State of the Market: A Look Ahead

Recalibrating for Resiliency

2024 Outlook

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Introduction

In 2023, various forces shaped insurance and employee benefits markets in a state of transition, presenting both challenges and opportunities for insurance companies, businesses, and individuals alike.

For the commercial risk and private risk space, some lines of insurance remained hardened, other lines saw significant rate moderation, and still others had ample capacity. With employee benefits, employers had to orchestrate a delicate balance between cost containment and robust benefits offerings. As a response to these varied conditions, companies and individuals sought ways to respond to the marketplace by transforming the vicissitudes of risk into beacons of opportunity.

So, what is the insurance market signaling at the start of 2024?

January 1st reinsurance renewals certainly lend some perspective, with a more orderly renewal season being a welcome change from 2023. This year's renewals are indicative of improved capacity, greater predictability, and a shift to stabilization. Familiar forces, such as weather events, the economy, geopolitical dynamics, and emergent technologies, will also continue to shape a shifting insurance terrain.

What one can always expect from the insurance market is that it will course correct and respond to the global realities that impact all of us in ways that affect the availability and pricing of coverage. Whether it is business insurance, employee benefits, private insurance, or a combination of these needs, you too have the power to remain resilient by recalibrating your approach to risk management with the evolving world and insurance market. As the market changes, you can rely on Baldwin Risk Partner's (BRP) advisor and client experience teams to remain steadfast and dedicated to clients, working in partnership with you to find viable solutions that help protect your now and your future.

Commercial Risk

2024

Summary

The commercial property and casualty (P&C) market continues to course correct in search of equilibrium. At this point, the challenges are well documented – an uncertain economy, weather events, geopolitical dynamics, nuclear verdicts – and throughout 2023, insurance companies across lines of coverage continued to respond and adapt to the realities at play, remaining disciplined in the underwriting process. In 2023, some lines of coverage remained hardened, others showed signs of moderation, and certain segments even softened.

Just as insurance companies find ways to adapt to a continuously changing world, so too do policy holders. When planning for the unknown, businesses are seeing that they can answer the call by making strategic, informed decisions regarding their insurance program design, investments in loss controls, and alternative risk transfer solutions. In 2024, organizations will need to remain vigilant and adaptable to positively impact the results they can obtain from the insurance market.

Headed into 2024, what are insurers signaling to policy holders? Has underwriting discipline paid off and translated to improvements in loss ratios and overall performance? And how can buyers be strategic as they approach the market, contain the cost of risk, and find ways to recalibrate for long-term resiliency?

As you prepare to navigate a shifting insurance landscape, working in partnership with BRP's commercial risk experts to understand how changes in the market impact your insurance portfolio and balance sheet can help you create strategies that secure your business's long-term success. In this market update, we will cover the factors reshaping the commercial P&C space, and how your organization can respond.

Market Drivers and Trends

In 2024, many familiar forces will continue to shape the commercial P&C market:

Weather events

Primary and secondary perils will keep placing persistent upward pressure on the commercial property insurance market. Weather events from small to large and everything in between led to significant property losses for insurance companies throughout 2023. In 2023, NOAA recorded a total of 25 separate billion-dollar weather and climate disasters in the United States alone, surpassing the previous record of 22 events in one year.[1] From 2021 to 2023, insured global losses driven by weather events surpassed the $100 billion mark each year[2], which is indicative of a new normal.[3] Additionally, concurrent and interconnected weather events are becoming more commonplace, with the Maui wildfires and Hurricane Dora serving as just one example of this phenomenon in H2 2023.[4]

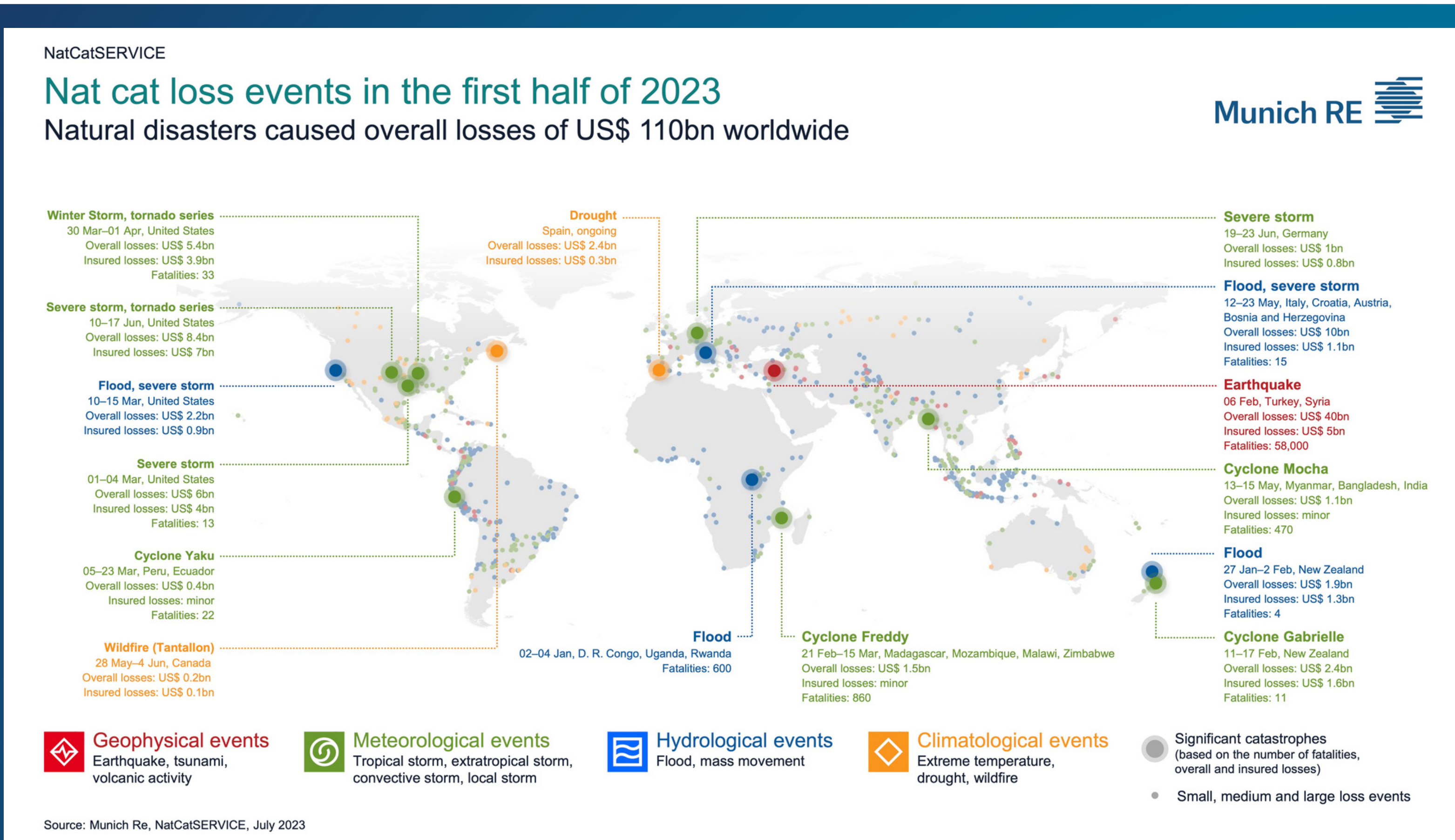


Image source: Munich Re[5]

Social inflation and nuclear verdicts

Social inflation describes the rising cost of insurance claims as a result of increased litigation, plaintiff-friendly legal decisions, and changing cultural norms. Nuclear verdicts are defined as a jury providing an award of over $10 million in a civil liability case. In a litigious society, nuclear verdicts have become increasingly commonplace, and the new normal. Juries continue to reward massive verdicts in civil liability cases, and insurance companies that cover these types of claims feel the impact. Nuclear verdicts are largely responsible for insurance claims costs increasing above general economic inflation and beyond what insurance companies could have anticipated five to ten years ago, leading to decreased capacity, increased rates, and broadened underwriting scrutiny. With a continued backlog of litigation due to court closures from COVID-19 and greater reinsurance scrutiny for casualty lines, these trends will keep impacting liability capacity in 2024.

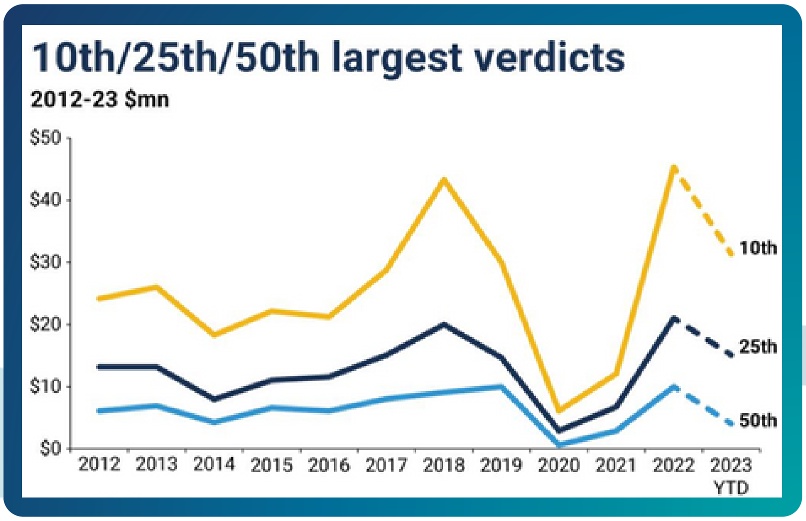


Image source: The Insurer[6]

Economy

Could the U.S. economy be making a soft landing in 2024 amidst persistent concerns of a recession throughout 2023? The general sentiment certainly seems to be improving, with most business economists indicating that the U.S. could avoid a recession in 2024.[7] Buoyed by steady economic growth, easing inflation, and low unemployment rates, the U.S. economy has so far defied recessionary expectations, though slowing economic growth remains concerning. Many experts also predict the rate of inflation will slow in 2024, with the Federal Reserve possibly cutting interest rates at some point during the year.[8] For insurance companies, slowing inflation could provide a respite from ballooning claims costs. Ultimately, everyone should remain cautious and closely monitor economic performance throughout the year for any further developments.

Geopolitical dynamics

Political violence is on the rise, with Verisk finding that at the start of 2023, about 100 countries were considered at high or extreme risk of civil unrest – a five-year high.[9] The Russia-Ukraine conflict shows no signs of ending any time soon, and unfortunately, global conflicts are increasing as evidenced by the greater instability that arose in the Middle East in the wake of Hamas' attack on Israel on October 7, 2023. Additionally, elevated trade tensions between China and the United States also have negative implications for economic growth.[10] Geopolitical dynamics have a direct impact on supply chain stability, affecting the pricing and availability of critical commodities from food to fuel, precious minerals, and beyond. 2024 is also a presidential election year in the United States, and a potential change in administration could lead to regulatory changes that impact the commercial risk and insurance space.

