SENTINEL

2024 Budget Planning Guide

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Sentinel is the Carolinas Premier, Independent Risk Management and Employee Benefits Consulting Firm

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Executive Summary

As we release our 2024 Budget Planning Guide, it may sound familiar to previous reports we have published. The insurance market is still in a state of flux in most segments with very little change expected on the horizon. We do not anticipate a significant softening in the marketplace in the upcoming year given a multitude of factors, impacting multiple lines of coverage, so for many of you that means hold on and prepare for a bumpy ride.

In Q2 2023, Commercial Insurance premiums rose again an average of 8.9% nationwide. While the General Liability, Umbrella, and Workers' Compensation lines saw overall small, mixed changes this year, Automobile jumped from an 8.3% increase in Q1 to 10.4% increase in Q2 with additional rate pressures for the upcoming quarters. Last year, the Commercial P&C industry finished with an average combined ratio at 102.4. Indications are that the combined ratio will end about the same in 2023, meaning another year of underwriting losses. This data and the research contained throughout our latest planning guides, points us to believe that there is a continued firming in the marketplace expected.

Continued pressures are affecting personal insurance programs as well. With the rise of natural catastrophe losses and persistent inflation, continued rate changes are expected in 2024 and beyond. Carriers have vacated catastrophe prone areas including California, Florida, and Louisiana resulting in continued concerns with the availability and affordability of insurance in these territories. Furthermore, homeowners' premiums have not kept pace with exposures in the prior terms. Replacement cost of residential structures increased on average 42% however earned premiums have only risen 24%. Personal automobile continues to wreak havoc on carrier's profitability coming out of 2022 where the combined ratio in this line was over 112%, the worst it has been since 1975. Carriers are scrutinizing exposures and rates to push for underwriting profitability across the board.

Lastly, continued pressures for upward rates for benefit plans are expected as well. Costs for employer-sponsored health plans in 2024 are expected to increase around 6%. This could be the largest price increase for employer health plans in about ten years. Drivers of rate hikes include higher chronic health conditions, an increase in specialty and prescription drugs, and a lingering result of missed health screenings during the pandemic. Cost containment strategies will play a key role in 2024 for employers.

Rest assured that Sentinel is dedicated to Safeguarding Your Success no matter the market conditions. Our comprehensive services are driven by a dedicated team who invest their time, knowledge, and experience to fully understand the risks and exposures and can help you navigate these waters.

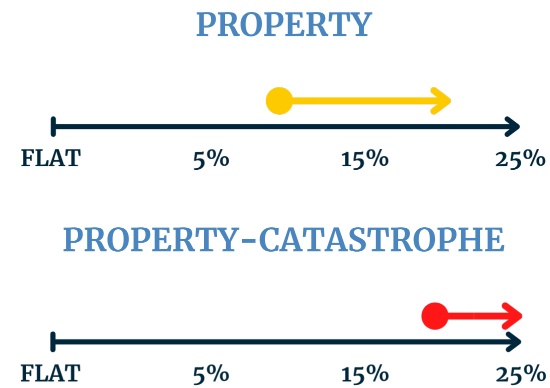
James L. Holmes Jr.
Managing Partner, Sentinel

Safeguarding Your Success

Commercial Property

In addition to Property premium increases leading the way in Q2 2023, the marketplace is still experiencing tighter conditions and terms. We have seen standard carriers opt out of certain regions or states altogether in 2023. This is particularly true in CAT-prone areas, such as fire and flood ravaged California, wind-blown Florida, and even the tornado-prone Midwest. The standard market retreat can mean that Excess and Surplus markets may be the only remaining option for many insureds.

Overall, insureds nationwide are paying higher, sometimes much higher, premiums and retaining substantially more risk, via deductibles, sublimits and exclusions. With inaccessible markets, premium increases, and more restrictive terms, some insureds are turning to alternative coverage solutions, such as risk purchasing groups or going without property insurance altogether. Other drivers of Property premiums include increasing reinsurance costs (up almost 16% through Q2 2023) and omnipresent catastrophes. Billion-dollar US weather disasters totaled 89 from 2018 to 2022 compared to 86 in all of the 1980s-1990s combined. Affecting these numbers includes lingering supply chain issues, inflation, higher interest rates, and denser and more expensive exposures in CAT-prone areas. All these factors contribute to higher repair and replacement costs, and driving up claim activity, expenses, and pure loss numbers for most carriers.



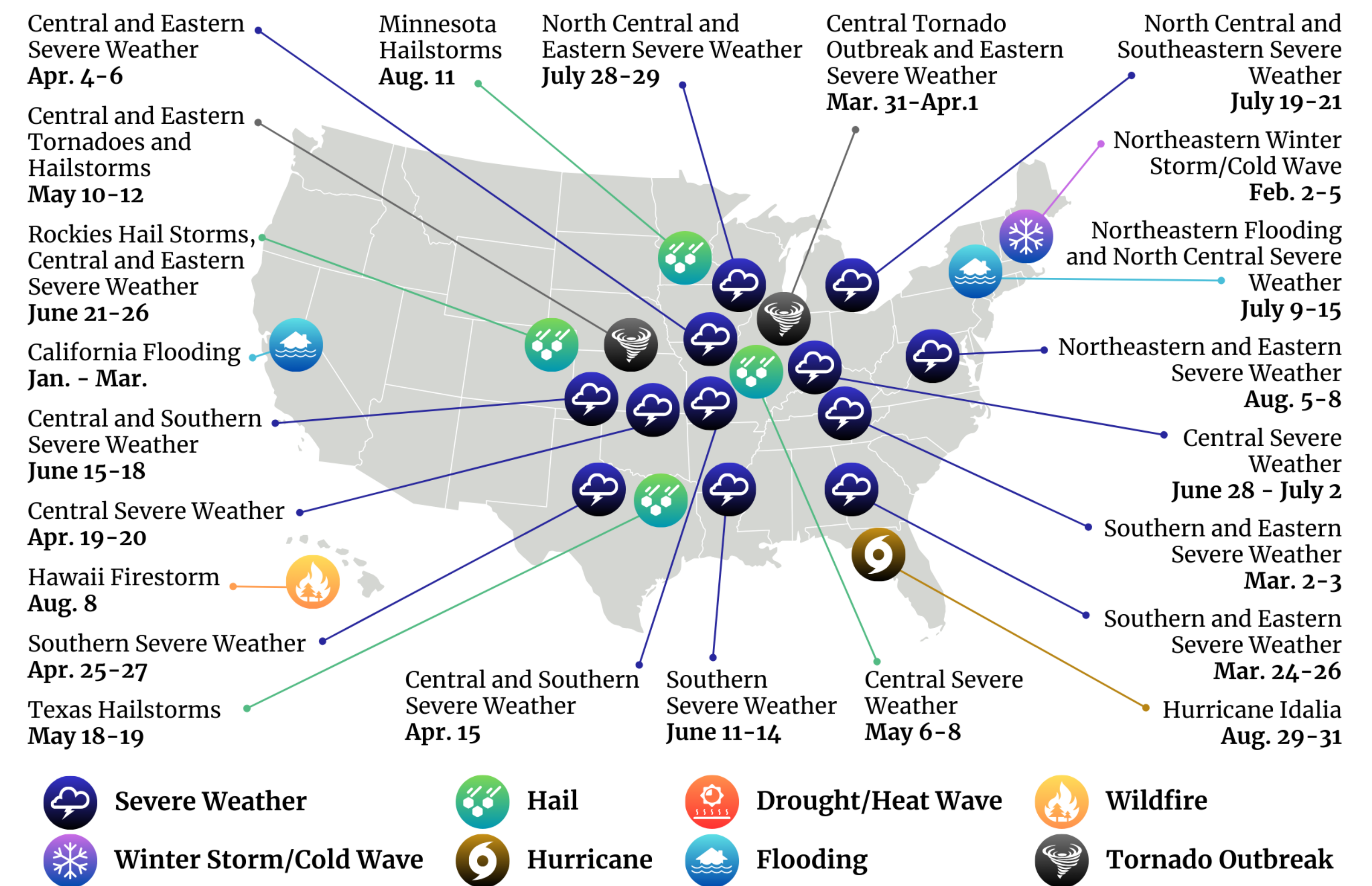
Previously made changes in appetite, terms and conditions, and increased premiums are starting to improve overall property performance and overall combined ratios. However, at this similar time frame in 2022 the property market was beginning to settle down until Hurricane Ian single-handedly sent the property market back into a tailspin. Given the wide variety of factors impacting property premiums and continued impactful weather events, we anticipate rate increases in low double digits (10-20%) non-CAT exposure property and 20%+ for CAT exposed properties throughout 2024. CAT Insured Retentions may also continue to increase. It is feasible that renewed property exposure risk transfer options may become more commonplace. If Mother Nature will settle down and as inflation and supply issues abate, we hope that the property market premiums and carrier availability will stabilize.

