of OEM suppliers. A contingent business interruption recovery plan is essential for your business's sustainability. Companies must have those plans in place and act on them as the strike continues.

AI

The application of Artificial Intelligence (AI) is trending throughout the manufacturing industry. There are many questions about the technology's future and how it will affect the manufacturing labor market. Thus far, the usages in manufacturing facilities are more prevalent in the back office than on the shop floor. AI has several applications for the internal marketing team, sales, and accounting. Employees with expertise in AI are being sought after by many manufacturers so that companies can better understand AI's uses and applications. Many manufacturers are stating that they have plans to hire skilled AI employees. There will be applications and uses that we can't currently envision, but in today's manufacturing environment, AI doesn't seem to be an evolution for production for the immediate future.

Labor

According to the U.S. Department of Labor Heavy Equipment, manufacturers have gained the most jobs throughout 2023, while furniture and metal fabrication have lost the most. The trend is still flat with a slight favor to new jobs rather than separations. Manufacturers still have a large labor shortage, so the industry hopes to see the trend move toward adding more jobs.

DATA SERIES	MAY 2023	JUNE 2023	JULY 2023	AUG 2023
EMPLOYMENT (in thousands)				
Employment, All Employees	12,981	12,985	12,981*	12,997*
Employment, Production and nonsupervisory employees (seasonally adjusted)	9,128	9,129	9,122*	9,126*
Unemployment Rate	2.7%	2.6%	2.7%	2.7%
Job Openings	588	575	567*	
Hires	495	477	446*	
Separations	443	408	444*	

** Preliminary Data*
U.S. Department of Labor, Heavy Equipment

INSURANCE UPDATE

There is an overall premium increase of 3% over Q3 2023 compared to a 4% increase in the previous quarter. Umbrella premiums are leveling but still increasing on policies that are capped at 10M limits. The policies that are covering above 10M are seeing flat to lower rates. Total Insured Value (TIV) on property and equipment may be years from correcting as carriers continue reevaluating values. Cyber insurance is still underutilized in the manufacturing industry; however, the awareness of the threat is increasing. There is cybersecurity assistance for manufacturers by the U.S. National Institute of Standards and Technology (NIST). NIST released their Cybersecurity framework 2.0 for public comment, and there are valuable insights on controls to put in place for manufacturers.

Alush Garzon
Manufacturing Vertical Leader

MERGERS & ACQUISITIONS

MARKET UPDATE

M&A activity over the last three quarters has remained relatively stagnant and is still far below average deal volume when compared to last year. The average deal value has fallen considerably year-over-year as well.

According to the Financial Times, private equity fundraising is down 8.5%, and the 25 largest firms in the market have captured more than one-third of the available capital. High interest rates, coupled with broader global economic factors, have forced private equity funds to focus their attention on managing the downside risk of their current portfolios instead of actively sourcing deals.

Outlook for the next quarter remains cautious, with deal volume expected to remain relatively stagnant.

INSURANCE UPDATE

Representations and Warranties Insurance ("RWI") rates have continued to decrease in Q3 2023 due to lower deal volume when compared to last year. Of note, the majority of deals that we have seen during 2023 have been lower middle market transactions, with valuations in the sub-$100M range.

Many policy premiums for sub-$100M deals have dipped below the 2.5% rate online (premium expressed as a percentage of total insurance limits). Additionally, we receive upwards of 20 quotes for each deal sent to the market. Due to excess capacity in the marketplace, carriers have been more open to negotiating specific policy points, with buyers usually coming away very satisfied with the breadth of coverage they are receiving.

Darlyn Heckman & Nick Tuliebitz
Mergers & Acquisitions Vertical Co-Leaders

> "Due to excess capacity in the marketplace, carriers have been more open to negotiating specific policy points."

SUCCESS STORY

A repeat client engaged the Representations and Warranties team to assist with an acquisition of a metal supplier as a platform transaction. The client was particularly keen to engage AssuredPartners because we had previously helped them successfully navigate a claim under an older policy. Despite the previous claim, AssuredPartners provided a smooth underwriting process and negotiated a lower rate than what the client had paid for their previous RWI policy. The client was also highly satisfied with the breadth of coverage provided under the new policy. We look forward to continued work with them.

If you have any questions about RWI policies or claims handling processes, please reach out to the AssuredPartners M&A team.