Supply chains

The impact supply chain issues have had on all businesses, including insurance companies, is well documented. Fortunately, supply chains have mostly normalized in 2023 after years of persistent disruptions, though unpredictability may well be the new normal. Trade protectionism, conflict, labor strikes, and weather events will continue to impact the viability of global supply chains in 2024. Though supply chains might now be more stable, many insurers are still catching up with increased claims costs that stemmed from supply chain snags in the last few years, and it will take more time before newfound normalization translates to decreased rate pressure for property lines.

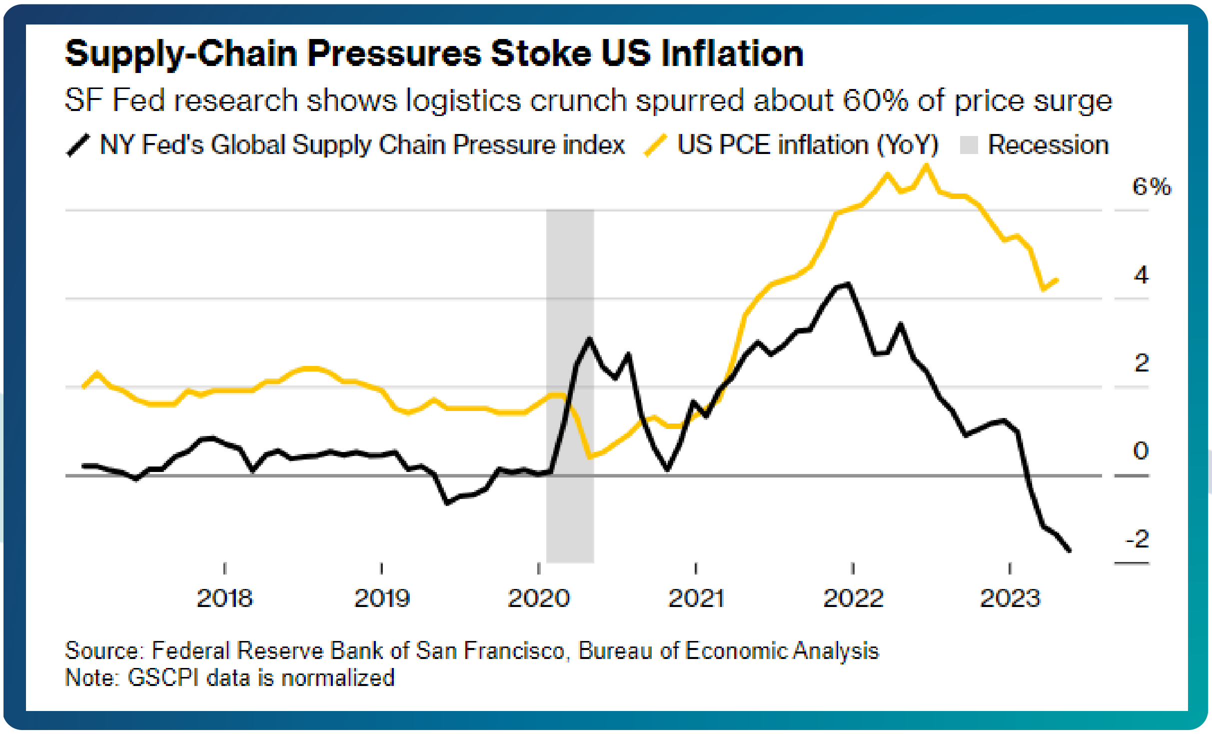


Image source: Bloomberg[11]

Artificial Intelligence

In 2023, insurance companies steadily increased their adoption of artificial intelligence (AI) and machine learning solutions, with the global AI insurance market size estimated to be $6.11 billion.[12] In 2024, AI's role within the insurance industry is likely to grow as insurance companies look to cutting edge solutions that can improve the underwriting process, risk modeling accuracy, operational efficiency, and overall client experience. With insurers' adoption of AI solutions still in its more nascent stages, the effect on rates for clients is yet to be seen. As we collectively charter the unknown territory of AI, any organization that wants to explore the benefits of these technologies should also be aware of potential regulatory, cyber, and governance risks.

Alternative risk solutions

Because of the heightened challenges of the commercial P&C environment, more organizations have turned to alternative risk solutions as a means to control their risk and insurance spend and to find capacity that may not otherwise be available for more difficult to place risks. 2023 was the third consecutive year in which captive formations outpaced closures.[13] Though the captive market has grown, it has not been market shifting. Parametric solutions have also seen increased uptake throughout 2023 as a supplement to traditional coverage, especially in more difficult risk classes and for niche use cases.

Reinsurance Renewals - A Close Up

While reinsurance renewals in 2023 sent shockwaves through the insurance industry due to steep increases, delays, and constrained capacity, 2024's January renewals were markedly different. Market correction and improved results can be attributed to greater underwriting discipline, easing capacity pressures, and favorable capital conditions. Following is how the most recent reinsurance renewals impacted the U.S. market.

Top 20 global reinsurers' operating performance is improving

(%)	2018	2019	2020	2021	2022	2023f	2024f
Net combined ratio	100.6	100.7	104.8	96.5	96.0	92-96	92-96
(Favorable)/unfavorable reserve developments	(5.0)	(1.5)	(2.0)	(2.9)	(1.7)	(1)-(2)	(1)-(2)
Natural catastrophe losses' impact on the combined ratio	9.7	7.4	6.3	9.5	9.2	8-10	8-10
Accident-year combined ratio excluding natural catastrophe losses and reserve developments, and pandemic losses	95.9	94.8	91.9	89.5	88.5	86-87	86-87
Return on equity*	2.9	8.8	2.0	9.2	2.9	9-12	9-12

Note: The top 20 global reinsurers are Arch, Ascot, Aspen, AXIS, China Re, Convex, Everest, Fairfax, Fidelis, Hannover Re, Hiscox, Lancashire, Lloyd's, Markel, Munich Re, PartnerRe, RenaissanceRe, SCOR, Sirius, and Swiss Re. *Returns on equity in 2023 and 2024 will depend on investment performance. f--Forecast; based on GAAP and IFRS 4. Source: S&P Global Ratings.

Image source: S&P Global [14]

Property

For property reinsurance, there now seems to be a balance between supply and demand. It appears that the course correction and chaos that ensued within the property reinsurance market throughout 2023 led to realignment and stabilization for 2024. Rate increases were minimal or flat for insurers without exposures to natural disasters, though there were notable variations in rates informed by loss experience. In light of persistent, heightened loss activity due to frequent weather events, reinsurers continued to demonstrate a keen interest in specific data that paints an accurate picture of insurers' portfolio dynamics.

Additionally, in this renewal season, capacity was restricted for lower layers, while higher layers saw more competitive pricing. Amidst the order that characterized property reinsurance renewals, it is important to note that stability does not equate rate reversal. Reinsurers are simply becoming more accustomed to a new baseline of losses, given that 2023 was yet another year where natural catastrophe losses in the U.S. surpassed $100 billion. The current state of equilibrium with property reinsurance renewals could be a sign that the hardened property insurance cycle is at an inflection point wherein the difficulties of recent years have reached their peak.

Casualty

Leading up to this year's renewal season, there was apprehension that casualty renewals would be challenging. This is because reinsurers demonstrated growing concerns regarding loss inflation and rate adequacy against the backdrop of litigation trends in the U.S. These fears did not materialize into reality, as there was sufficient capacity and renewal rates remained stable. However, casualty lines are no longer as attractive to reinsurers as they once were because of social inflation and nuclear verdict trends.

As a result of diminishing risk appetite for litigation exposures, primary casualty insurers, especially within U.S. markets, experienced greater scrutiny in their portfolios. Reinsurers favored buyers who provided clear data and clear insights to address concerns over adverse loss patterns. Though the January 2024 reinsurance renewal season went better than expected for casualty lines, reinsurers signaled increased signs of caution for 2024.

Reinsurers' ability to earn cost of capital is improving

Reinsurers' weighted average cost of capital versus return on capital:

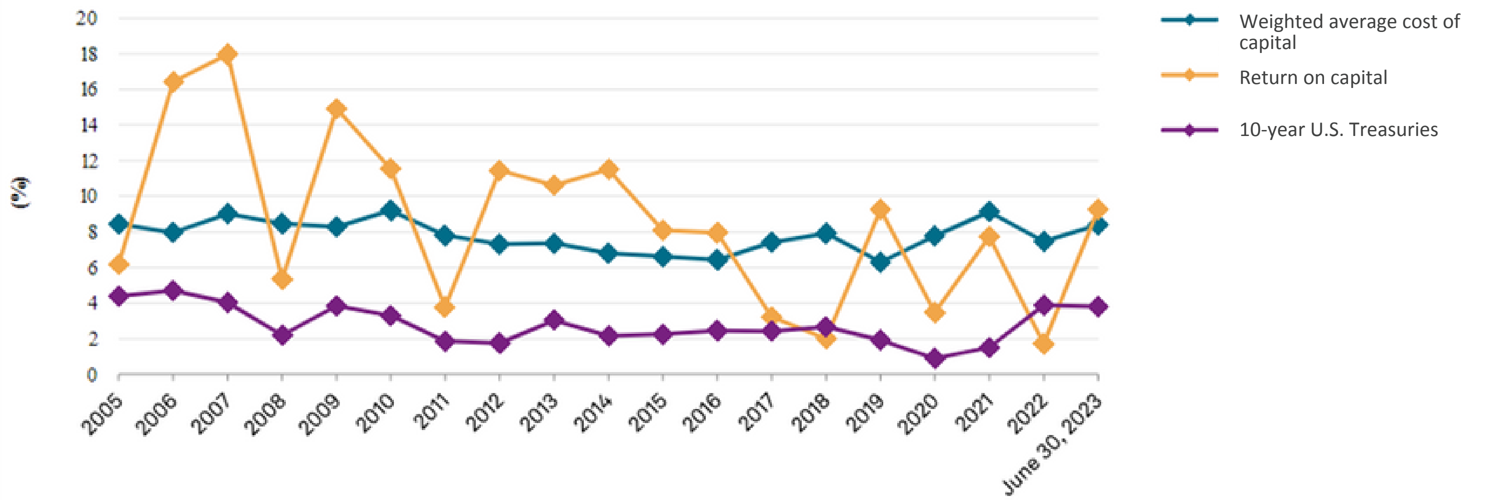


Image source: S&P Global [15]

Commercial P&C Overview

The commercial P&C market continues to send mixed signals, with some lines performing favorably, and others remaining challenged. At the offset of 2024, significant bifurcation characterizes the rates and results policy holders can expect across lines in the commercial P&C market, creating what can be described as a tale of two markets.