2024 Outlook and Trends to Watch

Natural Disasters

The rising frequency and severity of natural disasters continue to pose concerns in the commercial property insurance market. According to industry research, natural disasters cost the global economy an estimated $77 billion in the first quarter of 2023 alone, with about one-third ($22 billion) of those expenses covered by insurers. Additionally, the National Interagency Fire Center reported that nearly 20,000 wildfires have already taken place so far in 2023, burning more than half a million (620,986) acres along the West Coast. Although this total falls below the 10-year average, the potential for yet another intense wildfire season in the months ahead remains. Many climate experts anticipate that natural disaster trends will proceed to exacerbate related property losses in the coming years.

2023 U.S. Billion-Dollar Weather and Climate Disasters

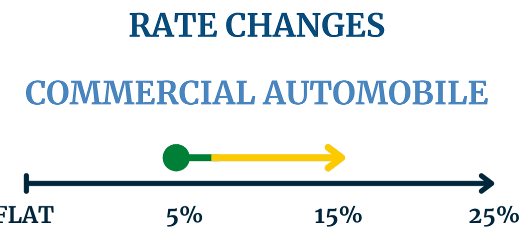


Reinsurance Capacity Concerns

The latest natural disaster and inflation trends contribute to widespread capacity challenges. According to industry data, January 1, 2023, reinsurance treaty renewals delivered some of the hardest market conditions in decades, with capacity shrinking by more than half across most layers and rate increases ranging between 40% and 100% for most policyholders, depending on their CAT exposures. Six months later, June 1, 2023, renewals reflected similar trends, with capacity tightening even further and rate hikes falling between 25% and 40%, thus demonstrating ongoing risk aversion within the reinsurance space. As reinsurers look to January 1, 2024, renewals, experts expect the marketing hardening to continue, however rate hikes are likely to be more moderate than in 2023.

Commercial Automobile

Automobile premium increases ran about 10% in Q2 2023, up from about 8% in Q1 2023. Many of the same factors impacting General Liability rate increases, such as litigation funding, social inflation, and rising medical costs are impacting automobile liability premiums as well. Other factors including distracted driving, which despite laws being enacted to prevent this, continues as a prolific problem.



In addition, Smart Cars, with sensors, cameras, and other electronic features, are very expensive to repair. Increasing crash severity is also a factor in rising premiums. Definitions of and statistics on "severity" vary, but all sources seem to agree that severity of crashes increased during the Pandemic, even with fewer cars on the road, and never abated when traffic counts surged, as we returned to normalcy.

Most carriers now use some amount of predictive modeling to determine auto premiums. There are many variables that impact modeling pricing: drivers age/experience, age and cost of vehicles, annual miles driven, garage locations, use of vehicle, population congestion, etc. A comprehensive auto safety plan, to include prohibiting phone use will driving, GPS monitoring, driver history monitoring, and more can lead to much improved loss experiences and safety profiles; thereby helping to reduce claims costs and resulting premiums. We can be hopeful that improved auto safety features, increased awareness and driver education, and maybe even self-driving cars, will also help to cap automobile insurance premiums in the future.

The insurance industry has struggled with profitability on the automobile line in the last few years so most of this is not new news. After a brief dip, slightly below 100% in 2021, the Commercial Automobile Combined Ratio climbed back to over 105% in 2022. As such, we don't expect any downward trends in premium pricing for the foreseeable future. Overall, expect pricing increases in the high single digits to mid-teens (5%-15%) for 2024.

