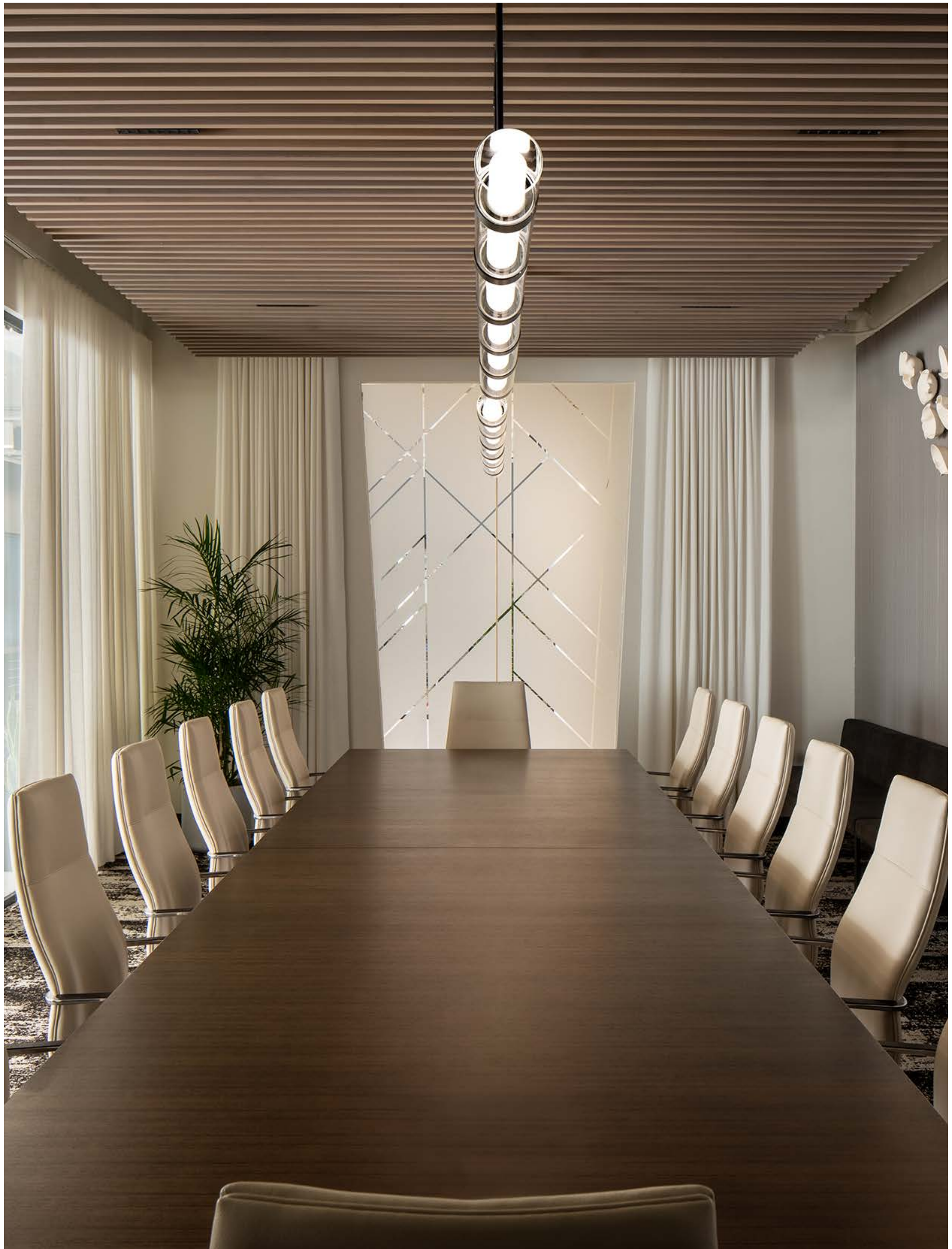
AssuredPartners

Q4 2023

Market Update

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

assuredpartners.com



Our Message

Welcome to our Q4 Market Update! As we close out the year, we want to take a moment to reflect on our ongoing commitment to service excellence, share valuable industry insights, and highlight our dedication to innovation in the insurance industry.

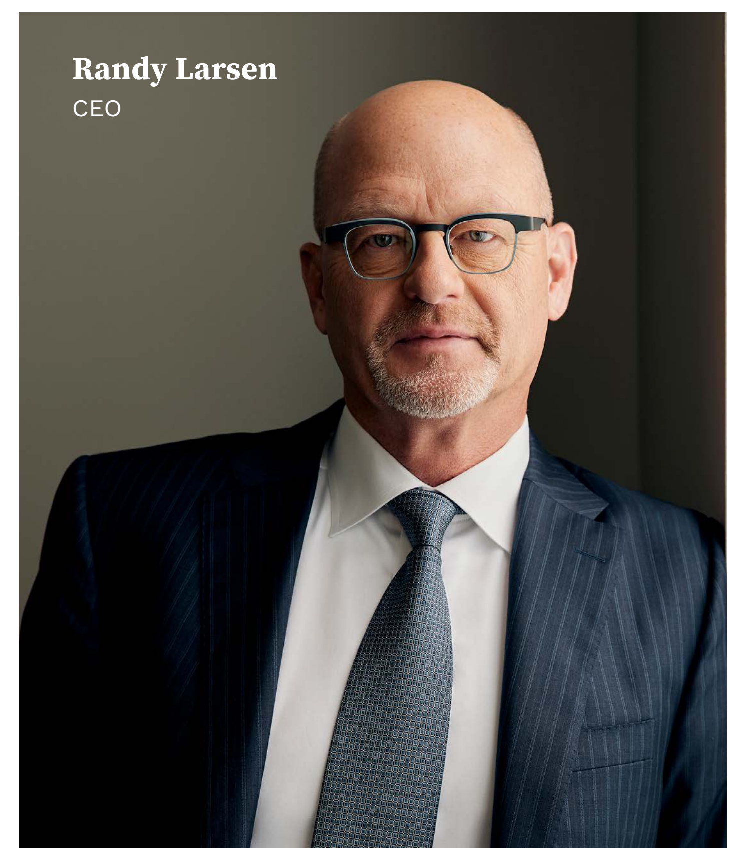
Much like other areas of the economy, the insurance industry is increasingly complex. Shifting market dynamics underscore the importance of staying informed about the latest trends and developments.

In this update, we bring you insights from our vertical and business line leaders. They will share their expertise on the current state of the insurance market and provide valuable industry insights that can help you make informed decisions.

Collaboration is at the heart of our approach. We work closely with our clients to understand their unique needs and develop tailored solutions. Throughout this update, we showcase success stories highlighting how we have partnered with our clients to overcome challenges and achieve their goals. These stories serve as a testament to our dedication to delivering successful outcomes.

We believe that by putting our clients first and providing personalized solutions, we can build strong and lasting relationships. Together, we can navigate the insurance market with confidence and embrace the opportunities that lie ahead. We look forward to continuing our partnership and serving you in the future.

That is Power through Partnership.