On one end of the spectrum, accounts with loss history, a lack of loss controls, in challenged industries, and in disaster-prone areas are seeing much greater increases and, in some cases, encountering difficulties finding coverage. For difficult to place risks where insurance companies are reluctant to deploy full capacity, policy holders are pushed to build up the coverage they need with shared programs and alternative risk solutions. On the other end of the spectrum, best-in-class organizations with moderate exposures are experiencing fewer hurdles in the market. Policy holders that provide specific evidence to underwriters of how loss controls and their operational structure both reduce the likelihood of a loss and improve their ability to rebound from a claim will see much better results.

Property

The commercial property insurance market remains hardened, with insurance companies playing a seemingly never-ending game of catch up with years of huge losses and unrelenting weather events. Most insureds are seeing back-to-back double-digit increases, with geography, asset class, and loss history leading to great variance in the rates and availability of coverage. High-hazard risks will experience the greatest challenges and rate increases, while resilient, upgraded properties will fare much better. Though repair and replacement costs are becoming more predictable with the gradual re-stabilization of supply chains and cooling inflation, accurate valuations will remain a focal point for insurance companies in the underwriting process. Primary insurance companies will focus on valuations to protect their loss ratios and obtain optimal reinsurance rates.

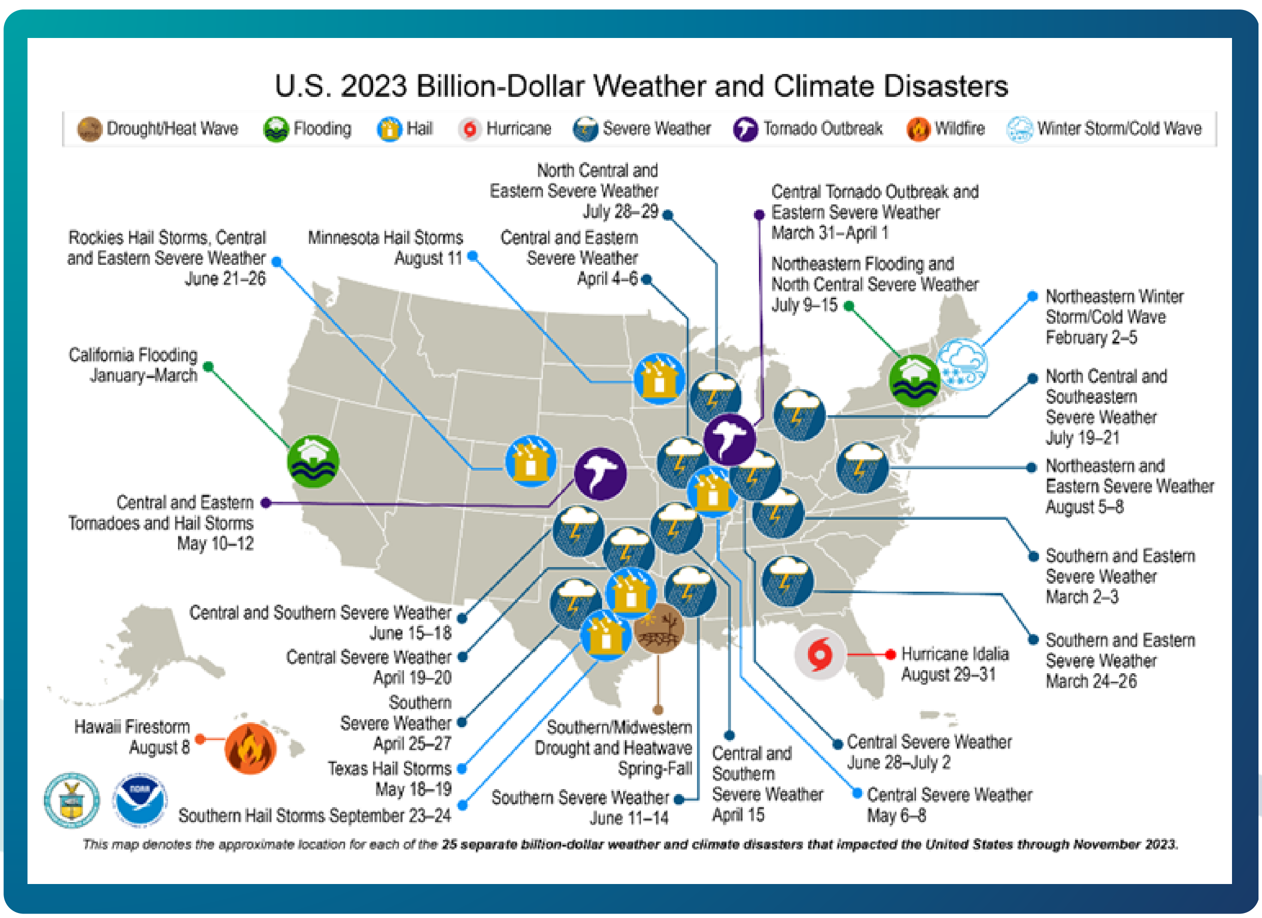


Image source: NOAA[16]

Beyond large-scale, primary perils like hurricanes, in 2023 interconnected, concurrent weather events and "secondary" perils, such as convective storms, floods, and freezes had a heightened impact on loss patterns. For example, in the U.S., severe thunderstorms caused $35 billion in losses the first half of 2023.[17] With secondary perils being the primary driver for losses in H1 2023, these types of weather events will likely carry more weight from an underwriting perspective in 2024.

Partnering with a BRP advisor can help you find ways to harden your property and improve how underwriters perceive your organization, allowing you to achieve better results. And for more difficult to place risks, BRP advisors will collaborate with you to find alternative risk solutions that help protect your business property from weather events.

General Liability

Having ushered in a new normal of large losses, social inflation and nuclear verdicts remain top of mind for general liability insurance companies. General liability is seeing clear bifurcation driven by the type of organization in question and who or what the likely source of their claims might be. Is the more probable source of the policy holder's claims a member of the general public or another business entity?

Claims scenarios that originate due to allegations of wrongdoing from members of the general public leave businesses and insurance companies more vulnerable to the pitfalls of third-party litigation funding, social inflation, and nuclear verdicts. In comparison, when organizations engage with one another over the formal course of business, there may still be claims, but the boundaries of a loss are likely to be better defined by contractual obligations. The extent that an organization interfaces with members of the general public in providing goods and services will have a direct impact on rates in 2024, which is why general liability has remained especially challenging for transportation, hospitality, habitational real estate, and healthcare organizations.

Whether your organization is in what is considered a challenged industry or not, working in partnership with a BRP advisor can help you build incident response plans, claims mitigation procedures, and organizational policies that speak to a culture of safety. This helps you proactively address potential underwriting concerns and obtain improved rates.

Commercial Auto

Commercial auto has been at the front and center of conversations regarding social inflation, third-party litigation funding, and nuclear verdicts. Beyond these driving forces, many of the entrenched trends affecting the commercial auto market remain, with high repair costs, inexperienced drivers, growing medical expenses, distracted driving, and crime shaping loss patterns. Given that this is a challenging line, there is not much new capacity in this space, which means more rate increases. If a business owns and operates a fleet, it should strongly consider tapping into the power of telematics solutions.

Working with your BRP advisor can help you maximize the value and insights that telematics solutions provide, allowing you to best represent your risk profile to insurance companies and obtain better rates in a challenging rate environment.

Workers' Compensation

Workers' compensation remains a bastion of relief for insureds, with renewals trending flat, or even seeing decreases. With workers' compensation, claims tend to have a longer tail, so it might take some years before insureds see what (if any) impact trends, like medical cost inflation, have on this line.

To obtain optimal results both now and in the future, connect with your BRP advisor for guidance about how to build effective strategies and safety programs that protect your workforce from harm's way.

Directors and Officers (D&O) Liability

The public D&O market continues to soften. New entrants in the marketplace and a decrease in IPOs and SPACs throughout 2023 have led to competition amongst carriers and created abundant capacity. Because of these conditions, renewals have been mostly flat, or have even steep decreases in some instances. The public D&O market is also seeing parametric solutions enter the space. Companies that went public or de-SPAC'ed from 2019 to 2021 are seeing the greatest decreases (20% to 30%) – these were the entities that experienced the highest rate increases in the last hard D&O market. Companies that have been public for longer are still seeing decreases, though at smaller levels (15% to 20%).

The overlap between D&O and cybersecurity only keeps growing. In July 2023, the SEC adopted new requirements for companies to address cybersecurity risks which increase the requirements and expertise of cybersecurity for boards of directors.[18] These new rules have two main components. Firstly, all U.S.-listed companies must disclose material cybersecurity incidents within four business days of determining that a cybersecurity incident is material. Materiality has not yet been defined by the SEC. Secondly, companies must disclose their cybersecurity risk management, strategy, and governance on an annual basis. In 2024, the full ramifications of this new rule should become clearer.

The private D&O market is also experiencing softening, though at a less drastic rate than on the public side. However, it is important to note that bifurcation is shaping rate trends. Established private companies are more likely to experience rate decreases, while debt heavy, pre-revenue startup businesses are seeing rate increases, lower limits, greater restrictions, and heightened underwriting scrutiny. For the latter cases, the uncertain economic environment paired with the closure of Silicon Valley Bank and other financial institutions has led to significant financial hurdles and has also impacted their outcomes in the private D&O market. Much like with public D&O, on the private side, the gap between management liability and cyber liability is becoming narrower, with cybersecurity increasingly becoming a private D&O issue. In 2024, this trend is likely to continue.

To ensure that your board members and leaders know how to meet growing expectations regarding how they handle cybersecurity in tandem with other responsibilities, partner with BRP's experts. With Centers of Excellence dedicated to both cyber and management liability, our leaders collaborate with one another to help you understand the intersections of board and cyber risk so that you are able to implement comprehensive solutions and meet your responsibilities.

Employment Practices Liability (EPL)

Rates in the EPL market continue to renormalize from COVID-19 rate changes, with renewals currently looking flat or seeing minimal increases. More market entrants in the EPL market in 2023 created greater capacity, and competition amongst insurers translates to improved rates for policy holders. Underwriters continue to pay close attention to loss history and industry-specific exposures, and also if a company employs workers with employee-friendly laws and regulations. For underwriters, companies with employees in California, New York, Florida, and Illinois raise red flags, with some EPL insurance companies now introducing coverage limitations and exclusionary language for claims arising from "problem" states.