2024 Outlook and Trends to Watch

Nuclear Verdict Concerns

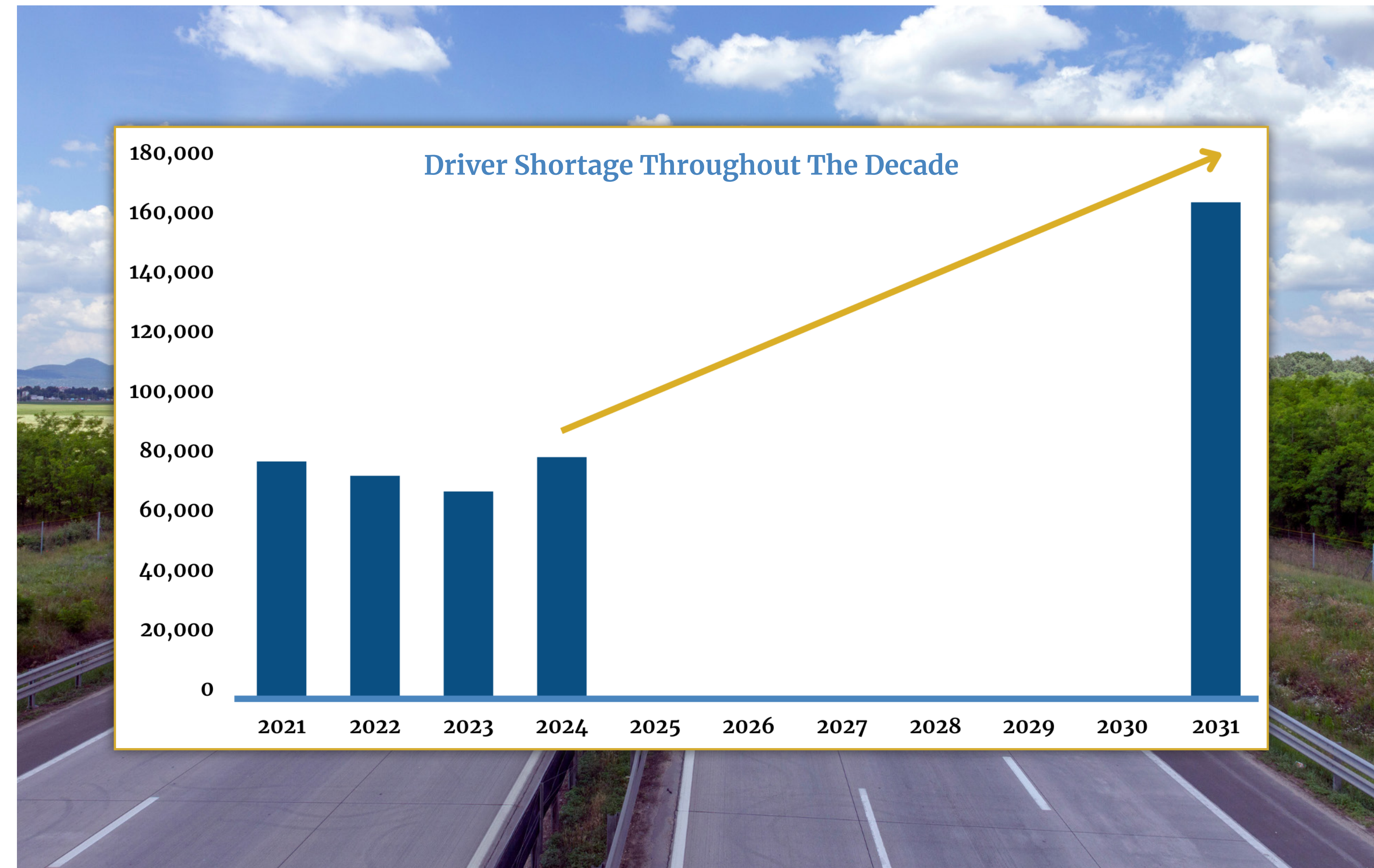
Social inflation has affected many lines of commercial coverage in recent years, but the automobile insurance market has been particularly impacted. Much of this relates to the trucking industry, including a surge in costly lawsuits and associated settlements. In particular, nuclear verdicts (jury awards exceeding $10 million) have been on the rise. The American Transportation Institute reported that trucking verdicts have increased by more than 50% each year for the past decade. Furthermore, the number of nuclear verdicts has nearly doubled during this time frame. In total, the Insurance Information Institute found that social inflation has led to a $30 billion surge in commercial auto claim costs since 2012.

Evolving Technology

The last few years have seen vehicles continue to grow more advanced and incorporate new technology (e.g., blind-spot cameras, backup alarms, GPS devices, and telematics software), providing opportunities to increase driver safety and bolster operational efficiency among commercial fleets. Automatic braking technology and advanced driver-assistance systems have also risen in popularity, offering features such as lane departure warnings, blind-spot detection, and front and rear crash prevention. Smartphones have even begun pushing road safety by providing more hands-free features, deploying "driving mode" options that silence notifications behind the wheel and offering various safe driving applications. Yet, it's important to note that evolving vehicle and driver safety technology also carries potential risks. Namely, if implemented poorly or incorrectly, this technology could create additional distractions for drivers on the road. Thus, possibly resulting in further accidents and related commercial automobile insurance costs.

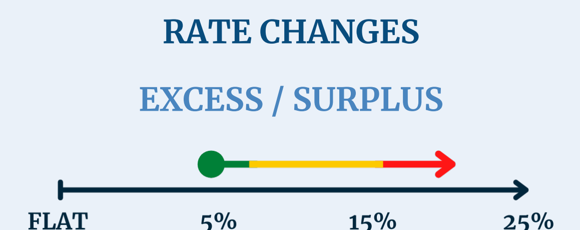
Driver Shortage

The nation's driver shortage remained near record-setting levels in 2022 at 78,000 open positions, according to the American Trucking Associations (ATA). By the end of the decade, the ATA anticipates that rising freight demand and an aging workforce could cause the driver shortage to skyrocket to 160,000 open positions. To help minimize this shortage, a growing number of businesses have adjusted their driver recruitment strategies, including tapping into underrepresented demographics to expand their talent pools. Primarily, businesses have begun hiring more women drivers; industry data found that women made up nearly 14% of professional drivers in 2022, almost doubling from 2018's findings.



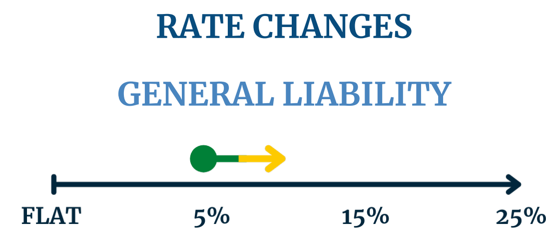
Excess and Surplus Marketplace

Excess and Surplus Lines carriers are benefiting from standard carriers restricted appetites and terms for property, general liability, automobile, and umbrella. Many accounts or specific lines for an account, that can no longer find a home in the standard market, are flooding E&S markets. E&S (commercial and personal) premiums are up anywhere from 7% to almost 16% depending on the source, in the first half of 2023.



E&S markets are currently reporting about an 88% combined ratio, so we hope they will continue to offer terms and get creative, when needed, to provide coverage options.

General Liability



Commercial General Liability premiums have risen an average of 5% year to date. Some of the main factors behind the rate increase includes economic and wage inflation, social inflation/significantly higher jury verdicts, third-party funding for litigation, and other legal maneuvers resulting in increased claims activity.

There has been some attention given to Tort Reform and economic inflation appears to be cooling down. This may lessen some pricing pressure, but some emerging issues such as Forever Chemicals and Artificial Intelligence could impact pricing in the not-so-distant future. We anticipate General Liability pricing to keep with mid-to-high single digit (5%-9%) increases in the upcoming year, with the possibility of higher retentions and stricter terms for more hazardous classes.