MARKET + INSURANCE UPDATE

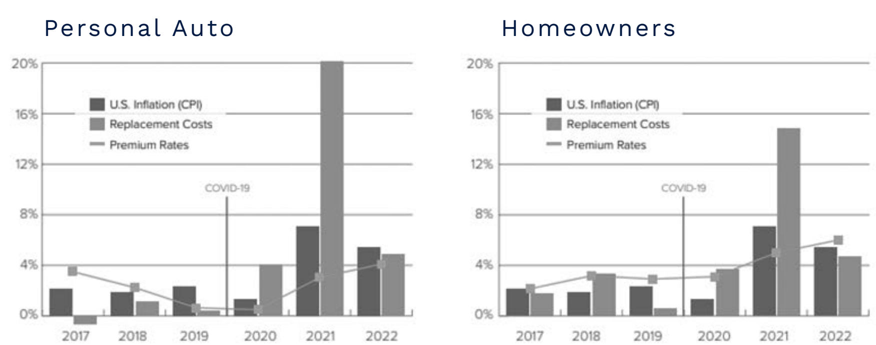
Personal Lines

Navigating the hard market continues for the personal lines space, with many companies scaling back or serving nonrenewal notices to their clients. It is important to note that these changes are not exclusive to one state or region. Clients in Florida, California, Texas, and Louisiana are among those who are most affected. In response to the heightened frequency of natural catastrophe events in the first half of 2023, alongside other ongoing difficulties, companies are exploring new strategies to find a path to underwriting profitability. Premiums are continuing to rise, some seeing increases of double and triple compared to costs from the year prior.

Adapting Underwriting Guidelines

As home rebuilds, car repairs, and medical care prices continue to skyrocket, insurance companies seek adequate rates to sustain their operations and provide quality coverage. In addition to clients paying higher prices, companies are reassessing eligibility. We see some limiting payment plans or pressing pause on new applications. Underwriting guidelines are tightening, with an appetite for placements with clean claims history for five years or those who bundle their policies. By meeting these criteria, clients can position themselves favorably and potentially access more competitive solutions. Insurance markets have been raising premiums for three consecutive years due to rising loss costs. If clients haven't received rate increases yet, we expect they will be at their next renewal.

Personal Auto & Homeowners Premium Rates vs. Inflation & Replacement Costs*



**Inflation numbers, replacement costs, and premium rates are year-over year numbers.*

Inflation date from the U.S. Bureau of Labor Statistics and Federal Reserve; Replacement cost date from Triple-I: Premium rates from Triple-I and Milliman

Managing Rising Premiums

While costs remain on the rise, clients seek new opportunities to save. Agents must look for creative ways to navigate the challenging landscape and advise their clients accordingly. Recommending higher deductibles, considering safe driving telematic programs, and encouraging discount reviews for installed mitigations can lead to savings and a happier client relationship. Avoiding lapses in coverage and absorbing small claims when able, saving money for larger losses, can also result in better rates. Additionally, we see a popular trend with companies considering prior tenure when making decisions on new client relationships.

Knowledge is Power

Providing transparency and educating clients on shifts in the industry is vital in today's personal insurance market. Brokers do not have control over rates or decisions to drop policyholders, but they can serve as a resource and counsel when needed. There is an opportunity for clients to find new partners who can better meet their needs. We expect communication and education to remain key in client relationships as we continue to navigate the hard market.

Allyson Olver
SVP, National Practice Leader for Personal Lines

INDUSTRY UPDATE

Hard market to continue, however a return of stability has occurred.

It has been well documented, and by now, many of you who own real estate have felt the impact of the uncertainty and volatility that transpired within the global reinsurance marketplace in 2023. The ensuing trickle-down effect on the U.S. Domestic property insurance marketplace was a reaction to prior years of increasing catastrophe losses, simply creating the perfect storm.

The industry was swift to make the following changes in Q1 and Q2 of 2023.

Require Adequate Insurance to Value (ITV) to Offset Inflationary Trends

Many property risks were forced to modernize their statement of property values. Those accounts underinsuring their property portfolio were forced to take an average of a 20% increase to as high as a 50% increase in reported values, causing premiums to skyrocket. Margin clauses were added to blanket limit policies, forcing insureds to increase their values or self-insure a percentage of a total loss.