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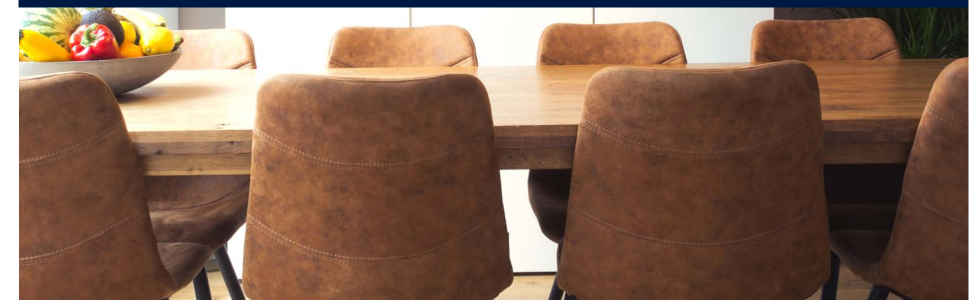
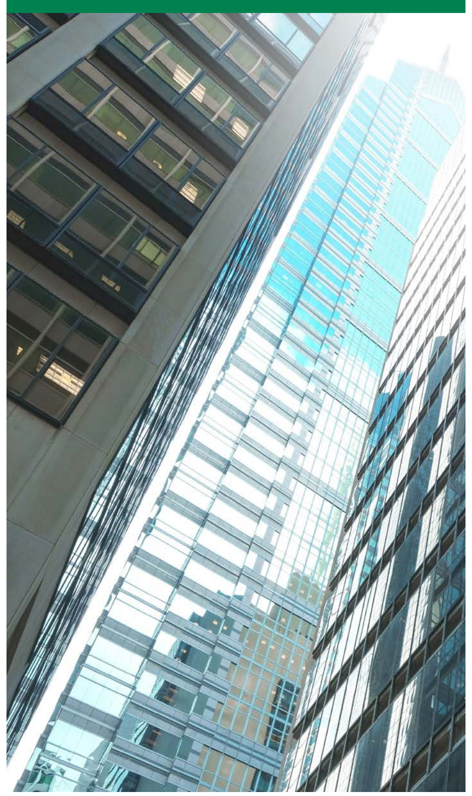
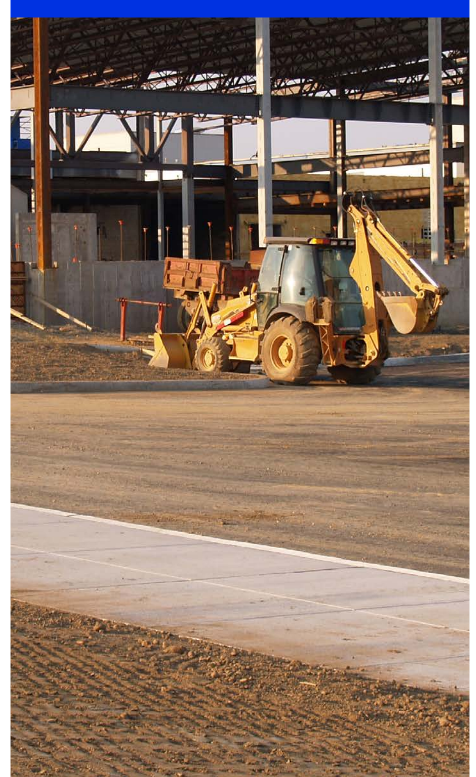










AEROSPACE

INDUSTRY INSIGHTS

"Inflation latest issue in difficult insurance market." So goes the headline of a November 2023 article in *Aviation International News*, and it is true. However, just as inflation might have peaked, it appears perhaps insurance renewal increases for the aerospace sector may have also peaked. With rates rising steadily since 2019, a bit more marketplace stability may be in store for 2024.

Aviation premiums in the United States grew 15% on average during 2019, 2020, and 2021, then slowed to around 10% average premium growth in 2022, with 2023 premium growth coming in about the same. For the first time since 2019, domestic aerospace average premium growth in 2024 could very well be in the single digits, which, if true, will be welcome news for many aviation insurance buyers.

Inflationary effects will linger and be a primary driver of residual rate increases. Today's higher cost to repair aircraft due to cost increases in both labor and parts is not insignificant. From a liability standpoint, the median value of a fatality award in the United States has reportedly jumped from $2M to $5M in recent years. Therefore, even though aviation safety has consistently improved over the last five years, resulting in fewer accidents, insurers are having to pay much higher claims per accident and incident, which has outpaced the rate of safety improvements.

Eric Barfield
Aerospace Vertical Leader

Understanding the fact that fewer accidents don't necessarily equate to lower aerospace claim payouts in this inflationary environment means the value of loss control has also increased. AssuredPartners is therefore pleased to welcome Mike Bradley to the newly-created role of Senior Aerospace Safety & Loss Control Advisor.

Mike has over 20 years of deep aviation experience, most recently as Director of Aviation for a corporate flight department. An FAA-licensed A&P mechanic with Inspector's Authorization, he also served as Crew Chief in the Air National Guard and VP of Technical Services for an Alaska-based part 121 carrier. Mike holds Business Aviation Leadership and Aviation Safety Management certificates from Georgia State University and Embry-Riddle Aeronautical University, respectively.

Mike is an experienced IS-BAO auditor for both fixed and rotor wing aircraft, with a long history of industry safety training and industry safety involvement. He will join the AssuredPartners Aerospace team to complement the claims advocacy already provided after a loss, helping clients mitigate against having a loss altogether. Mike will report to Aerospace Managing Director Joe Braunstein, who commented, "Mike's background is perfectly suited to assist our clients with value-added loss control services and risk mitigation ideas. His role will further differentiate and improve our ability to serve the aerospace sector well into the future."

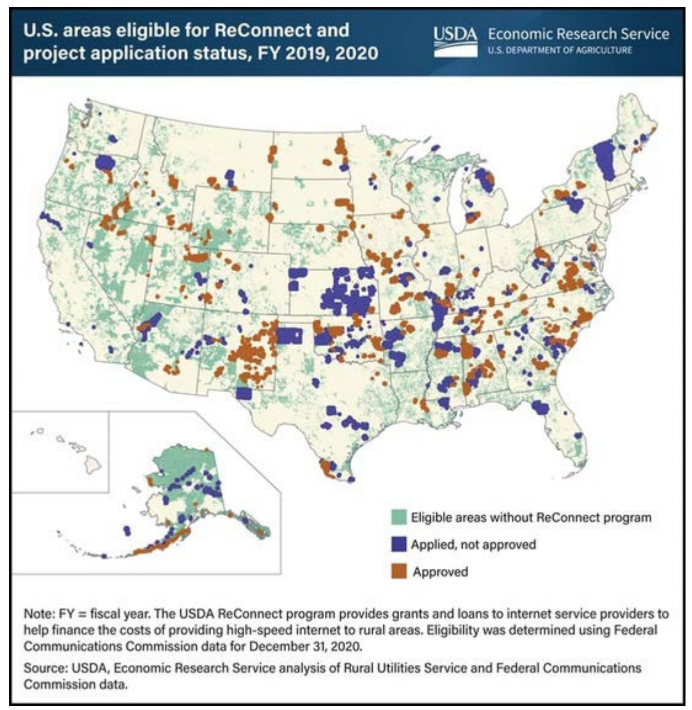
AGRIBUSINESS

INDUSTRY INSIGHTS

Rural areas continue to struggle with access to stable and efficient high-speed internet connections, which is critical to allowing digital agricultural technologies in rural areas. These technologies are vital to modernizing the agriculture industry and bringing precision ag technologies to all of America's farms and ranches.