2024 Outlook and Trends to Watch

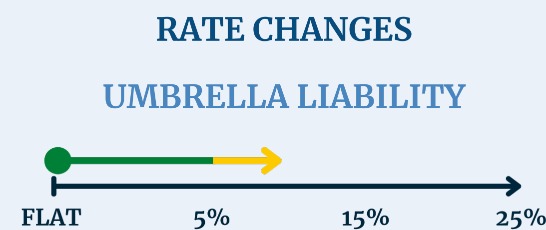
Social Inflation Issues

The United States has become an increasingly litigious society over the last decade, resulting in businesses facing a growing number of lawsuits following liability incidents (actual or alleged) and, in turn, greater penalties from such legal action. This trend has also driven up social inflation issues. Currently, multiple factors are contributing to social inflation within the liability market, including additional attorney advertising, third-party litigation funding, tort reform challenges, and deteriorating public sentiment toward corporations. Altogether, increased litigation and social inflation issues have largely contributed to elevated liability insurance claim costs. In some cases, such litigation has posed underinsurance concerns for businesses, leaving them with coverage gaps and substantial out-of-pocket expenses amid related claims.

Increasing Medical Expenses

Coverage for medical costs arising from third-party injuries is a key element of General Liability insurance. As a result, rising medical expenses have exacerbated claim costs across the market over the past few years, with no signs of slowing for the foreseeable future. The surge in medical expenses is tied to various factors, including increased prescription drug costs, elevated treatment expenses due to advancements in medical technology and evolving care methods, and rising wages among health care workers. Rising medical expenses will likely continue to play a major role in elevated General Liability insurance claim costs in the months and years to come.

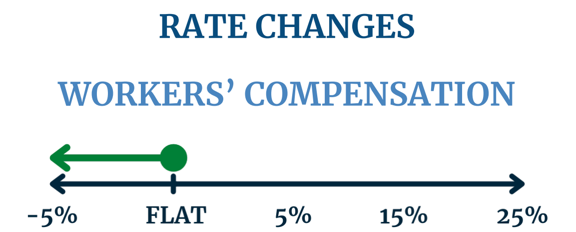
Umbrella Liability



Umbrella premiums are up just over 8% so far in 2023. Issues such as social inflation and other legal strategies increasingly push settlements into the Umbrella layers. Standard carriers writing umbrella and excess liability are still plentiful, although many are reducing their available limits to $5M or maybe $10M for very low exposure accounts. Some carriers are increasing attachment points by requiring higher underlying limits ($2M, instead of $1M occurrence) or lead umbrella limits.

Other strategies include increasing retentions and the addition of more exclusions limiting coverage. Umbrella availability should persist and could improve if the legal environment does. Still, expect single digit increases in umbrella premiums for the rest of this year and into 2024.

Workers’ Compensation



Workers’ Compensation premiums continue to renew flat or with ever-so-slight decreases in rates. Improved safety measures have led to improved loss results and this line of business remains profitable for most carriers. Wage and medical inflation could begin to impact the loss results at some point, but from now into 2024, we can expect nearly flat premium renewals.

2024 Outlook and Trends to Watch

Artificial Intelligence (AI)

AI consists of machines, computer systems, and other devices capable of simulating human intelligence processes. This technology has emerged as a valuable workers’ compensation tool in recent years. Specifically, businesses can leverage this technology to enhance various components of their occupational safety and health programs, including hazard recognition, employee training, equipment maintenance, incident detection and reporting, and OSHA compliance. Additionally, AI can help businesses improve several aspects of their claims management protocols by establishing personalized treatment plans and rehabilitation recommendations for injured employees; monitoring and supporting these employees amid their recovery journeys; reviewing and categorizing claims data to identify potential patterns or anomalies; and offering suggestions to prevent similar claims in the future.

Remote Work and Musculoskeletal Disorders

Since the COVID-19 pandemic first emerged in 2020, many businesses have permanently transitioned to remote or hybrid operations, allowing their employees to work from home in some capacity. Yet, industry research found that remote employees with poorly designed workstations—primarily, those lacking effective ergonomic measures—are more likely to experience musculoskeletal disorders such as carpal tunnel syndrome, back pain, neck and shoulder sprains, headaches, and digital eyestrain, all of which could lead to workers’ compensation claims. As such, a growing number of businesses have started implementing measures to reduce possible remote work injuries.

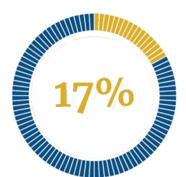
Mental Health Awareness

The Centers for Disease Control and Prevention reported that mental illness impacts almost 20% of U.S. adults every year. To help address this increasingly prevalent issue, many states have enacted legislation to provide employees with workers’ compensation coverage for various mental health conditions (e.g., anxiety, depression, and post-traumatic stress disorder). However, most of these laws require employees to prove that their conditions arose in the course and scope of employment before receiving coverage, which can be challenging. A growing number of states may adopt laws to expand workers’ compensation coverage eligibility for mental health conditions in the future. Amid these legislative changes, some businesses have taken steps to better support their employees’ well-being and help limit claims related to mental illness.

National Alliance on Mental Illness (NAMI) 2023 Statistics

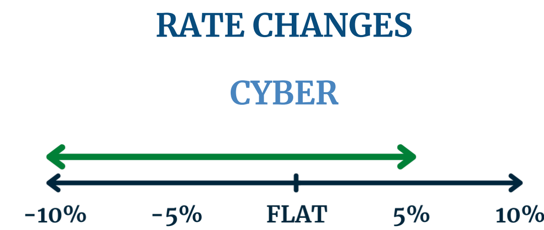
1 in 5 U.S. adults experience mental illness

1 in 20 U.S. adults experience serious mental illness



of youth (6-17) experience a mental health disorder

Cyber Liability



Increasing threat vectors and growing attacker sophistication are consistent drivers in cyber incidents in recent years, causing a rise in cyber insurance claims and related losses. This increase in attacks, has in turn, resulted in subsequent underwriting losses for most carriers. Alongside unprecedented segment growth, such challenging market conditions led to most insureds experiencing steep rate hikes in the past.

Fortunately, industry data estimated that the market's combined ratio for 2022 was 71.9%, reflecting underwriting profitability. As such, the first half of 2023 has seen most policyholders encounter more modest premium increases, with average rate jumps sitting at 8% in the first quarter of the year. Some carriers have offered flat or premium decreases due to new market capacity. While this rate deceleration is projected to press on for the rest of 2023, it's too soon to say whether the segment has transitioned to a soft market, as evolving cyberattack techniques continue to create an unpredictable and volatile risk landscape.