There are new workplace protections for expecting mothers related to pregnancy, childbirth, and related medical conditions under the Pregnant Workers Fairness Act, which went into effect in 2023.[19] At a state level, in H2 2023, more states legalized medical marijuana use and other states passed laws that provide off-duty protections for workers.[20]

We recommend keeping a pulse on how changing rules and regulations regarding statutory protections for legal, off-duty medical, and recreational marijuana use impact workplace policies. A BRP advisor can help your organization avoid EPL claims and capitalize on an improving rate environment by providing guidance about how to remain compliant and keeping you abreast of evolving employment laws and regulations.

Fiduciary Liability

The fiduciary liability market has evolved quite a bit as a result of a changing claims landscape. Over the past few years, this line saw a steady uptick in excessive fee litigation, leading to slightly higher rates and tighter coverage restrictions. Fortunately, at the close of 2023, excessive fee claim litigation cooled significantly.[21] Additionally, new entrants and increased competition in 2023 have led to market softening at the start of 2024. However, underwriters will likely remain focused on discovering what a policy holder's plan management protocols entail.

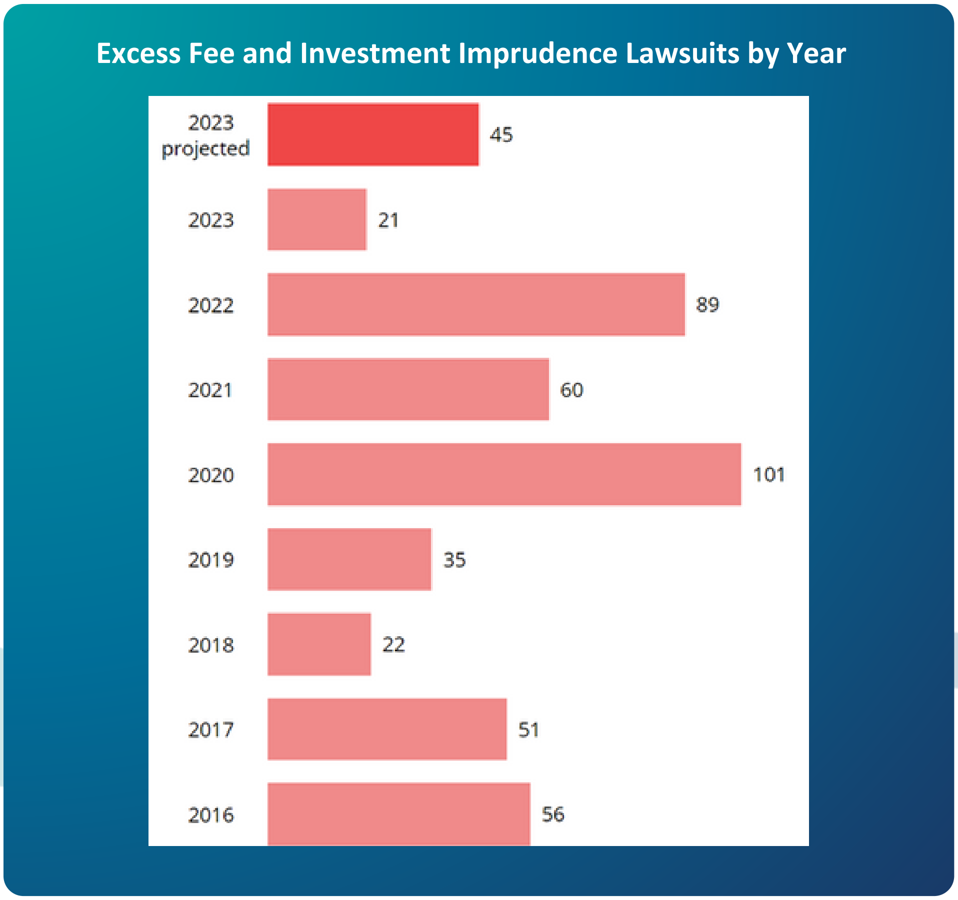


Image source: Plan Sponsor[22]

To reduce the likelihood of a claim, partner with a BRP advisor for recommendations about how you can be proactive in properly documenting any decisions and protocols regarding plan management – today's actions can prevent claims in the future.

Cyber Liability

In Q1 2024, the cyber liability market is coming off a year of rate stabilization, with insurance companies eager to retain existing business. Excess placements and rates also recently became less challenging throughout 2023. Looking ahead, the security controls and policies companies have in place will continue to heavily influence underwriting decisions regarding the pricing, terms, and conditions of coverage.

In 2023 there was an uptick in ransomware attacks of 95 percent year over year.[23] Moving forward, a differing trend to keep in mind is that attackers now seem keener on targeting and harvesting data to extract its value versus solely focusing on collecting ransom funds. Data harvesting can easily go unnoticed if there is no immediate ransom demand. 2023 was also the year of AI, and as a newer, less explored technology, in 2024 organizations will need to monitor how developments with AI shape threat vectors and the regulatory environment.

Increase in Victims of Ransomware Attacks - Over Time by Quarter

Image source: Corvus Insurance[23]

In the regulatory landscape, throughout 2023, several cybersecurity laws and regulations came into effect at both state and federal levels, signaling that organizations should focus on investing in strong cross functional processes to meet regulatory obligations.

Organizations that want to bolster their approach to cybersecurity, regulatory compliance, and cyber insurance should partner with the BRP Cyber Center of Excellence. Our experts can provide resources and help you devise a plan of action to anticipate and meet the demands of an evolving cyber landscape.

Umbrella Liability

Social inflation and nuclear verdicts have forever reshaped the umbrella liability market. Throughout 2023 and in 2024, these trends are still the primary forces shaping umbrella capacity. Insurance companies are a lot more reluctant to put up large limits having carried the brunt of large claims payouts from massive verdicts for year after year. However, insurance companies are more willing to provide better terms for supported umbrella coverage (written with another liability line), versus monoline coverage (umbrella underwritten and sold on its own). This line is seeing moderate increases, though results will vary by industry, hazard class, and loss history.

With umbrella coverage serving as a shield from social inflation and nuclear verdicts, building strategies that address your internal and external risks so that you are more likely to avoid a claims scenario will help you get better rates and terms from insurance companies. Some examples of your available options include investing in safety protocols, staff trainings, and compliance. Connect with a BRP advisor for a deep dive into your operational DNA and tailored recommendations to reduce your exposure to liabilities.

Excess and Surplus

Demand for the excess and surplus (E&S) market remains sustained, with a greater number of buyers turning to E&S capacity to help them solve their needs throughout 2023, particularly with more difficult to place, niche risks. For insurance companies, the E&S market is a more nimble environment in which they can address the realities and challenges of the admitted market with fewer regulatory constraints. The Wholesale and Specialty Insurance Association reported that the U.S. surplus lines market grew 15.9 percent in the first half of 2023 to reach nearly $36 billion in premiums. And that's after a record-breaking 2022 where the market saw $31 billion in premiums and 32.4 percent growth.[24] Because of sustained hard market conditions for many commercial P&C lines, growth and demand in the E&S market is set to continue in 2024.

The quality of submissions continues to be a priority for E&S underwriters, especially for niche risks. With complex, nuanced situations that require specialized solutions, a BRP advisor can help best represent your organization to underwriters with detailed information regarding your operations and safety procedures and protocols, so you are able to build an insurance portfolio that offers adequate protection for your business.

Helping You Discover Your Resiliency

The insurance market will continuously shift in search of stability, affecting the options available to buyers. As you recalibrate your approach to the insurance market and look for ways to maximize the value of insurance for your organization, BRP's advisors are ready to help you discover your resiliency and work toward your long-term success. With experience navigating all market conditions, long-standing relationships with insurance companies, access to valuable resources, and expertise across many industries, we stand by our clients as they explore strategies that contain the cost of exposures and find insurance solutions that align with business priorities.

1

Harnessing the power of data

When underwriters do not have a complete picture of how your business operates, they are likelier to provide coverage based on conservative assumptions. This could lead to less favorable terms at a higher cost, and in some cases, declination. As your partner, we help you bridge the gap between what an underwriter might initially see about your organization and what lies beneath the surface by tapping into your unique business intelligence data. Using this proprietary data can help us paint a more accurate picture of your operations and exposures in a manner that is easier for underwriters to understand so that you obtain better results from insurance companies. And in instances where clients may not have processes and tools in place that provide data-driven insights about their operations, we can provide recommendations and resources about where to start.

2

Reinforcing your property's defenses

Weather events are a reality of the world we live in, but there are things businesses can do to reinforce their defenses against natural disasters. We begin by discovering where your structures and contingent operations are most vulnerable to these risks, communicate what a loss might amount to in financial terms, and provide recommendations about how to address exposures. Should you choose to make investments in hardening your property, you will have a lot of options to consider, such as sprinkler suppression systems, double paned windows, storm shutters, building reinforcements, and more.

By doing a deep dive into the weather risks that may impact your organization, our experts can help you make informed decisions about how to best prioritize repairs and reinforcements, as well as how to modify processes and protocols to better weather the storm. Once we determine how to reinforce your property, protect your workforce, and strengthen your operations against natural disasters, we will communicate this information to underwriters and paint a favorable narrative that shows you are proactive and likelier to rebound from a loss.

3 Bolstering your operational strength

One of the best ways to contain the cost of insurance is to reduce the chance of a claim being filed by investing in loss controls and improving your operational strength. Of course, best practices for each business depend on many variables. Your industry, workforce, geography, services rendered, products sold, and vendor relationships all shape your specific risk management needs. Loss controls may include initiatives, like employee safety training programs, the use of telematics, emergency response plans, sexual harassment training, and more.

Building up processes that improve your business' ability to respond to exposures requires careful consideration in order for these strategies to work as intended. Working closely with a BRP advisor who brings their insights from working with similar companies and who has seen countless claims scenarios play out can better position you to face business risks as they arise by helping you decide where and how to implement loss controls. Our advisors will then work with you to present this information to underwriters to help you get better rates and coverage terms.

4 Tailoring coverage options

With insurance, you will find that you have many choices to make. You will have to think about various coverage types, deductible structures, and self-retention levels. You might choose to buy all your coverage from insurance companies, explore alternative risk solutions, like captives, or find that a combination of options best suits your business. As you traverse the world of coverages and make decisions for your organization, our advisors help you decode the ABCs of the insurance landscape and weigh the benefits and downsides of available options so you can make confident decisions.