The USDA's ReConnect Program is their largest effort aimed at filling the gaps in high-speed internet in unserved and underserved rural areas. The USDA recently released a map (opposite page) showing the areas approved for the broadband program grants and loans.

The project started in 2018 and has appropriated more than $5B to help private sector companies provide broadband services to rural areas. So far, it has reached an estimated 21% of the eligible rural population in its first two funding rounds, with hopes to more than double this impact with the most recent round of funding approvals.



Gina Ekstam
Agribusiness Vertical Leader

CAPTIVES

PROPERTY & CASUALTY

As the hard insurance market continues, so does the growth of captives. "What used to be an exception has now become mainstream in the insurance arena," says Lori Harris, AAI, CPIA, Captive Director.

Captive domicile regulators echo this outlook in a report by captive.com that looked at the number of existing and startup captives in key domicile states:

- Vermont, the biggest U.S. captive domicile with 656 captives, added 25 new captives so far this year, with more applications being processed.
- Utah added 29 new captives in 2023, bringing their total count to 424.
- North Carolina reached a new milestone of more than 300 captives with 12 applications pending.
- Montana has a total captive count of 283, with 31 added this year.
- South Carolina's total captive count is 211, with 10 new captives licensed this year.
- Tennessee's captive total is 158, with the addition of 24 captives added so far in 2023.

"The reason for continued captive growth is twofold: increases in conventional marketplace premiums and decreases in finding available coverage," explains Harris. "Business leaders are more open to new solutions to help ease market pressures," she adds.

EMPLOYEE BENEFITS

The American Psychological Association's work and well-being survey reported that 81% of workers who participated said they would be looking for an employer that supports mental health when they seek future job opportunities. A recent Forbes article by Brian Menickella listed the seven most in-demand employee benefits: health insurance ranked second, while health and mental wellness programs ranked fifth.

"The benefits a company offers can dramatically impact the employees they can attract as well as those they can retain," says Geoff Christian, MBA, CWCC, Employee Benefits Captives Leader and Executive Vice President, Benefits Division at AssuredPartners. Employers having a comprehensive program that includes dental and vision should consider offering programs that support mental health, life, disability, and accident to meet the diverse needs of their workforce.

Christian elaborates on his point, stating, "Employee benefits captives can equip a company to meet the unique needs of their employees. For example, our captives team was able to help a client find a more suitable option to address the mental health challenge of an employee's dependent. Because the company was self-funded through a captive, we had the flexibility to find a new treatment facility that better addressed the employer member's needs."

Nick Napolitano
Captives Vertical Leader

CONSTRUCTION & SURETY

INDUSTRY INSIGHTS

Construction starts exhibited a downward trend with a 7% fall in October, following a 6% decrease in September, according to the Dodge Construction Network. The American Institute of Architects' Architecture Billing Index, an indicator of future building design work, also experienced a dip in October. This indicates a declining commitment to new projects by clients, with high interest rates, and tightening credit markets identified as part of the problem.

October also saw nonbuilding starts plummet to a 12-month low of 32%, underscored by a sharp drop in utility and energy starts. The good news is that bridge and highway starts improved as more Infrastructure Investment Jobs Act (IIJA) funds found their way into the industry, keeping the year-over-year nonbuildings starts in positive territory.

The labor market conditions continue to be strained, leading the industry to explore alternatives like trade school initiatives and apprenticeships for broadening the labor pool. Notably, a proposal in Florida is considering the inclusion of 16-year-olds in roofing projects, as reported by *Construction Dive*.

Delivery times for many materials have improved, but it is still an item that must be managed effectively to avoid project delays. Material pricing has softened but remains above historical levels for most items.

> "Despite numerous challenges, the construction industry continues to seek innovative ways to boost productivity and efficiency."

Kyp Ross
Construction & Surety Vertical Leader

MARKET UPDATE

For the 23rd Consecutive quarter overall commercial insurance rates increased, per The Council of Insurance Agents & Brokers' [2023 P/C Market Survey](#).

Business Insurance reported a similar finding in its quarterly report (see map to the right).

The surety industry has considerable capacity with additional capital considering entry. That said, loss ratios have been ticking up for many carriers, according to quarterly results from The Surety and Fidelity Association of America (SFAA). In speaking with industry executives, frequency and severity appear to be occurring.

On contract bonds, many are struggling to find replacement contractors, and when they are able to find them, the costs to complete the work exceed the original contract funds in some cases. A surety executive advised that on at least one occasion, they have written a check for the full bond penalty rather than attempt to finance the current contractor or try to secure a contract with a replacement contractor.

Average quarterly percentage pricing changes across major commercial insurance lines

Source: *[Business Insurance](#)*

EDUCATION

Welcome to our newest industry vertical: Educational Institutions!

For nearly 30 years, our education team has insured K-12 private and public schools, colleges, and universities. We are excited to formally launch this new AssuredPartners practice and share our team's collective experience and expertise in helping clients improve their risk profile and secure the most competitive and comprehensive insurance programs available in today's challenging marketplace.

The educational institutions we strive to work with include Private Colleges and Universities, Community Colleges, State Universities, K-12 Independent Boarding and Day Schools, Public and Charter Schools, and Experiential Education Organizations.