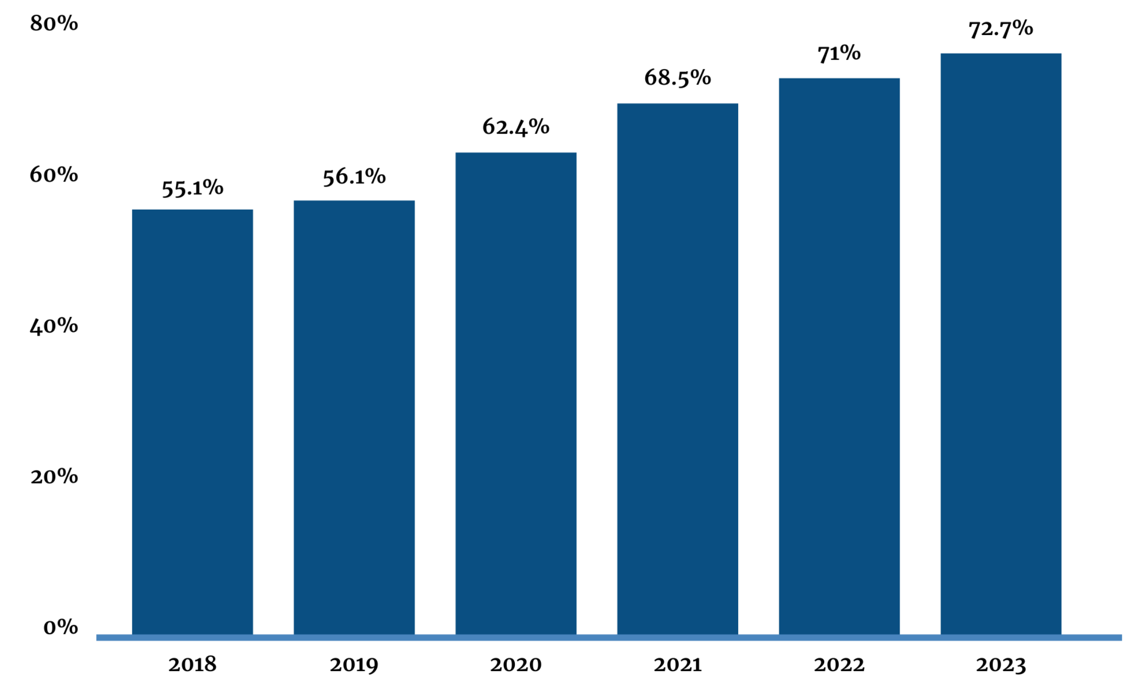
The continuation of increased cyberthreats and associated losses is impacting all businesses across industry lines. Distressed classes include manufacturing, healthcare, law firms, and public entities, yet no industry is immune. The increase in claims activity affecting all industry classes across the board, further fuels the rising demand for coverage. Many organizations now have no choice but to purchase cyber insurance considering numerous state laws, contracts, and industry standards mandating the coverage.

As the market continues to expand and premium pricing starts to moderate, however, it's important for policyholders to keep in mind that most cyber insurers have remained cautious when it comes to taking on greater risk, therefore sticking to strict underwriting measures. Policyholders who fail to adopt proper cybersecurity protocols or experience a rise in cyber-related losses may continue to face rate increases and coverage limitations. Expect rates to stay relatively flat with potential for decreases.

2024 Outlook and Trends to Watch

Elevated Ransomware Concerns

Ransomware attacks continue to impact businesses of all sizes and sectors, serving as a primary loss driver in the cyber insurance space. Ransomware demands and severity have surged by approximately 47%. The attack methods and the widespread circulation of malicious code have made ransomware incidents difficult to defend against. Although, ransomware attacks somewhat moderated in 2022, this shift didn't last long; ransomware-related claims significantly increased in the first quarter of 2023 with three-quarters of organizations or 73% reported at least one ransomware attack. In response, a growing number of insurers have started requiring policyholders to demonstrate effective cybersecurity measures and incident response protocols aimed at mitigating ransomware attacks to receive coverage for associated losses.



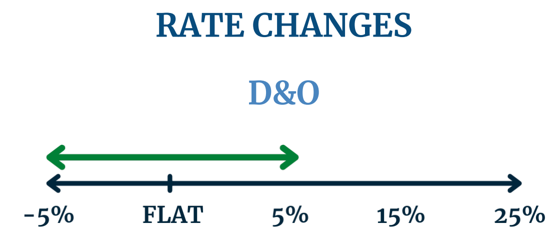
Increased Nation-State Threats and Coverage Exclusions

Nation-state cyberattacks remain a top concern, especially as geopolitical challenges such as the Russia-Ukraine conflict contributes to global cyberwarfare worries. Requirements for insurers to specifically prohibit coverage for losses stemming from nation-state cyberattacks went into effect in March of 2023. Going forward, it's highly possible that more insurers will follow suit and implement similar coverage war exclusions. The federal government strives for new initiatives to harden the nation's cyber defenses against foreign threats and urges businesses to follow suit.

Business Email Compromise (BEC)

BEC scams entail a cybercriminal impersonating a legitimate source to trick their victim into wiring money, sharing sensitive data, or engaging in other compromising activities. The scams relating to social engineering and funds transfer fraud are the among the most expensive losses. BEC continues to develop as a major threat as this type of attack factors in the element of human error.

Directors and Officers Liability (D&O)



While the last few years in the D&O segment were encountered with double-digit rate increases and lowered capacity, market conditions proved more favorable throughout 2022-23. Certain industry classes resulted in single digit increases, save any changes in rating exposures. As the overall sentiment toward the D&O space began to shift, new market entrants also emerged, thus bolstering underwriting appetites and fostering greater competition among carriers.

Private and nonprofit companies are considered a higher risk by carriers than their public counterparts. These policyholders have remained subject to additional underwriting scrutiny and less substantial rate decreases. Directors and Officers continue to be targets of litigation. Carriers will stay the course with emphasis on the organization's overall financial condition.

A heightened regulatory environment ensues due to increased scrutiny from federal entities, consumer protection groups, and state-level regulators. In addition, there has been an uptick of shareholder activism. As the landscape evolves, there could be more significant challenges to filling vacant board seats. There continues to be an overall emphasis on increasing retentions. The D&O market has become more competitive on claim-free business with strong financials as underwriters shift to more niche underwriting appetites. Altogether, favorable segment conditions are anticipated to continue for the rest of 2023, paving the way for premium deceleration into 2024.

2024 Outlook and Trends to Watch

Cybersecurity

With Cyberattacks preserving forward in cost and frequency, there is vast exposure leading to litigation against senior leaders and related D&O claims. Potential D&O losses can arise from allegations such as senior leaders failing to take the proper steps to protect stakeholders' personal information, failure to implement controls to prevent cyberattacks, failure to report incidents or notify certain parties and more.