Deductible Increases

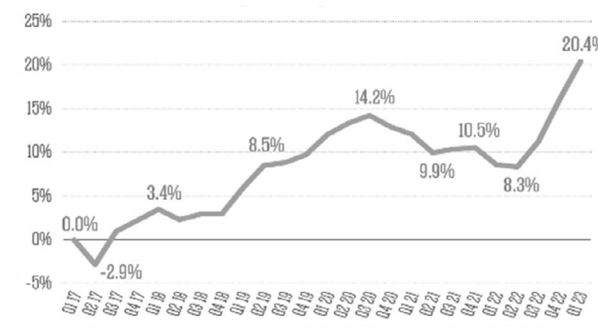
Forcing insureds to participate more within their primary losses. The days of a $10,000 or $25,000 deductible are over; winter freeze deductibles are being added at renewal of a minimum $100,000 deductible to as high as $500,000 deductible, depending upon the age and construction of the property. In catastrophe-prone areas of the country, primarily the coast % Named Storm or Wind/Hail Deductibles went from 1% to as high as 5% or 10% depending upon the location and construction type of the property. Loss limitations were also added to policies where they didn't exist prior, which would cause an insured to self-insure above a specific amount of that loss in any event or occurrence.

Rate Increases

The need for rate increases was warranted as we entered 2023 due to Hurricane Ian's impact and other winter freeze losses in 2022. It was a hard pill to swallow, realizing the impact of the Insurance To Value requirement, deductible increases, and a large percentage rate increase all at once.

Eric Stevens
Real Estate Vertical Leader

Premium Change for Commercial Property Q3 2017 - Q1 2023



The Council of Insurance Agents & Brokers

The silver lining in all of this is that we are hearing the word "Stability" being used by many of the Global Reinsurers and Domestic Markets. With the changes made in Q1 to Q2 discussed above, it is safe to say the marketplace is turning to one of cautious optimism. We are hearing that $2 Billion of additional capacity is projected to enter the global property marketplace in 2024 and that the retro market, as of July 2023, has experienced a similar return to "Stability" and a new entrance of capacity.

It is imperative to work with your insurance broker to review the current structure of your insurance program. If new capacity has entered, underwriters may be willing to offer more capacity within the primary layers of a property insurance program; unlike last year, where property capacity was being restricted, we may see underwriters deploying more primary capacity, which will drive the cost of the overall pricing downward.

Complacency will be punished in this emerging marketplace, and proactive brokers will be able to hold the line or deliver a more positive outcome to their clients. Data integrity and a complete submission will matter. If you are with a broker who is brilliant at the basics, you should see a more predictable renewal and control of your costs. Creativity will be required, and communicating results early and often, up until renewal, is usually a winning strategy to take control of this VUCA marketplace.

SENIOR LIVING

INDUSTRY UPDATE

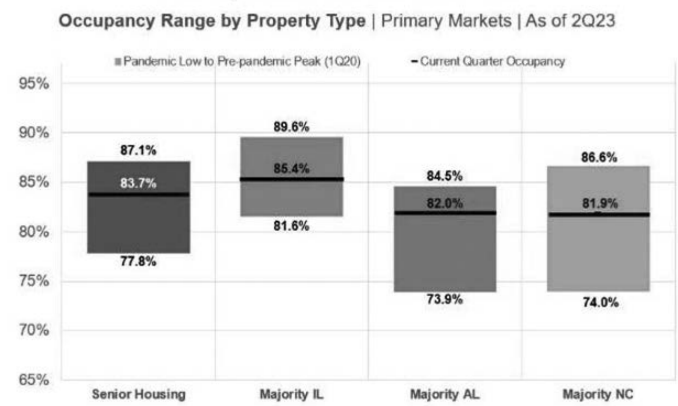
While there are positive indications the demand for senior living and the ability to increase rates in the industry does support revenue growth, the rise of expenses continues to challenge the P&L statements of several operators. Inflationary pressures are rescinding, but the current inflation rate impacting the cost of food and other items remains above the preferred pace of the Federal Reserve. While reports indicate the labor market is demonstrating signs of improvement, the senior living industry continues to be plagued. For example, extremely high staff turnover impacts the costs to onboard and train new hires. Further, it exacerbates the negative impact on operators as residents and their family members grow dissatisfied with the actual or perceived quality of care they receive.

As the Fed continues to impact interest rates to slow the economy and inflation, borrowers in the industry will continue to see higher capital costs and the availability of this capital is restricted – impacting growth in the industry and refinancing efforts.

Lastly, as reported in our latest market update, insurance cost is a top-of-mind priority for operators as the insurance marketplace continues pushing rate increases and coverage reduction through retentions and shrinking capacity.

Although grappling with managing all these increased operating costs, the senior living sector is seemingly well-positioned to navigate the challenge as other economic fundamentals indicate the industry is on the road to recovery. As NIC MAP Vision reports in their second quarter data on senior housing trends, strong demand continues, slow construction pace impacts inventory growth, and rates are improving in many markets. All point to improving occupancy rates, marking the eighth straight quarter that occupancy rates show improvement since the pandemic, and recent reporting from NIC suggests third quarter data will make it the ninth.