5 Providing interdisciplinary solutions and insights

In addition to commercial risk advisors with specialized expertise in the various industries, BRP also has advisors who can provide you employee benefits and private risk guidance. Though commercial risk, employee benefits, and personal risk have distinct needs, these worlds can overlap in manners that impact our clients' insurance and risk management strategies. For example, information that nominally impacts a commercial risk coverage may impact rates and provisions available from benefit insurance providers and vice versa. Or, when having conversations with board members, connecting them to a BRP private risk advisor can help them build comprehensive strategies that better protect their personal assets if they encounter allegations of wrongdoing.

Partner with our team of advisors to learn more about how you can successfully navigate a shifting insurance landscape and recalibrate your business strategies for long-term resiliency.

Employee Benefits

2024

BRP

Summary

Looking back at 2023, both financial and societal trends continued to impact the employee benefits market. From a financial stance, another year of premium increases for health plans pushed employers to their limits, ushering in a renewed focus on cost containment measures that is reshaping decision-making about what benefits they offer employees — and how they pay for them.

As employers look for ways to cut costs without eliminating the healthcare services their employees need, they now appear willing to vet their available options, like switching health insurers or plan designs, to ease the pressure on their budgets and try to avoid another year of rate increases.

Social trends are also reshaping the U.S. workforce and redefining which benefits are now key to recruiting and retaining talent. More diverse and inclusive employee populations combined with a widening skills gap are paving the way for a greater emphasis on lifestyle benefits that can provide added flexibility and equity for all groups in the workplace.

Headed into 2024, what benefits strategies and actions can employers take to move forward? What challenges and opportunities may be emerging? And how can they continue to control costs without sacrificing employee satisfaction?

In this outlook, we recap major trends, offer additional insights, and highlight what to watch for as we look ahead.

Trend #1: Impact of inflation and utilization

Recap

Despite cost-containment efforts, inflation and increasing utilization pushed up renewal rates for health insurance premiums. As doctor visits and medical treatments continue to rise from lower pandemic levels, higher rates are expected through the 2026 plan year.

Update

At renewal, employers saw large rate increases for their medical insurance. With no end in sight to the rising costs, advisors say insurance companies aren't willing to negotiate premiums, and competition is no longer driving better rates for relief.

For 2023, the average annual premiums for employer-sponsored health insurance were $8,435 for single coverage and $23,968 for family coverage.[1]

As a result, employers are feeling discouraged by fewer options to lower health care costs. They seem more willing to consider drastic measures, like switching health insurance companies, health plans, and/or funding models to ease the pressure and stave off another year of double-digit price increases.

What to watch for

According to CNN, "The cost of job-based health care coverage for 2024 is expected to rise at its fastest pace in years as inflation pervades insurance policies."[2] While U.S. employers expect to shoulder most of the increase, workers could experience higher premiums, larger out-of-pocket costs, and reduced coverage as their employers continue to look for ways to curtail further premium hikes.

Trend #2: Growing momentum for self-insurance

Recap

Employers who were previously uninterested in self-funded options, with medical stop-loss to guard against catastrophic expenses, appear more open to the idea. Not only do employee benefits advisors report an uptick in requests for self-insured feasibility analyses (SIFAs) by employers (particularly with 300+ employees), but industry research also shows an upward trend for these types of plans.

Update

Fatigued from dealing with increases, and still facing greater hikes in the coming year, large employers now seem more apt to switch to self-insurance to take advantage of newer models that give employees more control over their healthcare.

What to watch for

Copay-driven health plans, like Surest from United Healthcare, are emerging as viable options for self-insured employers. Not only do these new models offer employees affordable medical coverage with no deductibles, no coinsurance, and no cost-shifting, but they also give employees access to a broad network of healthcare providers from which they can search and compare treatment options and prices before the point of care. Since they can see which provider offers the best quality services at the best price, they can potentially lower their medical bills, improve their outcomes, and cut costs.

In October, the Kaiser Family Foundation (KFF) reported that 65 percent of covered workers are now in a self-funded health plan.[1]

Trend #3: Expansion of telehealth

Recap

Telehealth is now regarded as "here to stay" largely because it offers several advantages. Employees gain the convenience of receiving care from the comfort of home or work virtually on-demand and avoiding crowded waiting rooms, while employers gain more control to manage the costs of health visits, greater potential to decrease absenteeism, and increased access to data. Virtual health platforms are also expanding beyond urgent care to critically important services, like mental health counseling and primary care.

Update

Advances continue to reshape the market. More health services, like dental care and new digital platforms, are further breaking down barriers to access beyond telehealth, making it easier, more convenient, and less cumbersome to get care when and where it's needed – and keep patients more engaged about their health.

Telehealth will extend to dentistry allowing patients to receive remote consultations and follow-ups. Virtual appointments will become more common, enabling dentists to provide guidance, monitor progress, and offer preventive care remotely.[3]

What to watch for

Moving forward, employers seem likely to supplement traditional healthcare benefits with text-based options. TextCare from One to One Health, for instance, lets employees text board-certified medical providers 24/7 to get assistance with a wide range of health services, from preventive health and wellness services to treatment for chronic conditions and coordinating lab work – all with little or no waiting or account set up before getting service.

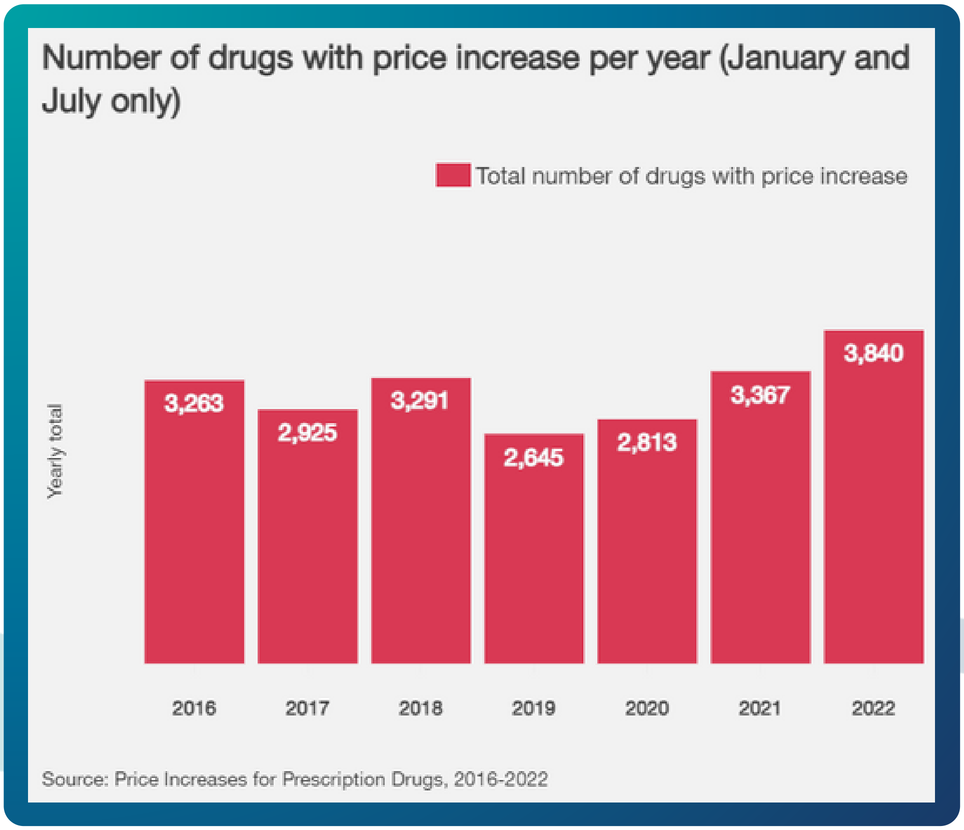
Trend #4: Cost-containment for pharmacy benefits

Recap

Higher costs associated with drug use and, unfortunately, abuse are being passed along to patients and employer health plans, further ballooning insurance costs. As a result, employers are concerned about this rapid and exorbitant rise in prescription drug costs.

Update

Containing prescription costs remains key for employers. They continue to search for tactics that can help them mitigate future price increases while continuing to provide affordable and adequate insurance coverage for the medications their employees need.



Among current cost management trends that advisors noted, particularly with large employers:

- Strong interest in negotiating contracts
- Requests for certain weight-loss drugs to be covered to help improve employee health and address chronic conditions, which contribute to higher health plan premiums
- Demands for price transparency on prescriptions
- Restrictions on certain drugs and maximizing rebates from drug companies

What to watch for

Employers want reform. It is likely that they will continue to explore pharmacy options that give wider optics into drug pricing and push for getting rid of incentives that add to the overall cost of prescriptions.

73 percent of employers say it is a priority to find more transparency in PBM pricing[4]

58 percent say they want to see additional reporting and better quality measurement[4]

Trend #5: Age-diverse workforce

Recap

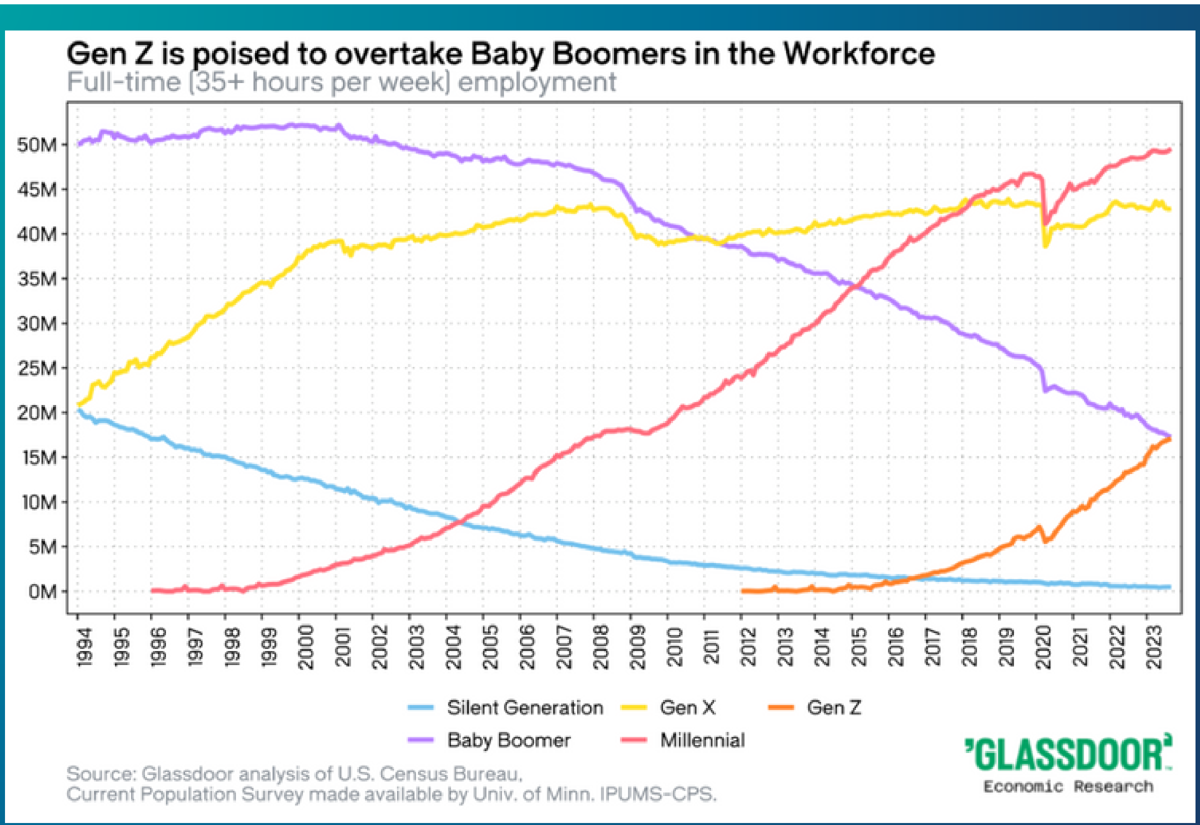
Employers are dealing with an age-diverse workforce. About 64 percent of the U.S. workforce is currently in the 25-54 age group. But the annual growth rate of employees in the 16–24-year-old age bracket is declining significantly, and the 55 and older age bracket is averaging a growth rate of more than three times the overall labor force.