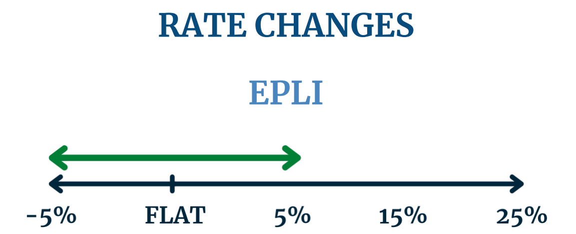
Amid increasing ransomware threats and rising digital warfare exposures brought on by the ongoing Russia-Ukraine conflict, cybersecurity has become a worldwide D&O concern. Cyberattacks, data loss, and digital crime is to be considered among top D&O risks. What's more, the SEC proposed enhanced disclosure rules in March 2023 that would require public companies to provide more in-depth documentation regarding their cybersecurity procedures. These changes include enhanced standardized rules regarding cybersecurity requirements. Hence, there is great potential for associated D&O exposures.

Environmental, Social, and Governance Issues (ESG)

ESG activism has made a noticeable impact on the D&O market. Specifically, senior leaders are being held accountable for upholding their companies' ESG efforts by stakeholders and regulators, thus prompting increased litigation against these leaders and related D&O claims. The U.S. Securities and Exchange Commission (SEC) proposed new disclosure rules in 2022 requiring public companies to share more information on their climate exposures, possibly posing further D&O risks.

Complicating matters, the first half of 2023 shed visibility on a divide between federal regulators pushing for ESG initiatives and some state governments and stakeholders adopting anti-ESG perspectives. This leaves companies in the crossfire and forces them to make decisions that will ultimately promote their long-term interests and mitigate overall D&O risks.

Employment Practices Liability (EPLI)



Due to difficult segment conditions, most EPLI policyholders experienced rate jumps in prior years. The rate increases varied based on factors including sector, location, exposures, and prior losses. Expanding employee rights are relevant with major movements in civil rights legislation. The marketplace is seeing EPLI retention increases and separate higher retentions for highly compensated employees and Class/Mass Action claims.

EPLI markets will harden during a slide in the economy or a recession depending on triggers and factors. There is continued uncertainty around diversity/equity initiatives, labor shortages, and economic impact. These challenges will likely persist for high-risk insureds for the foreseeable future. Favorably, competition is keeping many increases modest. In the first half of 2023, standard rate increases have been relatively flat, with single digit premium pricing in the first half of the year. Capacity and underwriting standards have largely remained stable across the market segment.

2024 Outlook and Trends to Watch

Increased Regulatory Scrutiny

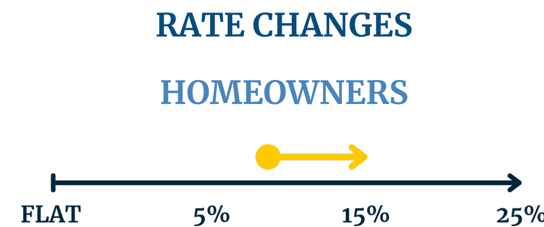
The U.S. Equal Employment Opportunity Commission (EEOC) has implemented several regulatory initiatives to help fight discrimination in the employment landscape over the past few years. In 2022, the EEOC resolved more than 65,000 discrimination charges and obtained over $513 million in monetary benefits for those targeted by such discrimination, representing an increase from the previous year's findings.

Looking ahead, the EEOC shared in its proposed Strategic Enforcement Plan for fiscal years 2023-27 that it will be prioritizing subject matters such as eliminating barriers in recruitment and hiring; protecting vulnerable workers in underserved communities from employment discrimination; addressing emerging and developing issues, including artificial intelligence (AI); advancing equal pay for all workers; preserving access to the legal system; and preventing and remedying systemic discrimination. These initiatives could pave the way for additional litigation against businesses and associated EPL exposures.

Corrective actions employed by carriers in the residential and commercial property insurance markets as well as private automobile will continue to drive premium growth through the remainder of 2023 into 2024. Carriers report a variety of culprits contributing to continued rate pressure including climate change, rising costs to repair or rebuild, and increases in reinsurance treaty premiums. Add to that, carriers pulling out of specific claim ridden markets and you have a storm brewing.

Homeowners

Factors that influenced the homeowners insurance market in 2022 are once again evident this year. Many policyholders are beginning to see their premiums increase, just how much can vary widely. According to a new study by the research team at Insurify, many saw a 9% average rise in homeowners insurance rates in 2023, to an average $1,784 annually. Rates vary by carrier, but expect to see a 10% or more increase in 2024.



Inflation is one of the main reasons prices are increasing across the board and one of the biggest reasons behind home insurance increases as well. It's partly due to supply chain issues and increases in consumer demand, and it's significantly affecting the insurance market. Another key factor is the rise in severe weather and natural disasters, such as floods, earthquakes, hurricanes, and wildfires. In fact, the Federal Emergency Management Agency (FEMA) assigns a risk rating denoting the probability and severity of natural disasters across the United States. Homeowners in "very high risk" areas pay almost 2.5 times more for home insurance than those living in areas of "very low risk," according to Insurify's analysis.

2024 Outlook and Trends to Watch

Insurers of Last Resort Are Filling the Gap

In order to increase rates, insurers must file with state insurance departments and seek approval. This decision determines whether the insurance company will write new policies or leave high-risk states. Multiple insurers have chosen the latter approach, forcing millions of policyholders to turn to their state's home insurer of last resort.

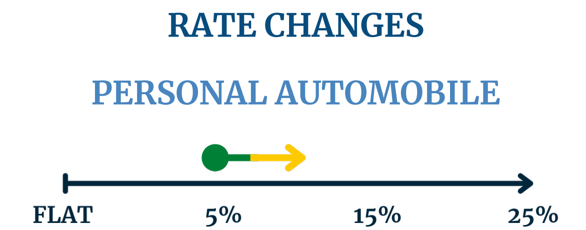
A recent Forbes article stated that weather-related claims led 11 small regional insurers to fail in Louisiana. Another 12 insurers left the state, and more than 50 others aren't writing new business in hurricane-prone areas. The state-run insurer of last resort in Louisiana, Citizens Property Insurance Corporation (Citizens), has seen its policyholders triple since January 2021 according to Mark Friedlander, a spokesperson for the Information Institute. To offset those costs, Louisiana regulators recently approved a staggering 63% average home insurance rate hike for Louisiana Citizens' 114,000 home policyholders.