Majority AL Occupancy Closet to Returning to Pre-pandemic Levels



Source: NIC MAP Vision 2Q23 Key Takeaways

Unfortunately, as the industry begins to show signs of life and recovery with all of the right indicators demonstrating a positive trend, the long-term nursing care sector must now prepare for what is an inevitable implementation of a federal staffing mandate. A recent report from leading industry consultant and advisor, CliftonLarsonAllen LLP, estimates the staff mandate will cost the industry an estimated $6.8B. With only 6% of facilities today meeting this criteria, an estimated 102,000 additional full-time staff equivalents will be needed.

The new mandate could force the hand of many operations to either decrease admissions or shut down wings in the facility if staff requirements cannot be met, impacting hundreds of thousands of residents. The mandate will inevitably increase the number of skilled nursing facilities operating at negative margins, reportedly at a staggering 59%.

	Nurse Aide (2.45 HPRD)	RN 24/7 Coverage	RN (0.55 HPRD)	All/Total
Facilities that met criteria	4,079 (28%)	2,970 (20%)	7,642 (52%)	896 (6%)
Facilities that did NOT meet criteria	10,532 (72%)	11,729 (80%)	7,057 (48%)	13,803 (94%)
Estimated Annual Cost ($ in Millions)	$4,794	$610	$1,455	$6,860
Estimated FTEs to meet criteria	80,077	6,897	15,180	102,154
Potential Census Impacted	186,920 (16%)	96,528 (8%)	147,167 (12%)	287,524 (24%)

Source: CliftonLarsonAllen LLP, "CMS Proposed Staffing Mandate," September 2023

INSURANCE UPDATE

Unfortunately, as the insurance marketplace continues to be a top-of-mind challenge to the operating margins of the senior care industry, the expectation of continued rate increases remains for property and professional liability risk exposures. The shock of rate increase size is lessening, but rates are not likely to decrease in the property market as we move to 4Q 2023 or into the first half of 2024. Inflationary cost trends with labor and building materials continue to impact attritional loss amounts, and the frequency of catastrophe-related loss trends will continue to drive rates upward for the long term.

The same economic challenges of inflation and staff turnover that impact operator costs are also underwriting concerns to the professional liability marketplace. While we continue to see stable results for this line, carrier market leaders warn of developing loss patterns associated with quality-of-care allegations associated with low staffing levels and the average size of claims trending upward.

As insurance costs continue to impact the industry, it is now more important than ever to monitor risk exposures with the AssuredPartners team and implement risk mitigation strategies to optimize results with the markets.

Brian Lindhal
Senior Living Vertical Leader

TRANSPORTATION

INDUSTRY UPDATE

The lack of available truck parking has been a perennial top-five issue in the American Transportation Research Institute's annual Top Concern Survey since 2015. For drivers, it has been the top concern for the past three years, and it's a major issue tied to recruitment, retention, and attracting more women to the profession.

At a recent event in South Dakota, the American Trucking Association, along with the Department of Transportation, Chris Spear, and Secretary Pete Buttigieg, championed recent federal investments for additional parking for commercial drivers. The funding stems from the 2021 Infrastructure Investment and Jobs Act and is focused on providing secured truck parking and well-lit trucking spaces across the country.

> "We at AssuredPartners Transportation will continue to support the efforts of the trucking industry to increase the quality of life for our drivers."

Andy Engardio
Transportation Vertical Leader

SUCCESS STORY

Our commitment and experience in the transportation industry provided us with an opportunity to help a 100-unit intra-state motor carrier with great CSA Scores and favorable loss ratios. The CEO and CFO were tired of the standard renewal process – consistent rate increases with little return. They believed in their safety and compliance program and were interested in joining a captive program. Previous attempts were made to pursue captives; however, all solutions required Workers' Compensation to be included in the captive program. Due to the company's corporate structure, they do not have any W-2 Drivers and thus have little to no Workers' Compensation.

We reviewed multiple captive programs to identify one that did not require Workers' Compensation. When starting the marketing process, we brought our team to the table to show the client our size and expertise. Earlier this year, the CEO and CFO met with our team and the captive underwriters. During our time together, the client gained an understanding of the complexities of the captive and got comfortable with the design. Focused on transparency, the APT team spent the six weeks leading up to the presentation answering every question asked. This approach was time-consuming; however, their team was comfortable with our program and became a client that day.

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