Update

U.S. employers continue to adjust benefits to meet the diverse needs of several generations now in, and projected to stay in, the workforce.

Employers seem poised to offer new types of benefits that will give each generation what it wants. One emerging trend is the expansion of parental leave policies to include “grandparent” leaves, which gives paid time off to employees at the birth or adoption of a grandchild. Not only does this single trend accommodate the desire for older workers to spend time with family, but it also eases the increasing cost burden of childcare for younger Gen Z and millennial families.

Recently, both Booking.com and lending giant Fannie Mae introduced grandparent leave offerings to their employees. [5]



Trend #6: Widening skills gap

Recap

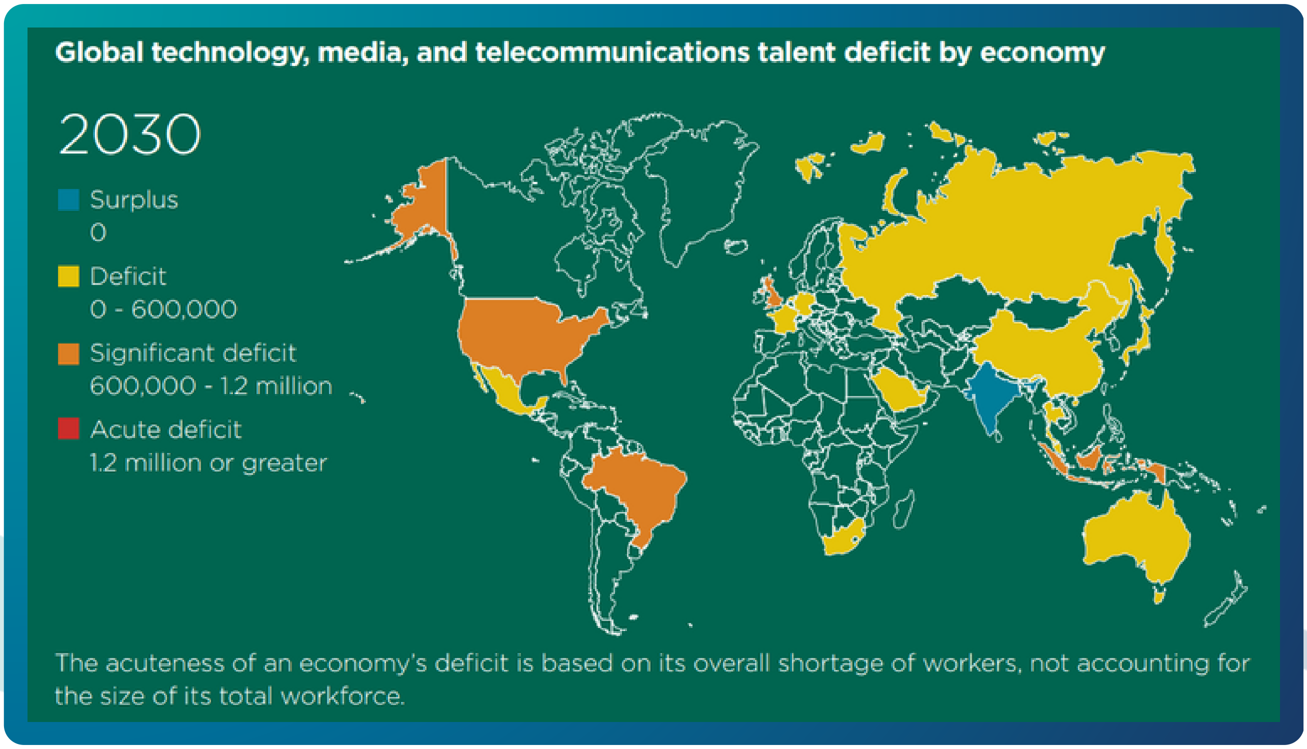
In just a few short years, the majority of Baby Boomers will have aged out of the U.S. workforce. But, according to a report by Korn Ferry, Gen X and Millennial workers will not have had the time or training to claim many of the highly skilled jobs left behind. With fewer younger people to come up through the ranks, and fewer lacking the skills needed to interact with new technology, there are likely to be fewer experienced people to take the reins in years to come.[6]

Update

While the skills gap continues to widen for U.S. businesses and industries, more recent reports indicate that U.S. employers are likely to leverage different strategies to fill skills gaps and recruit new talent.

Among the latest:

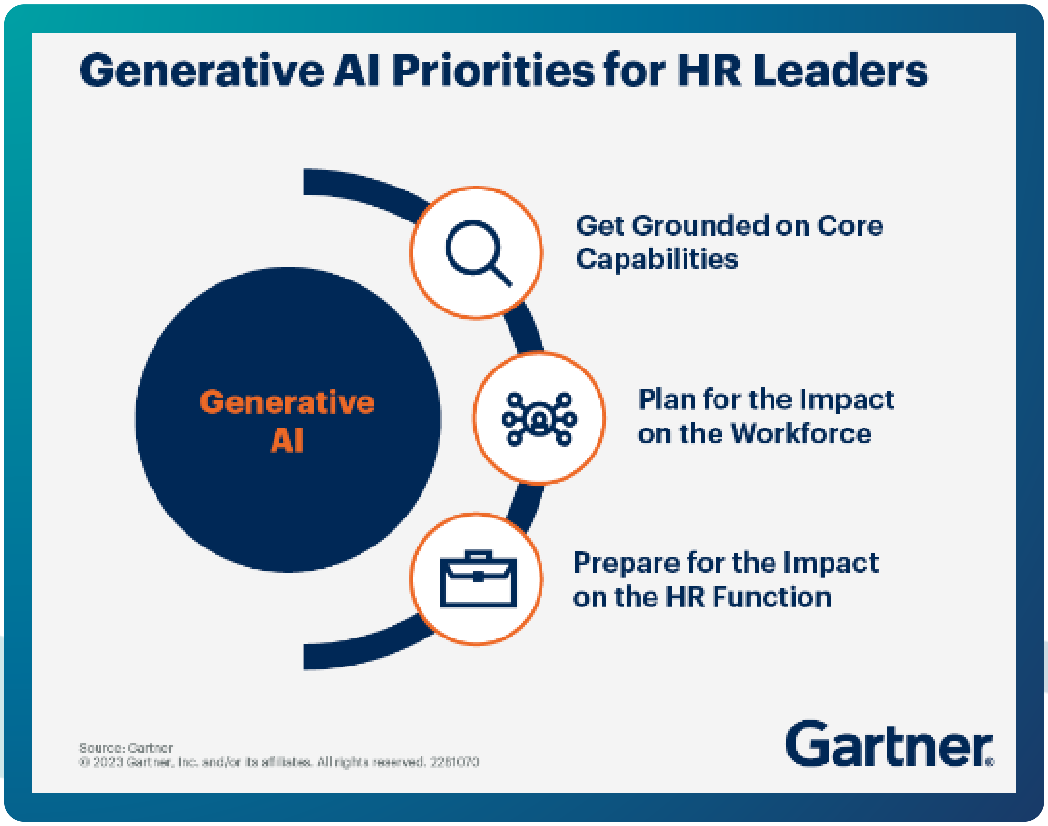
- Consider phased retirement for those nearing retirement age to gradually transition from full time to part time to fully out of the workforce over an extended period — instead of all at once. This can allow employers to hold on to skilled workers longer and give younger workers more opportunity to tap into that collective mindshare — before it's out the door.
- Offer consultant positions to retiring workers, which can allow employers to reduce overhead and staffing costs, but also keep necessary expertise on a per project basis.



What to watch for

Employers are expected to continue leveraging AI to take on specific jobs, like coding. Plus, it has the potential to play a significant role in upskilling and retraining existing workforces to assume new roles and, in turn, increase retention.

> ***Eighty-one percent of HR leaders have explored or implemented artificial intelligence (AI) solutions to improve process efficiency within their organizations.***[7]



Source: Korn Ferry, "Future of Work - The Global Talent Crunch"

Trend #7: Greater diversity

Recap

Concentrated initiatives to make workplaces more inclusive have spurred business leaders to reevaluate and update employment policies, creating even more representation throughout their organizations. As a result, a greater mix of groups comprises the workforce, all with varying needs, preferences, and lifestyles for employers to recognize and support.

Update

According to U.S. News and World Report, 2023 saw a major shift in overall diversity, equity, and inclusion (DEI) that is likely to continue into the new year.[8]

Employers want to make sure that not only do they offer equal benefits, but that their programs are perceived as equitable. During the most recent open enrollment period, advisors noted increasing requests for specific types of communications targeted to different employee groups (and potential recruits), including:

- Updates to benefits guides that summarize inclusive offerings
- Targeted emails to different employee groups that detail new benefits that will resonate with them
- Changes to benefits systems that include gender identity options beyond male and female so employees can accurately indicate gender

What to watch for

U.S. employers may need the expertise and guidance from advisors to review and monitor their DEI programs to make sure they continue to comply with changing practices and regulations, support equal opportunity, and bar discrimination in employment practices.