In Florida, more than one million homeowners are now policyholders at the state-run insurer of last resort, Citizens, after several home insurance companies left the industry or the state. The Insurance Information Institute predicts Hurricane Ian litigation expenses to potentially reach $20 billion, which could further strain the smaller regional insurers. In addition to weather related claims, these insurers dealt with roof replacement claim fraud and excessive litigation that helped factor into their decision to leave.

Citizens received approval from the state of Florida to increase home insurance rates by an average of 6.4% in 2022, which was below what they requested (11%). This difference could potentially increase Citizens' risk and repeat the results that led the other insurers to leave the market.

Personal Automobile

The cost of personal automobile insurance is up 19% compared to a year ago according to August's Consumer Price Index Report. This marks the biggest increase since 1976. Insurify states that automobile insurance premiums increased to an average of $1,668 in the first six months of 2023. Insurify's data scientists predict an additional 4% increase this year, putting the total surge in car insurance rates at 22% and the average annual auto insurance price at $1,742 by the end of 2023.



Insurance rates and premiums continue to rise at 5-10% due to current loss trends. Automobile insurance premiums have increased faster than other inflation hit items, including rent and groceries. In several territories, higher than average automobile increases are occurring while homeowner policies are increasing significantly as well. The cost of claims has continued to soar since the pandemic due to an increased number of vehicular accidents, larger medical bills from auto related accidents, and increased litigation. In 2022, automobile insurers lost on average 12 cents for every dollar of premium written according to S&P Global. It was the worst period for auto insurers in 30 years. This year, that's down to $.09, but still more than what's collected in premiums.

2024 Outlook and Trends to Watch

Statewide Insurance and Reinsurance Increases

North Carolina Insurance Commissioner Mike Causey announced that his office had reached a settlement with the North Carolina Rate Bureau on a requested increase for car and motorcycle insurance rates. Under the agreement, the statewide car insurance increases will average 4.5% in 2024. Motorcycle owners can expect to see an average increase of 2.3%. Causey stated that the top reason for accidents that cause rate increases in North Carolina is distracted driving. Automobile insurers also carry reinsurance, which is essentially insurance for insurers, so they don't always have to cover the full costs of a claim themselves. As a result of frequent severe weather, more reinsurance companies are pulling out of the automobile insurance market while others simply continue raising their rates. This increased cost could be passed to customers no matter where they reside.

Unisured/Underinsured Motorists

A frightening trend is beginning to emerge; more drivers are choosing to operate without automobile insurance at all, which is illegal in several states. Increasing premiums, decreasing pandemic-related savings, upcoming student loan repayments, high inflation, and slowing income gains are all contributing factors in these dangerous decisions. The number of households that have at least one uninsured vehicle increased to 5.7% in the first half of 2023 from 5.3% in the second half of 2022, according to industry data.

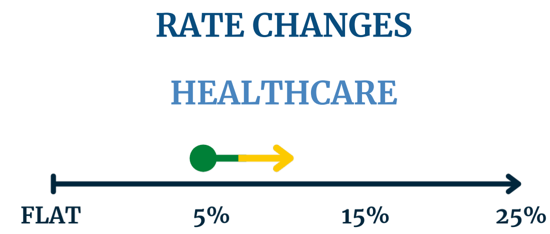
Highest State-Level Increases in Uninsured Driver Rates

State	1H 2023	2H 2022	Change in Unisured
South Dakota	6.8%	3.3%	106%
New Hampshire	7.9%	4.3%	84%
West Virginia	6.0%	4.0%	50%
Oregon	6.3%	4.3%	47%
Indiana	7.5%	5.5%	36%

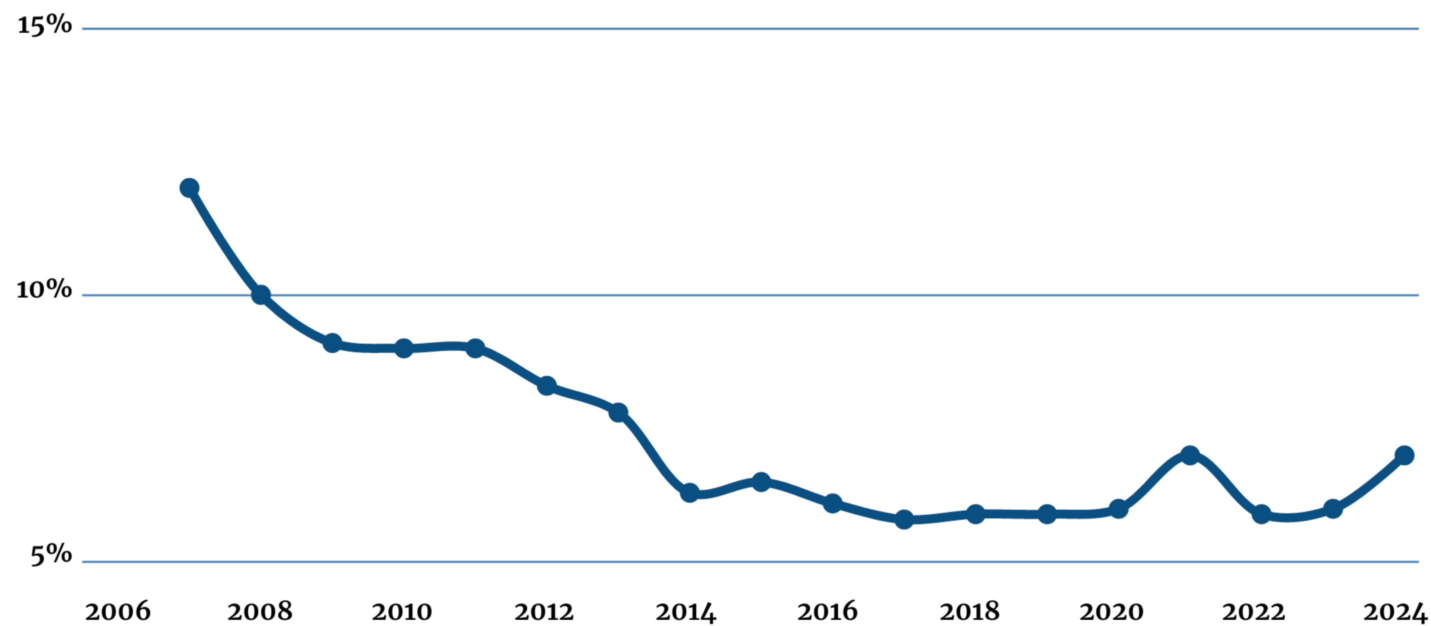
Certain regions had higher rates of uninsured drivers, with 12 states experiencing a 30% or more increase in the share of uninsured drivers compared with the second half of 2022. The table above depicts the top five states with the highest state-level increases in uninsured driver rates. With more uninsured drivers on the road, those who are insured may consider increasing their Uninsured/Underinsured coverage in an effort to help reimburse drivers in an accident involving an uninsured, underinsured, or a hit-and-run driver.