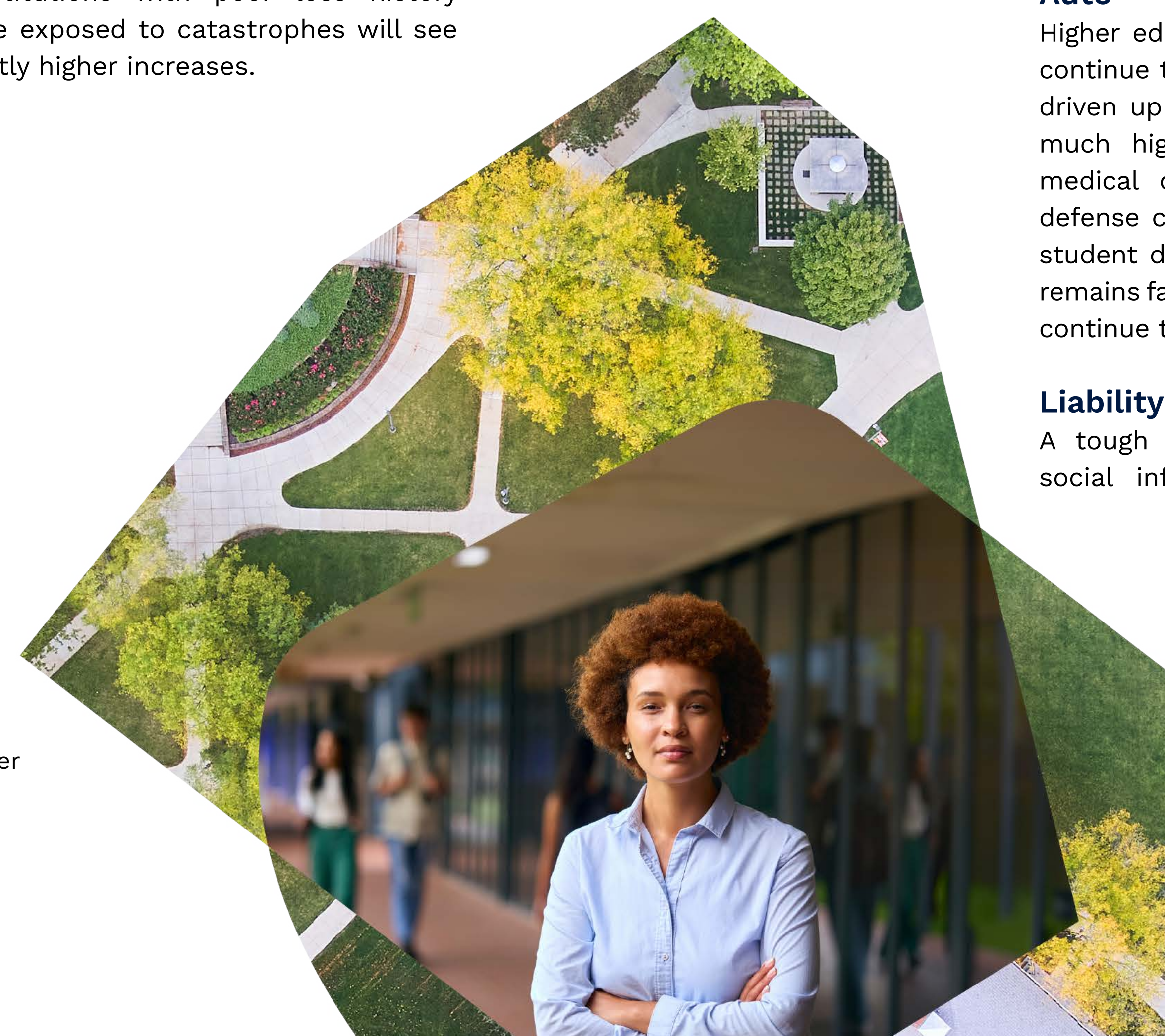
Sam Daume
Education Vertical Leader

MARKET UPDATE

The Property & Casualty insurance market for educational institutions continues to be a mixed bag of market firming and competitiveness.

Property

The rising frequency and severity of weather and other catastrophic events, like wildfires, combined with increasing construction costs, continue to cause adverse underwriting results for insurers and reinsurers. As a result, premiums will continue to rise sharply. We do not see these trends improving any time soon and believe we will continue to see underwriters seeking 10%–15% rate increases and 3%–7% value increases – *for the best risks.* Institutions with poor loss history and those exposed to catastrophes will see significantly higher increases.



Workers Compensation

A relatively stable market continues to defy the headwinds of higher medical costs, legal costs, and an aging educational institution workforce. The market will worsen at some point, but we expect continued flat to low single-digit rate increases in 2024. Of course, payroll increases and potentially rising experience modification factors could push overall premiums upward. While captives and other loss-sensitive/performance-based options are a consideration for larger institutions, the standard markets are providing very competitive guaranteed cost proposals for good risks.

Auto

Higher education auto rate increases should continue to mirror the general auto market—driven up 5%–10% due to distracted driving, much higher auto repair costs, increased medical costs, and more significant legal defense costs. K-12 loss experience, without student drivers and with fewer miles driven, remains favorable, and resulting rate increases continue to be better than industry averages.

Liability

A tough combination of nuclear verdicts, social inflation, rising legal and medical costs, and the sharp rise in litigation funding create a continuing hard market for casualty lines. That said, insurers took significant rate increases in recent years, and several key carriers' results have improved because of both increased premiums and stronger underwriting. As such, we expect the net rate increase for schools and colleges be in the +5%–10% range. One exception to this is higher limits of Excess/Umbrella, where the market continues to be tight, and coverage (especially Sexual Misconduct and Traumatic Brain Injury) is often restricted.

Cyber

With frequency and severity diminishing moderately and insurers keeping their eyes on a potentially huge market in the future, cyber insurance premiums remain flat to mid-single-digit increases. It appears all the decisive cybersecurity risk management actions implemented by educational institutions over the past few years are working.

Overall, the Property & Casualty market for schools and colleges will continue to firm at a lesser rate than over the past few years, except for Property and Excess/Umbrella.

ENERGY

INDUSTRY INSIGHTS

The U.S. energy industry continues navigating a complex landscape marked by challenges and opportunities. The sector, comprising fossil fuels and renewable energy, has been significantly influenced by global economic factors, regulatory changes, and an increasing focus on sustainability.

Companies in the fossil fuel sector have reported notable revenue growth due to inflated fuel prices. However, this growth is tempered by escalating costs across all energy sectors, largely attributable to pervasive supply chain issues. Additionally, global sanctions on Russia have intensified these challenges by pushing the energy process higher as the restricted supply struggles to meet historically high demand.

The insurance landscape for the fossil fuel sector mirrors these complexities. The onshore energy industry, for example, has seen insurance rate increases ranging from 10% to 25% due to substantial business interruption losses and operational losses. In upstream property, the market has experienced a pullback in capacity, influenced by a challenging reinsurance renewal season and ongoing losses. This scenario has prompted rate increases, especially for clean accounts with increased exposures. The casualty market also reflects these trends, with rising market rates driven by a surge in claims and concomitant reduction in capacity.

Simultaneously, the renewable energy market continues its robust growth, driven by the Inflation Reduction Act and a global shift towards clean energy. This growth has been further bolstered by the expanding role of mutual insurance companies, which offer enhanced capacity and valuable services tailored to the unique needs of the renewable energy sector. Companies leveraging mutual insurance have experienced less volatility and enjoyed access to greater capacity compared to their non-mutual counterparts.

Trevor Gilstrap

Energy Vertical Leader

The sustainability agenda, particularly the operationalization of net zero underwriting and the integration of Environmental, Social, and Governance (ESG) factors, is increasingly influencing the insurance strategies of both fossil fuel and renewable energy sectors. Insurers are now tasked with developing sophisticated approaches for integrating ESG into underwriting processes, moving from simple screening methods to more dynamic portfolio steering and risk selection.

Facing an ongoing energy crisis, the industry has had to adapt to a dual reality where investments surge in new fossil fuel infrastructure and renewables. Insurers with significant energy portfolios are thus strategizing to navigate this complex environment, balancing the urgency of energy security with their own transition objectives towards cleaner energy sources.

The U.S. energy sector is at a pivotal juncture, marked by revenue growth against a backdrop of increased costs and complex supply chain dynamics. In response, the insurance market is evolving to address these challenges, with a growing emphasis on sustainability, ESG integration, and innovative risk management solutions. This evolving landscape presents a unique set of challenges and opportunities for insurers, requiring strategic adaptation and foresight to navigate the shifting dynamics of the energy sector effectively.

"The U.S. energy sector is at a pivotal juncture, marked by revenue growth against a backdrop of increased costs and complex supply chain dynamics."

MARKET UPDATE

Employee Benefits

In our final market update for Q4 of 2023, let's look forward to the 2024 Medical/Rx trend and then continue our focus on the pharmacy market, specifically the levers employers are pulling to address cost and employee experience.