Trend #8: Greater emphasis on lifestyle benefits

Recap

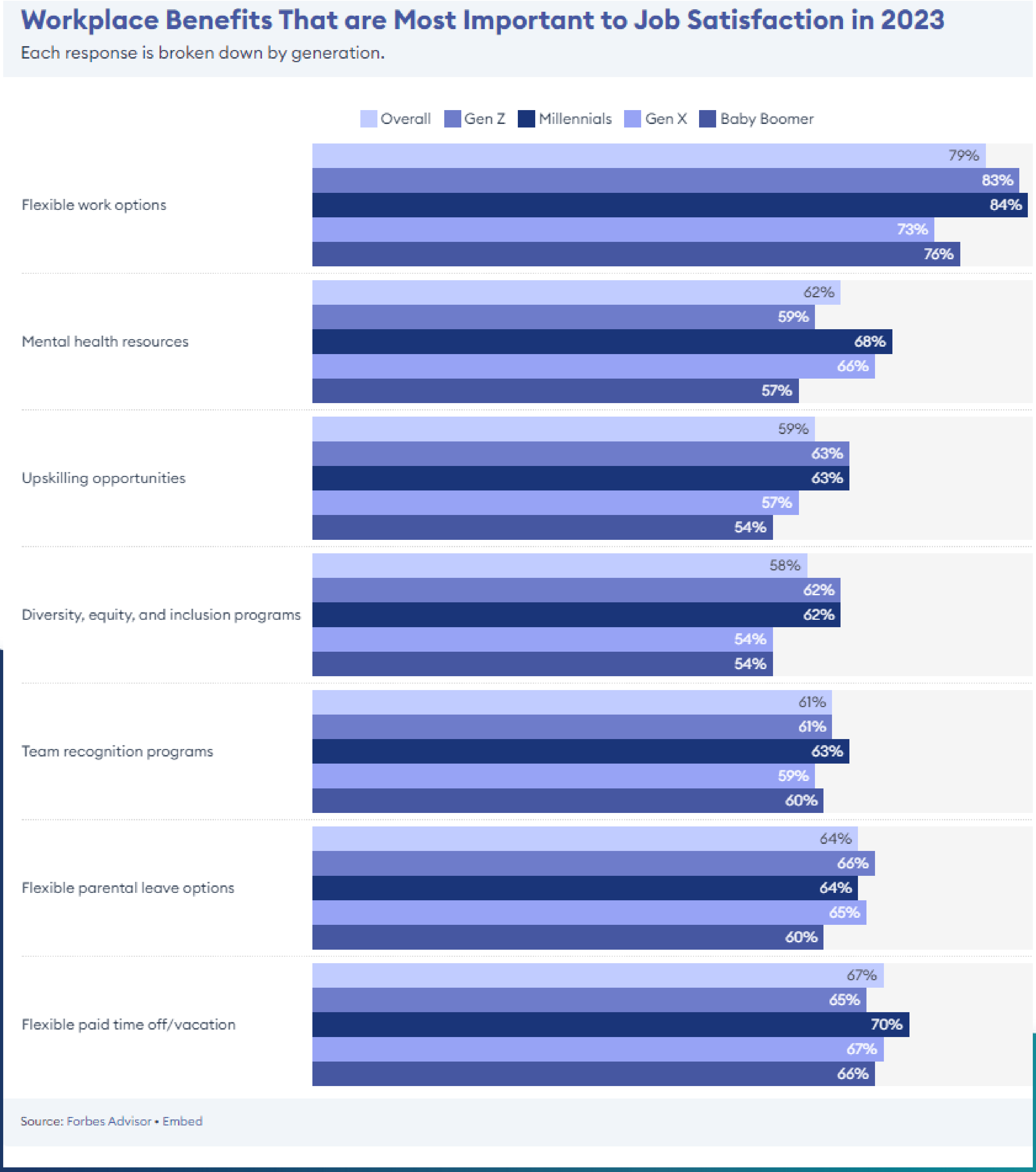
Greater diversity in age, generation, ethnicity, and sexual orientation is driving the need and preference for different lifestyle benefits across employee populations. But as more budget spend is allocated to provide health insurance to employees, employers are reevaluating offerings and rethinking how to offer the expanding range of lifestyle benefits their employees also want to keep them engaged.

Update

Advisors we talked to for this update report growing interest from employers to improve overall equity in their benefits program. Conversations center around how they can cover inclusive lifestyle benefits yet still balance current cost issues. For LGBTQ+ employees, for example, these benefits can include gender-related care, specialized mental health care, family-building benefits, like adoption services, and social support in the workplace. For others, it can mean offering access to reproductive health, fertility benefits, and travel assistance programs.

What to watch for

According to HR Morning, "Employers are starting to look for ways to revamp their entire benefits package to help each of their unique employees in whatever stage of life, or lifestyle, they are currently in."[9]



Source: Forbes Advisor, "Workplace Benefit Trends By Generation In 2024"

Trend #9: Recalibration of the job market

Recap

Layoffs in the tech sector and widely publicized banking failures, along with continued threats of an economic recession, are influencing employees to hang on to the jobs they have – recalibrating the job market back toward employers.

Update

Although the tech industry shed about 240,000 jobs earlier this year, additional layoffs continued in the sector during Q4 with thousands of cuts announced by companies, such as Nokia, LegalZoom, Amazon, and Google.[10]

During Q4, layoffs also impacted the financial services industry that's facing higher interest rates and lower appetite for mortgage loans and corporate debt. In October, thousands of job cuts were announced at Bank of America, Citi Group, Wells Fargo, and Goldman Sachs, just to name a few.[11]

What to watch for

Economic forecasters at Forbes are predicting "The Big Stay" in 2024, "a trend of workers hunkering down and remaining in their current jobs for more extended periods of time." [12]

As trends continue to impact your company and employees, there will be an ongoing need to adapt benefits programs and policies.

Let's work together to navigate these times and trends.

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Private Risk

Summary

The nationwide private risk market remains tight. Increased interest rates, inflation, and reinsurance complexities pose operational challenges for insurance companies, with political proposals further shaping the market's trajectory. Entrenched drivers, such as inflation, economic conditions, extreme weather events, and social inflation emphasize the need for tailored coverage and drive homeowners to fortify their properties. Auto insurance faces difficulties, with many insurers pulling out completely in certain states, such as California and Florida. Because of conditions in the home and auto insurance markets, more individuals are turning to the excess and surplus market as a solution that enables them to customize coverage for their specific needs.

Amidst entrenched and emerging market drivers, the private insurance industry continues to catch up with past losses, endeavoring to maintain profitability. Before taking on more risk becomes feasible, stabilization in the private insurance market could potentially take several more years. These evolving trends underscore the need for adaptability and proactive risk management strategies.

As you look for strategies that protect your assets and lifestyle, partnering with a BRP Private Risk advisor can help you find solutions that enable you to respond to a changing insurance market, stay ahead of the exposures that you encounter, and simplify the complexity of the current landscape.

Market Drivers and Trends

In 2024, we expect the following market drivers and trends to impact the private risk space.

Industry collaboration

Since mid-2023, we have continued to see insurance companies from different firms collaborate with advisors to provide coverage options. This collaborative trend enhances the diversity of available insurance solutions and offers a wealth of expertise, fostering a more personalized and comprehensive approach to clients' insurance needs.

Valuables

Insurance companies continue to place a heightened emphasis on accurate valuations for collections, like art, jewelry, wine, and antiques. Though previously typical coverage decisions were based on general limits and rough estimates, now, insurance companies expect individuals to provide accurate valuations by listing each asset and its specific value (with proof) before binding coverage.

Inflation & economy

While there is optimism regarding a potential decrease in inflation in 2024, the discourse remains centered on the prospect of a recession. Economists anticipate the economy making a soft landing this year as inflation cools and unemployment rates decrease. However, despite an upward trajectory, economic growth exhibits early signs of a slowdown this year. Faced with economic uncertainty, private client insurers maintain a conservative stance, as evidenced by the sustained premium increases. When exploring insurance solutions, individuals should stay abreast of economic trends and consider the impact of inflation on replacement costs and policy limits.

Extreme weather events

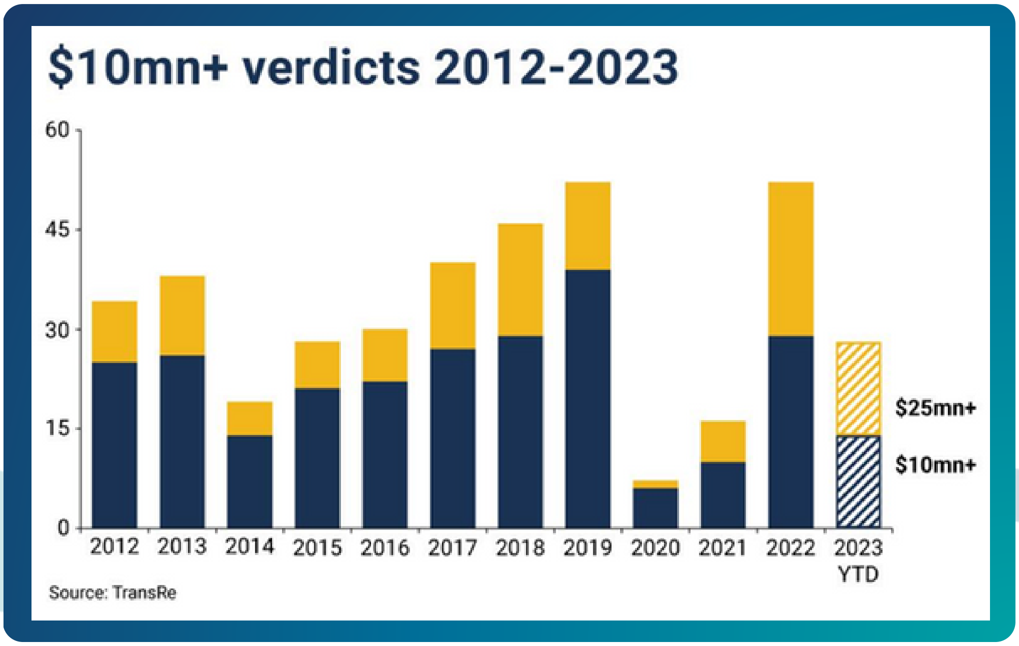
The second half of 2023 witnessed catastrophic events, like the wildfires in Maui and Hurricane Idalia in the southeast. These, and other extreme weather events, continue to be a driving force in exponential premium increases and a hurdle for properly protecting assets.