Healthcare

Much like inflation throughout all areas of our country, healthcare costs are also expected to continue to rise in the upcoming year. Numerous trusted sources expect healthcare trend to run between 6-9% in the coming year. PwC Health Research Institute projects medical cost trend to be 7% in 2024, an increase of +1% from 2023. This number is consistent with the medical trend factors we are seeing used by many of the national insurance carriers when calculating their renewals for 2024. The graph below shows healthcare cost trend from 2006 to 2024.



Not all the news surrounding healthcare trends is negative. There are some items believed to have deflationary impacts upon the rising medical expenses and therefore keeping medical trend from hitting the double digits. For example, new biosimilars are hitting the market in 2023 and 2024 that provide more than 50% lower price point on average. Also, health plans are reporting improved behaviors in utilization in terms of shift in the location site of care. A shift from inpatient usage to outpatient is having a positive impact on net plan costs as well.



2024 Outlook and Trends to Watch

Medical Cost of Care

When looking at the healthcare space in a broader sense, beyond just private health insurance, the Centers for Medicare and Medicaid have National Health Expenditure projections that extrapolate out further, beyond 2024. Their models suggest that over the next 8 years, the healthcare costs will outpace that of average GDP growth and will increase the health spending share of our nation's GDP from 18.3% in 2021 to 19.6% in 2031. While no one item is fully to blame for these rising costs, factors having the biggest impact can be divided into two main categories: Increased Utilization and Increased Unit Costs.

Utilization

Steady innovation in the pharmacy market, notably within new cell and gene therapies, coupled with the continued patent protection environment.

- In 2022, the median annual price tag of a new drug hitting the market with FDA approval was $222,000.
- New drugs typically enjoy a 10-to-15-year market lifecycle before new competition in the form of generics can become available to consumers.
- Drug shortages from supply chain issues also instigated some of the recent increases in cost.
- There are roughly 30 gene therapies in late-stage development within the drug manufacturing space.

Prevalence of GLP-1 therapies for treatment of diabetes and obesity.

- 130 million adults may become eligible for Glucago-like Peptide-1 (GLP-1) medications in the next year.
- These GLP-1 medications are drugs that treat diabetes and obesity alike.
- The cost of these drugs is north of $10,000 per year.

Increased catastrophic claims, both chronic and acute.

- Actuarial research suggests that an aging population within the workforce is leading to an uptick in prevalence of higher cost conditions.
- In a study completed by a leading Human Resources Consulting firm, nearly 25% of large claims were related to treatment of a cancer diagnosis. And of those cancer related events, nearly half can be detected early through recommended preventative screenings. This gives plan sponsors hope that with the right strategy in place, some of the higher cost spend can be mitigated.

Unit Cost

Inflationary impact of the greater economy.

- Typically, health expenditure inflation and hospital wage inflation will lag behind household expenditure indexes. As a result, industry experts are predicting that 2024 will be the year that the healthcare industry begins to feel the most impact and upward pressure from the recent broader economic environment.

Negotiations for higher reimbursement rates from hospitals and physicians.

- Many providers are expected to renew multi-year contract arrangements with insurers in 2024.

Continued clinical workforce shortages as well as physician practice consolidation.

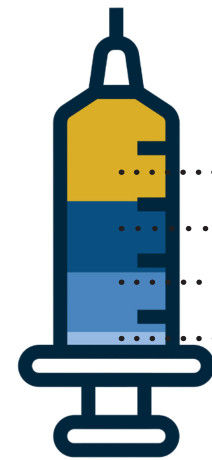
- Hospitals continue to struggle with clinical staffing shortages for 2024. The financial burden of this yields a two-prong issue: systems are going to seek higher reimbursements from payers to compensate for the need to improve staffing; meanwhile, as staffing levels continue to return to normal, industry experts predict utilization will increase as continued pent-up demand will need to be met.
- Recent physician practice M&A activity, setting record highs between 2020 and 2022.

Stop Loss Coverage

The stop loss and reinsurance markets continue to be impacted by increased volume of catastrophic claims. Approximately 20% of employers had at least one member with over one million dollars in claims during the four-year stretch of 2018 through 2021.

New and expensive treatment options, as well as rising healthcare costs in the aggregate, are both driving the prevalence of catastrophic claims upward. As a result of this spike in high-cost claims, plan sponsors can expect to battle larger increases to their premiums to have stop loss insurance protection.

Percentage of Employers Who Experienced a Stop Loss Claim From 2018-2021



- 90% had any stop loss claim hits at all
- 70% experienced a drug-related claim
- 62% experienced a cancer-related claim
- 11% experienced a birth-related claim

Plan Sponsor Considerations

To combat rising health plan expenses, plan sponsors continue to take a proactive approach to managing their benefit plans. Some of the most utilized practices include the following:

- Value based care contracts with insurers, aligning incentives for payers and providers. Nearly 60% of health care payments in 2020 included some form of quality and value components, versus 38% in 2015.
- Implementation of third-party vendors onto a health plan that provide member advocacy and steerage to high quality providers and lower price points.
- Implementation of cost control initiatives such as requiring prior authorization, leveraging disease and care management programs, and requiring spousal surcharges.
- Encouragement of telemedicine for primacy care and behavioral health services through plan design and third-party vendors.
- Improving effectiveness of communication of your benefits to your workforce.
- Narrow networks and tighter drug formularies to battle the increased factors within utilization.
- Flexible self-funded programs that leverage direct contracting with top providers and hospital groups, coupled with zero-dollar member cost share plan design structures to incentivize behaviors/consumption.

Dental and Vision

While medical and stop loss coverage often gets the headlines, we are seeing modest increases in the dental and visions markets consistent with annual inflation.

Dental costs increases are running consistent with prior years at around 4% annually. Some employers may continue to see an increase in both cost and utilization in their dental plans as pent-up demand from the pandemic may catch up in 2024, both in terms of people getting back to dentist and of previous forgoing of basic care leading to the need of more expensive treatments.

To combat any cost increases, more and more carriers are moving away from plans that pay the same benefits for both in-network and out-of-network care and are offering actively managed in network plans that provide a benefit differential between in-network and out-of-network coverage. This plan design is worth a discussion prior to your renewal as it may provide substantial savings which can be used to lower premiums or enhance your dental benefits.

Vision insurance continues to be one of the least expensive plans an employer can offer. Vision benefits are increasingly popular for both the appearance of robust benefit offerings as well as data that suggests having this benefit can yield medical claim savings on the backend. Eye exams continue to help with early detection of medical-related issues including hypertension, glaucoma, and diabetes. Vision trend is running 2%-3% annually, with many plans being offered with multiple year rate guarantees.

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