Trend projections usually come in two forms: gross trend and net trend. We typically only see the net trend outlined in articles and industry pieces. The Gross Health and Welfare trend in 2023 was projected at roughly 9.5%, and net inflation should end up around 5.5% after cost control measures such as changes to carriers and plan design are implemented. In 2024, we are projecting a very similar gross inflation rate of around 9.5%; however, the net inflation appears to be approximately 1.5% higher than 2023 results, projected at somewhere between 6.5% and 7%, depending on whose data you follow. If the projections are accurate, and we have no reason to doubt them based on what we know today, this will be one of the highest net trend rates in the past ten years.

What can we do about it? Let's continue our review of the Rx Market for some possible solutions.

Jim Hartz
SVP, National Employee Benefits Practice Leader

Earlier this year, McKinsey surveyed employers and employee benefits brokers in partnership with CIAB, taking a deep dive into the state of the pharmacy marketplace. There was some useful information in the article about the market, but the data we plan to share today relates to cost-saving solutions and the employee experience. We just looked at the net trend rate for 2024, and – if changes to your Rx platform are to be considered as part of your renewal planning – you may find the following survey findings useful in those discussions.

Employers continue to drive Rx cost reductions through implementing pharmacy-related solutions. According to survey findings, the top cost-reduction solutions being implemented by employers are:

- Step therapy,
- Mandatory specialty networks,
- Carving out the Rx and/or
- Using transparent vendor partners.

The entirety of the survey findings can be reviewed here.

Large employers are over 20% more likely to carve-out their prescription drugs and contract directly with a PBM or PBM coalition, with the potential cost savings as the primary driver. According to the article, the average cost savings of carved-out plans is around 4%. Based on our experience, that number seems light. The study findings also state that, for employers who remained carved-in, those employers saw no savings. Again, those reported results seem much lower than what we are experiencing with our clients.

The study findings also report that employers aren't just looking to cut costs; they are paying particular attention to employee experience. Through that lens, price shopping/transparency tools are the top-ranked employer solution. We expect to see more solutions related to the employee experience added to pharmacy platforms, and AssuredPartners is currently following a pilot project related to that space.

The names of the various solutions vary by vendor, so don't expect to see exactly what we have outlined here in every market. Work with your AssuredPartners advisor to explore what options are available to your organization through your Rx vendor partner.

DRUG COST SOLUTION	AVERAGE REPORTED SELF-INSURED EMPLOYER ADOPTION	% BROKERS REPORTING MOST OR ALL CLIENTS HAVE ADOPTED TODAY	PERCENTAGE POINT CHANGE VS. 5 YEARS AGO	AVERAGE REPORTED COST SAVINGS
Step therapy	65%	57%	17 p.p.	2.0%
Stop-loss coverage	62%	49%	9 p.p.	1.8%
Mandatory specialty pharmacy network	58%	51%	24 p.p.	2.2%
Co-pay accumulator card program	55%	46%	29 p.p.	0.6%
Use of a "transparent PBM" where rebates are passed directly to the employer, typically in exchange for increased fees paid to the PBM	51%	38%	11 p.p.	0.9%
Carve-out program that enables member to acquire or access specialty pharmaceuticals at a lower price through an alternative, non-PBM source	49%	38%	17 p.p.	2.1%
Additional medication/treatment adherence programs and/or incentives for members	46%	26%	0 p.p.	1.1%
Use of a specialized analytical service provider to identify prescription drug savings opportunities	44%	25%	7 p.p.	0.1%
Limited/narrow retail pharmacy network	43%	21%	-2 p.p.	0.3%
Value-based contracting where price for a prescription drug is based in part on patient outcomes	40%	23%	10 p.p.	0.0%

Source: *Council-McKinsey Survey on Prescription Drug Benefits, 2023 (n=100)*

GOVCON/A

INDUSTRY INSIGHTS

The White House Sets the Stage for Government Contracting Opportunities

The White House has made it clear that it wants to see more small businesses in the government contracting arena in 2024. According to whitehouse.gov, the administration hopes to expand access to small business loans, improving customer experience offices at the Small Business Administration. This is in addition to the goal of expanding contracting opportunities to veteran-owned businesses.

2021 and 2022 were great years for small businesses in government contracting, and this administration appears highly motivated to build on that trajectory. So, what does this mean? The short answer: Opportunity.

With expanded opportunities within the government contracting sector, more and more businesses are entering government contracting for the first time. These new contracting participants will have to contend with compliance and regulatory requirements that typically exceed what is common in the private sector.

Whether a small business is trying to get its piece of the billions of dollars of opportunities in cybersecurity or simply hopes to obtain a contract or award under the Inflation Reduction Act, one thing is certain. A contractor should closely read their contracts, understand their potential liability, and educate themselves on the requirements of the contract.

Government contracts can be vital opportunities to grow a developing business. However, compliance concerns and bidding incorrectly can cause more harm than good. Setting up a business for long-term success in the government contracting space can be a daunting proposition

Taylor Boon
GovCon Solutions Vertical Leader

> “With expanded opportunities within the government contracting sector, more and more businesses are entering government contracting for the first time.”

Total Compensation and Benefits are Key to Success in Services and Construction Contracts!

Do you know if the services work you perform for the federal government is subject to the Service Contract Act? For federally or state-funded construction contractors, the Davis-Bacon Act may apply! This knowledge can make all the difference!

If the wage determination of a contract mentions either of these laws, AssuredPartners is here to help you navigate those unique compliance obligations! For contractors that have not bid the contract, our experts may be able to guide you toward strategies that will reduce our bid costs through best practices and fringe dollar management. For contractors recently awarded a contract, our insurance professionals can provide invaluable guidance on compliance and potential cost savings measures available to the employer.

Successfully navigating the government contracting space takes a well-rounded approach. At AssuredPartners, we are pleased to support your company through competitively designed fringe benefit programs. Allow us to share our expertise to build your future success.

MANUFACTURING

INDUSTRY INSIGHTS

Industrial production increased 0.2% in November, and manufacturing output rose 0.3%. According to the Federal Reserve, the increase in manufacturing output was more than accounted for by a 7.1% bounce back in motor vehicles and parts production following the resolution of strikes at several major automakers.

Much like other industries, manufacturing is still developing strategies to operate in a tighter capital market. There are also growing concerns over the volatility of the cost of raw materials heading into 2024. In addition, material scarcity and foreign supply chains are also a concern as China's production growth continues to contract.

Supply chain disruption and cyber-related risks, specifically ransomware attacks, continue to be the biggest risk to manufacturers in 2023. According to industry surveys, cyber threats continue to rise as a risk of concern for many manufacturers and industrial companies.

Leading risks to businesses worldwide from 2018 to 2023	2018	2019	2020	2021	2022	2023
Cyber incidents (e.g. cyber crime, malware/ransomware causing system downtime, data breaches, fines and penalties)	40%	37%	39%	40%	44%	34%
Business interruption (incl supply chain disruption)	42%	37%	37%	41%	42%	34%
Macroeconomic developments (e.g. inflation, deflation, monetary policies, austerity programs)	-	-	11%	13%	11%	25%

Source: https://www.statista.com/statistics/422171/leading-business-risks-globally/

Alush Garzon
Manufacturing Vertical Leader

INSURANCE UPDATE

There is an overall premium increase of 4% over Q3 2023 compared to a 4% increase in the previous quarter. Excess liability premiums are increasing at a lower rate of 4%, compared to 8% in the prior quarter, mainly due to the underlying auto fleet premiums that continue to increase because of losses. Cyber insurance premiums have decreased as fewer ransoms are being paid. Business interruption and incident response claims are still prevalent in cyber payouts.