Social inflation

Amidst the dynamics of our current litigious landscape, insurers continue to combat the challenge of escalating claims costs that surpass economic inflation. Plaintiffs pursuing substantial monetary settlements for injuries, reflecting broader societal trends marked by increased litigation, plaintiff-friendly legal decisions, and large jury awards, have all contributed to increased insurance claim costs.

Nuclear verdicts

Options for umbrella coverage continue to narrow due to a well-funded plaintiff's bar and increased jury awards over $10 million, adversely impacting insurance companies and the coverage limits they used to be able to offer as a more plentiful safety net.



Fraud

The incidence of individuals submitting false or exaggerated information on insurance claims is on the rise and in response, insurance companies have been increasing rates to recover losses. But, now, with the use of AI and machine learning, insurers are going on the defense against those individuals filing fraudulent claims. Massive data sets can be analyzed to find trends and detect fraud in real time - allowing them to focus on handling legitimate claims.

Parametric solutions

The insurance market is witnessing the emergence of parametric products as a strategic response to evolving trends. Parametric solutions complement traditional insurance policies and help accelerate recovery. They can be designed to cover both specific catastrophic losses and frequency losses – for example the business interruptions caused by a hurricane. With the potential for parametrics to fill gaps and offer innovative solutions, there is a growing focus on using these products to make clients whole after events like wildfires or floods. Insureds are increasingly encouraged to consider specific coverage amounts tailored to their policy-specific needs.

Private risk property & casualty overview

Home insurance

Home insurance rates continue to increase due to inflated construction costs, increased frequency and severity of natural disasters, and an influx of claims. Because of these realities, a proactive approach to risk management is imperative for homeowners. As the private insurance market evolves, homeowners must undertake additional measures to fortify and protect their properties. When buying a home, scrutiny of the ZIP code for natural disaster risks is crucial, especially in areas prone to weather events, like convective windstorms, wildfires, hurricanes, and flooding. Homebuyers, particularly those in brushy or coastal locations, should do their due diligence about potential exposures. One of the most frequent oversights that renders homes, especially high-value properties, exposed to vulnerabilities is the absence of landslide coverage. Consideration of factors, like brush growth, soil stability, and the nature of the land, whether on a hill or pier, is essential for acquiring comprehensive and tailored home insurance coverage.

Homebuyers, particularly in brushy or coastal locations, should do their due diligence about potential exposures. When looking at insurance options, consider factors like brush growth and soil stability, and also if structures are situated on or near areas that pose greater risk, like hills or bodies of water. A BRP Private Client advisor can help you find tailored home insurance coverage for specific property exposures and provide recommendations on how you can harden your property to better weather the storm.

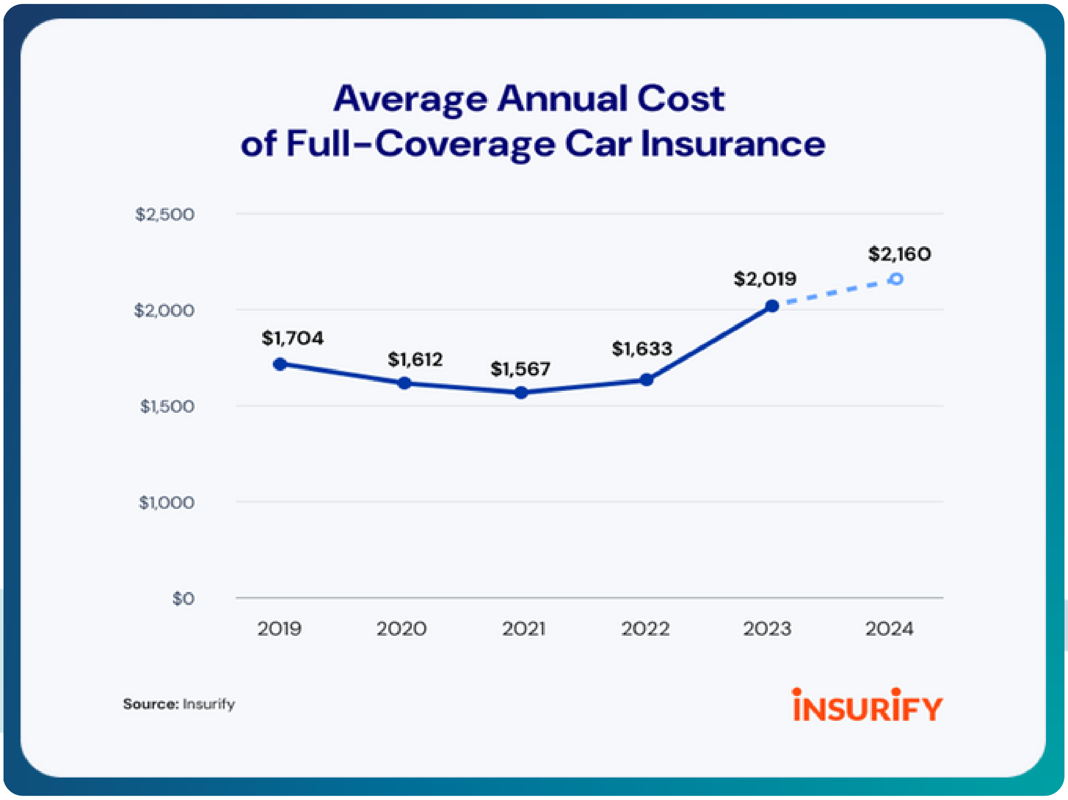
Cyber coverage

Cyber threats and the potential financial impact of data breaches and online attacks have escalated, prompting insurers to adjust rates to mitigate increased risks and ensure comprehensive protection. Bad actors are not discerning when it comes to their victims, whether that be a company or an individual. To protect you and your family's digital reputation and assets, consider implementing robust cybersecurity measures, such as using strong passwords and a secure password manager. Multi-factor authentication or biometrics can serve as added layers of protection. Evaluate and manage your online profiles diligently, by refraining from posting when you will be on vacation or avoiding revealing sensitive information about you, your family, or your home.

Lean on your BRP advisor for guidance, resources, and assistance to craft a personalized cybersecurity strategy. Our specialists can assist you in developing a robust cyber incident response plan, identifying vulnerabilities, and securing appropriate cyber coverage.

Auto Insurance

Auto insurance is experiencing notable shifts as insurance companies make strategic decisions in response to evolving market dynamics, particularly with riskier driving habits and more congested roads post-COVID-19. Some insurance companies are withdrawing from the auto market entirely, while those choosing to remain experience an overwhelming influx of new inquiries. The challenge for insurance companies lies in managing this surge responsibly, as the potential for taking on excessive exposure poses a concern. Insurance companies are incorporating unique strategies to achieve a delicate balance between remaining profitable and avoiding over-insuring or taking on excess exposures.



When shopping for car insurance, a BRP Private Client advisor can help you compare quotes so that you get the best rates for the level of coverage you need. Your advisor will help you determine what you can do to lower your premiums. For example, bundling coverage, participating in safe driving programs, and reviewing discount options may help you save on auto insurance.

Umbrella Liability

High limit umbrella policies are now nearly nonexistent. The demand for extensive coverage that exceeds standard limits has surged, leading to a limited availability of high-limit umbrella policies. Driving factors for this scarcity include market volatility, large jury awards, and a rise in high-value assets. As a result, individuals seeking substantial umbrella liability coverage may encounter heightened competition and stricter underwriting criteria.

By doing a deep dive into your lifestyle and garnering a holistic understanding of your specific needs, a BRP Private Client advisor works in collaboration with you to determine how much umbrella coverage is appropriate. Working closely with your BRP advisor can help you successfully navigate even a constrained umbrella market, so you secure the most suitable and comprehensive coverage for your unique needs.

Excess & Surplus Market

The surplus market is gaining significant momentum, with expectations of a substantial increase in uptake within the private risk sphere. The excess and surplus market presents a unique opportunity for insurance advisors to tailor coverage precisely to individual cases and risks, providing a potentially superior and more customized approach that aligns with buyers' evolving needs in the private insurance space. Working with an expert advisor can help you understand how you can tap into the surplus market to best structure policy format for policy-specific risks.

Working with a BRP advisor can help you understand how you can tap into the surplus market to best structure policy format for policy-specific risks. Our experts can help you determine if tapping into the surplus market makes sense so you get improve cost outcomes without compromising on your coverage needs.

Rates

Insurance rates within the private risk space are witnessing a uniform uptick, with an average 10% increase across all lines, spanning homeowners, auto, and umbrella liability. This notable rise reflects the industry's response to ongoing challenges, including increased interest rates, inflation, and the complex reinsurance landscape. Homeowners, particularly in high-risk areas, such as the coasts or those with heavy vegetation, can fortify their properties and seek tailored coverage to address rate increases.

Example:

Home Insurance = +18%[1]

Auto Insurance = +7%[2]

Helping You Discover Your Resiliency

Though containing the cost of insurance may currently be more challenging, know that you can implement solutions that may help improve the results you obtain from insurance companies. Taking these steps can help you manage your insurance spend and protect what matters most.

1. **Fortify your home against risks**
   Take proactive measures to safeguard your home and property. Consider implementing weatherproofing solutions to fortify your property and creating disaster response plans to better respond to emergency situations that may happen.

2. **Explore parametric products**
   With the advent of parametrics, consider leveraging these innovative solutions to bridge coverage gaps, particularly in the aftermath of a natural disaster. Parametrics can offer a streamlined and efficient way to make individuals whole after such events, providing a crucial layer of financial protection.

3. **Optimize coverage amounts**
   When securing coverage, carefully assess your needs and buy coverage amounts that align with your assets and lifestyle. This tailored approach ensures adequate protection without over insuring.

4. **Embrace the surplus market**
   Recognize the beacon of opportunity within the surplus market. Education is paramount in maximizing value, so take the time to understand and explore surplus offerings. As you approach renewals, delve into what the surplus market can provide, tailoring policies to your specific needs. Consider surplus capacity a strategic solution for comprehensive and specialized coverage.

5. **Look ahead to 2024 and beyond**
   In 2024, anticipate the evolving landscape of private insurance by partnering with an insurance advisor who can help you understand how the market is changing and how to best respond. In addition to finding forward-looking solutions, like parametric insurance and the surplus market, proactive communication with your insurance advisor can help you fine tune your approach to risk management and insurance as personal and global events continue to shape your lifestyle.

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In Conclusion

BRP is committed to empowering you with tailored solutions for your unique needs. Consider us your partner in fortifying your approach to risk management and insurance. Looking ahead toward 2024, let us guide you in shaping a comprehensive, resilient, strategy that aligns with an evolving commercial, private, and employee benefits insurance landscape.

Together, we'll help you make informed insurance purchasing decisions to help protect your business, employees, and family.

Let's review your goals and needs.

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