SUCCESS STORY

Premiums for workers' compensation in the manufacturing industry can be controlled with proper safety initiatives and data analytics related to the experience modifier. Our team was approached by a metal manufacturer in Pennsylvania because of issues with their workers' compensation claims.

Our in-house resources assisted their Environmental Health and Safety Officer with developing a program specifically designed to improve the safety of their plant. We connected our OSHA consultant to the organization and provided training resources to meet the facility's specific needs. Data analytics also played an important role, as our workers' compensation team was able to provide insight into what was driving the high experience modifier. We discovered several opportunities for corrections to their claims experience, resulting in a reimbursement from the carrier to the client for overpaid premiums.

MERGERS & ACQUISITIONS

INDUSTRY INSIGHTS

The M&A market experienced challenging headwinds during the course of 2023, and global M&A activity significantly decreased from the previous two years. Geopolitical factors, inflation, and high interest rates pushed deals to the lower end of the market (under $250M in enterprise value). Deal pace slowed and buyers honed-in on due diligence processes to ensure the quality of their investments.

Nevertheless, the M&A outlook for 2024 is cautiously optimistic. Fund raising for private equity continues to be relatively robust, despite fund sizes closing smaller than expected. A few recent examples: one major private equity sponsor closed its 8th flagship fund with $14.8B of committed capital in 2023 ($7B lower than their target), and another major private equity sponsor closed their 10th flagship fund with $20B of committed capital ($5M lower than their target). Of note, there has been a large push for global impact fundraising. One major private equity sponsor closed a $2.8B Global Impact Fund in November 2023, and another significant private equity sponsor announced the closing of their $900M Global Impact Fund in December 2023.

With the amount of committed capital across the private equity market, we anticipate increased M&A activity in 2024 when compared to 2023.

Darlyn Heckman & Nick Tuliebitz

Mergers & Acquisitions Vertical Co-Leaders

INSURANCE UPDATE

Over the course of 2023, rates for Representations and Warranties Insurance (RWI) have steadily declined from an average of 3.75% to approximately 2.5%. According to reports by Euclid Transactional (an established insurance underwriter in the RWI market), the current rates are at an all-time low. Despite the steep decline in insurance rates, carriers have remained committed to paying claims. In fact, based on Euclid's comprehensive claims report published in November 2023, the number of claims submitted has risen, with July 2023 being the most active month of claims received since Euclid was founded in 2016.

Based on AIG's recently published RWI claims report, one in six RWI policies will submit a claim. Carriers remain committed to paying claims to maintain their brand loyalty and reputation in the market. Given the continued incidence of claims in the marketplace, we anticipate that RWI rates will begin to rise in the near to medium future as insurers need to maintain profitability for stakeholders. Nonetheless, it is important to note that despite lower rates, carriers remain focused on maintaining the integrity of the product through successful claim payments.

SUCCESS STORY

We were engaged by a repeat client to assist with an add-on transaction to one of their portfolio companies that is publicly traded. Given the nature of the transaction, there was increased insurer scrutiny regarding the buyer's diligence during the underwriting process. Our team helped the management team successfully navigate the RWI underwriting process while minimizing disruption to their broader deal efforts. Ultimately, the client was very satisfied with our services, and we look forward to continued work with them in the future.

Regardless of public or private style deal structure, the M&A Insurance Services Vertical at AssuredPartners brings senior-level expertise to each transaction.

Personal Lines

MARKET UPDATE

As we approach the conclusion of 2023 and look ahead to the upcoming year, we anticipate the continuation of rate pressure to impact both clients and insurance agents. High-interest rates are presenting obstacles for homebuyers, and while inflation is slightly lower, individuals are feeling the burden of increased consumer spending and record-high personal debt levels. The evolving landscape highlights the need for awareness of how external economics impact insurance rates.

Shopping Trends

Amidst ongoing issuance of nonrenewal notices and rate increases by insurance companies, many consumers are leveraging this opportunity to do a thorough review of their coverage, seeking advice on ways to reduce their costs. Although home buying has slowed down due to higher interest rates, the number of home and auto insurance shoppers remains elevated over the prior year. The overall sharp increase in rates has prompted consumers to increase their deductibles and opt out of valuable coverage as a cost-saving strategy. Consumers are encouraged to take a proactive role in reviewing insured properties and limits to adequately assess the risks associated with current market dynamics.

Technology Enhancements and Exposures

The ability to work remotely has resulted in the migration of Americans to more affordable areas. The top states people moved to in 2023 include Arizona, Florida, Georgia, Idaho, North Carolina, and Texas. The relocation to states with different weather patterns and their associated risks are impacting additional homeowners' insurance needs, including coverage for hurricanes, wildfires, flooding, and hailstorms. The rise in digital fraud coincides with added vulnerabilities from the influx of work-from-home and increased household connectivity. The average number of connected devices per household is 21. The regular use of technology, and considering its advancements, indicates a steady increase in phishing scams and fraudulent activity.

INSURANCE UPDATE

We expect the hard market to remain next year, with premiums continuing to rise. Consumers will continue shopping for the best options available, and the need for insurance agents to serve as a resource will remain valuable through this time.

Allyson Olver
SVP, National Practice Leader for Personal Lines

REAL ESTATE

INDUSTRY INSIGHTS

The 2024 property and real estate marketplace is considerably brighter than the gloomy predictions that plagued the start of 2023. The mild Atlantic hurricane season has set the tone for a more stable 2024, despite the $100 billion insured property losses incurred in 2023 due to U.S. convective storms and the devastating wildfires in Maui.

Factors that reinvigorated the market and restored profitability include valuation increases for underinsured portfolios, rate increases, and insureds assuming larger retentions or higher deductibles.

The challenges of 2023 encouraged our insureds to adopt proactive strategies, with innovative brokers navigating the market landscape using alternative risk strategies. In addition:

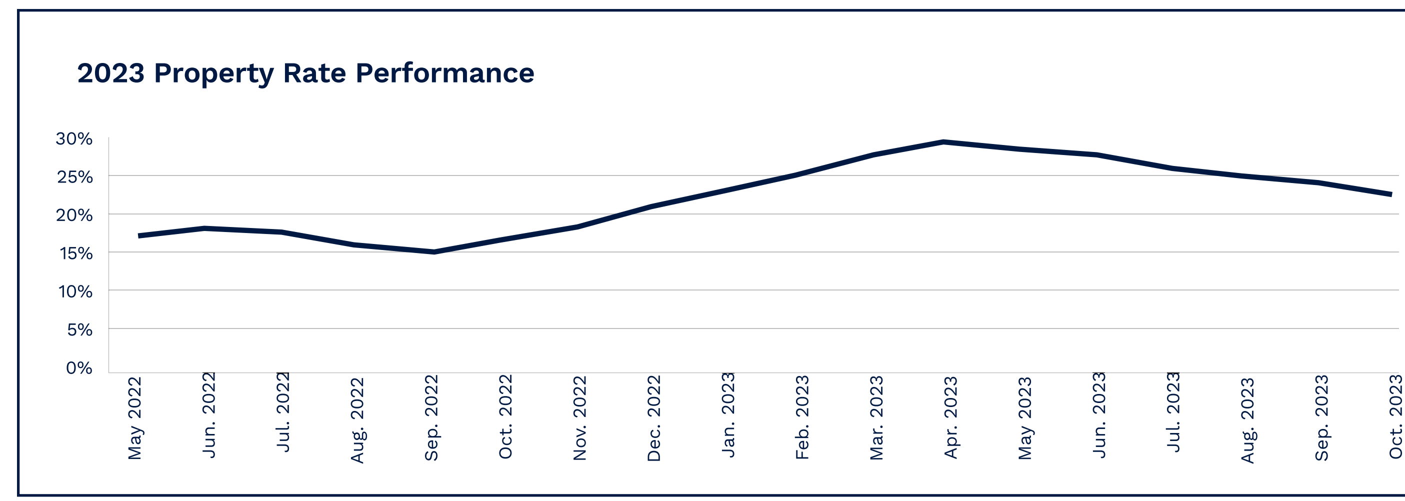
- Parametric insurance and captives emerged as alternative ways to take on smart risk.
- Risk modeling and analytics played a significant role in decision-making processes, particularly when purchasing excess coverage within layered and quota-shared programs.
- Insureds also began participating in their primary layers on a quota-shared or percentage basis to normalize overall rates and offset substantial increases or fill gaps in their program structure due to the limited reinsurance capacity in 2023.

We anticipate that the restructuring of reinsurance treaties in 2024 will create additional capacity in the market. Barring any large winter freeze events in the southern U.S. and an active spring forecast for convective storms or tornadoes, the second, third, and fourth quarters of 2024 could prove highly competitive. A comprehensive assessment of marketing or remarketing accounts will be crucial.

The rate predictions for 2024 are as follows:

- Non-CAT exposed: Flat to 10%
- CAT exposed: +10% to +25%

Eric Stevens
Real Estate Vertical Leader



Source: AmWins, "State of the Market 2024 Outlook"

Casualty lines continue to present challenges for real estate accounts, especially those with residential, apartment, or condominium risk. Factors such as social inflation and nuclear verdicts persistently contribute to lackluster performance for accounts in the real estate casualty sector. We are seeing the addition of sub-limits for assault and battery and sexual abuse and molestation coverage. Where not sub-limited, these risks may be excluded from primary general liability providers.

Self-insured retentions have become necessary to maintain stability, and third-party administrators are establishing specialized claims handling procedures to prevent loss escalation. Prompt reporting of claims is essential in controlling costs.

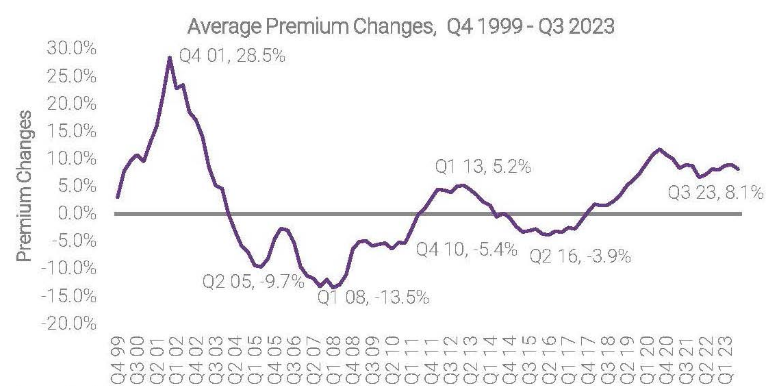
For brokers, 2024 will be a busy year, as the timing of market downturns for insureds will be crucial, should they occur.

Select Commercial

MARKET UPDATE

Small businesses face significant economic challenges amid ongoing inflation, rising interest rates, and labor shortages, with many owners expressing concern about the overall U.S. economy. A year marked by numerous environmental catastrophes has compounded these difficulties, with increased property losses and depleted reinsurance capacities triggering a spike in premiums and rates. The auto insurance sector's underperformance further justified these rate hikes. On average, premiums rose 8.1% across all commercial insurance account sizes, with small commercial businesses witnessing about a 7.5% increase.

The CIAB's Q3 2023 P/C Market Survey indicates that "rate fatigue" has deterred many consumers, who also feel overwhelmed by the surge of carriers' information requests. In this scenario, brokers emerge as valuable allies, their expertise instrumental in helping clients navigate industry complexities and mitigate the mistrust and exhaustion being experienced.



Source: The Council of Insurance Agents & Brokers

Average Commercial Pricing Increases	Small Accounts
Third Quarter 2023	7.9%
Second Quarter 2023	7.2%
First Quarter 2023	6.2%
Fourth Quarter 2022	6.5%
Third Quarter 2022	6.5%
High (4Q01)	20.8%
Low (1Q08)	-10.0%

Source: The Council of Insurance Agents & Brokers

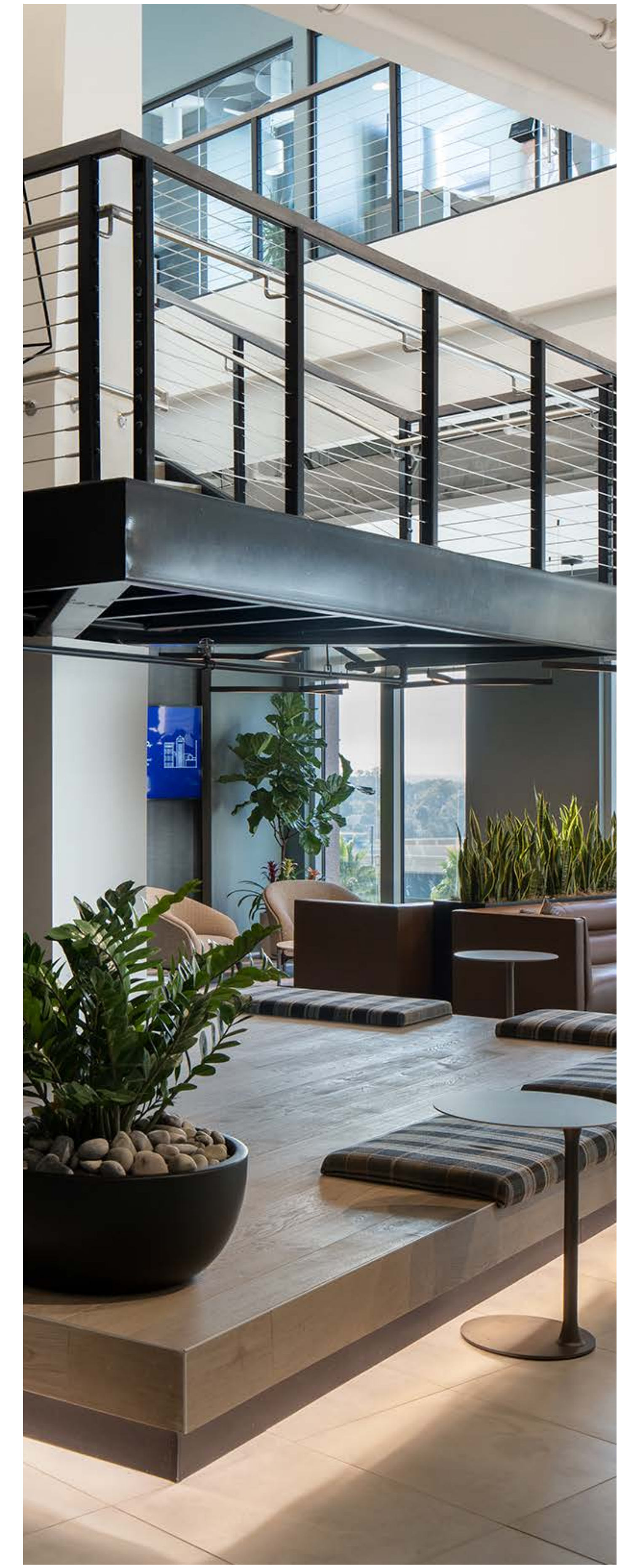
Despite the upheavals, projections for 2024 anticipate a more positive trajectory. Rates are expected to stabilize in some areas, with AM Best forecasting a stable commercial insurance outlook for the new year, particularly for commercial property and workers' compensation.

Knowledge is Power

A study by Hiscox reveals that a staggering 70% of small business owners do not comprehend their insurance policy coverage, and around 75% are underinsured. Understanding the ins and outs of insurance is crucial for small businesses, which constitute about 99% of all U.S. businesses and contribute significantly to the economy.

Addressing insurance gaps hinges on effective communication and knowledge dissemination. While we don't have control over rates, the bespoke experience and knowledge of experienced advisors are invaluable in guiding clients toward a better understanding of their policies and ensuring optimal coverage and pricing. In today's challenging market, understanding your policy protection is the most effective way to avoid insurance surprises.

Sally Borland
National Select Commercial Leader



SENIOR LIVING

INDUSTRY INSIGHTS

Fatigue and frustration. Yes, that is the unavoidable description of how the insurance marketplace has left most of us feeling in 2023. Another consecutive quarter-over-quarter of premium increases has persisted throughout the year. 3Q 2023 was the 24th consecutive quarter of increases reported by The Council of Insurance Agents & Brokers in its 3Q 2023 P/C Market Report. Further analysis confirms high premiums, the prospect of continued increases in premiums, and the limitation of coverage as clients move into their next renewal cycle are key concerns. Not to mention, the looming challenge associated with the process and time requirements to receive coverage and premium options from the marketplace has become downright onerous.

There has been an air of anticipation in the market suggesting improvement, but the expectation of continued rate increases does remain for property and senior care professional liability risk exposures. The shock of rate increase size is lessening, but rates are not likely to decrease in the properly market as we move into the first half of 2024, and underwriters are still closely scrutinizing each submission.

As insurance costs continue to be a top-of-mind priority for owners and operators, monitoring risk exposures and analyzing your program structure early before renewal to maximize marketplace results (suggests 90-120 days prior) is pertinent. Your AssuredPartners Senior Living team will work for you to develop and procure submission information and help you navigate through this process.

There are several areas where focus and analysis with our expert team are recommended. Here are a few to consider and expect in discussion.

- Review building cost evaluations and financials for adequate limit and deductible analysis.
- Detail capital investments in properties, including preventive and mitigative technologies.
- Detail risk management resources that have been used through the carrier, broker, and other external resources and highlight documented results.
- Highlight the innovative measures taken in your communities to address staffing challenges.
- Exhibit improving occupancy trends for your portfolio.
- Tell your story of innovation as you prepare for the future.

SUCCESS STORY

Various degrees of property rate impact has been felt across the nation, but there have not been areas immune to increase for quite some time. This does not mean we at AssuredPartners settle for what is communicated as an 'average' or a 'good' renewal result without exploring every option available.

A recent 4Q23 renewal quote option for a large property client at a 12% rate increase, equating to -$200k additional premium, was successfully negotiated to a flat renewal. With relentless pursuit of market options and persistence, we leveraged to restructure the deal, stretching our primary layer and eliminating what was now unnecessary buffer layer costs. Underwriters are demonstrating a willingness to offer more capacity, and we asked.

Brian Lindhal
Senior Living Vertical Leader

TRANSPORTATION

INDUSTRY INSIGHTS

The FMCSA Clearinghouse-II final rule compliance date of November 18, 2024, is less than a year away. The Clearinghouse was established to catch CDL holders who fail a drug or alcohol test or refuse a drug or alcohol test from operating a commercial vehicle. However, the responsibility has been on a motor carrier's safety department to check the system at the time of hiring and once a year thereafter. The new rule will require the State Driver Licensing Agencies to take immediate action and downgrade the licenses of CDL Carriers. This downgrade will hold until the CDL holder completes the Return-to-Duty Process (RTD) as established in 49 CFR part 40, subpart O.

Cost of Congestion to the Trucking Industry

American Transportation Research Institute recently released their Cost of Congestion. In 2021, we hit a new peak of $94.6 billion in congestion-related annual costs. The numbers for this report closely follow the Top 100 Trucking Bottleneck report created every February to determine the cost associated with drivers sitting idle in traffic, delays at shippers/ receivers, route inefficiencies, and economic conditions. It is wise for our clients to recognize the exposures associated with the routes they run.

TOP 10

Cost of Congestion Hotspots

ATRI's research also quantified the industry's congestion costs at the state and metropolitan levels, with California leading the states with over $9 billion in industry congestion costs. Among major metropolitan areas, New York City generated over $5 billion in trucking industry congestion costs in 2021.

Rank 2021	State	Costs
1	California	$9,000,397,702
2	Texas	$7,256,430,452
3	Florida	$7,157,229,169
4	New York	$4,917,126,628
5	Louisiana	$4,217,050,404
6	Georgia	$4,021,578,225
7	New Jersey	$3,838,944,444
8	Illinois	$3,379,889,793
9	Pennsylvania	$3,268,381,038
10	Tennessee	$3,154,354,178

Rank 2021	Metro Area	Costs
1	New York City Metro	$5,491,372,273
2	Miami Metro	$2,618,229,310
3	Chicago Metro	$2,570,539,181
4	Philadelphia Metro	$2,101,897,497
5	Los Angeles Metro	$1,804,864,142
6	Dallas Metro	$1,795,595,925
7	Houston Metro	$1,633,751,272
8	Washington DC Metro	$1,613,805,707
9	Nashville Metro	$1,440,765,701
10	Atlanta Metro	$1,393,415,723

Andy Engardio
Transportation Vertical Leader

MARKET UPDATE

As we kick off 2024, the transportation insurance marketplace looks different from the start of 2023. Several carriers and programs dedicated to the transportation industry have left the commercial auto sector, and we are anticipating these trends will continue. The carriers still in play have indicated that market and inflation increases will continue to trend around 5-7% for clean accounts. Many insurance carriers are also softening underwriting principles, including driver hiring guidelines and CSA safety scores for the right motor carriers. This is driven by the driver shortage and a return to traditional underwriting practices of developing long-term relationships with top-tier clients.

Alternative risk options (e.g., self-insured retentions, captives) have continued to spark the interest of sophisticated insurance buyers. These long-term solutions can provide stability and investment return. Unlike our clients who only have access to agency-controlled captives, at AssuredPartners Transportation, we have access to multiple captive programs to find the best fit for our clients.

AssuredPartners

POWER THROUGH PARTNERSHIP