SENTINEL

2024 Mid-Year Market Review and Forecast

EXECUTIVE SUMMARY

We are pleased to share our 2024 Mid-Year Market Review and Forecast. The insights included are drawn from the knowledge and expertise gathered by our team through continuous research and collaboration with industry partners. As we navigate the ever-evolving landscape of the market, we remain committed to upholding the highest standards of excellence in our research and analysis. We are dedicated to Safeguarding Your Success.

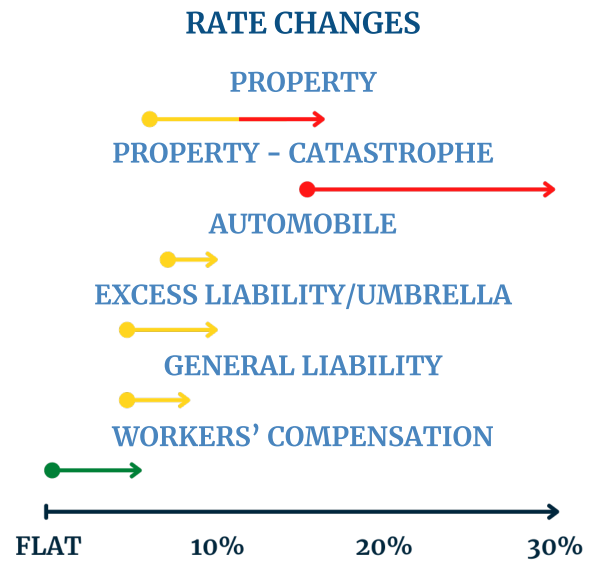
COMMERCIAL MARKET TRENDS

COMMERCIAL PROPERTY

The Commercial Property market continues to experience tighter terms and conditions, leading to more restrictive coverage and higher pricing for policyholders. For example, some carriers now add a Cosmetic Damage Exclusion to Property policies. These are exceptions to coverage made when the appearance of a roof, wall, door, or other building component is altered but is still deemed to be functional. These are all attempts by carriers in an ongoing effort to help reduce both the frequency and severity of claims.

According to a recent report from the NOAA National Centers for Environmental Information (NCEI), there were 28 weather and climate disasters in 2023, surpassing the previous record of 22 in 2020, tallying a price tag of at least $92.9 billion. Higher concentrations of buildings and homes (all with increased property values) in impacted areas, combined with decreased supplies and inflated repair costs, are all contributing factors to these skyrocketing claims.

The early forecasts for 2024 don't offer much optimism for improvement as hurricane researchers from Colorado State University are predicting an extremely active Atlantic hurricane season. Record warm tropical and eastern subtropical Atlantic Sea surface temperatures are driving factors in their predictions of 11 hurricanes this year.



All of these factors continue to impact the global reinsurance market, better known as "insurance for insurance companies." In this relationship, the insurance company transfers risk to the reinsurance company. According to a new report from AM Best, reinsurers won't be relaxing their stance on higher pricing and tougher terms for some time.

ADDITIONAL MARKET TRENDS

Scan the QR code above to discover more about the challenges the commercial market is facing or visit sentinelra.com/blog/2024-mid-year-property-and-casualty-industry-trends

PRIVATE CLIENT MARKET TRENDS

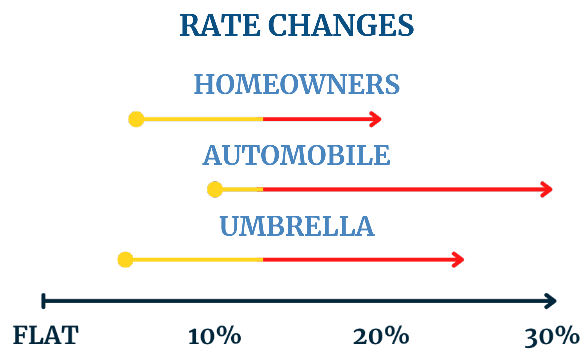
HOMEOWNERS

One of the most alarming and continuing, yet preventable, concerns in homeowners is the undervaluation of dwellings. Dwelling coverage is part of a standard homeowners insurance policy that protects the structure of a home in the face of a covered disaster. When policies are renewed with the same carrier, the dwelling valuation may get overlooked or remain relatively unchanged from years past. This opens the door to a considerable gap in coverage that may not be realized until the time of a claim.

In this post-pandemic world, costs of building materials and labor to restore a home continue to outpace what may be the replacement value shown in the policy. It is also important to note that the replacement value of a home should not be confused with, nor is the same as, the market value or tax value of the home. Carefully reviewing your homeowners insurance policy and the limits included helps prevent hefty out-of-pocket expenses.

PERSONAL AUTOMOBILE

As employees began to transition from working at home to working at the office full-time or part-time, the traffic on our roadways has steadily increased. More cars on the road combined with escalating distracted driving behaviors have increased the number of automobile claims. Pricing of car replacement parts continues to rise as the cost of vehicles increase with technology, complex repairs, and limited supply. Once you factor rising medical costs and more uninsured drivers on the road into the equation, the average annual premium of full coverage auto insurance climbed to $2,534 in 2024, up 26% from the previous year according to a recent Bankrate report.



UMBRELLA

The primary benefit of umbrella insurance is to provide excess liability coverage beyond what is contained in your homeowners and automobile insurance. It is an additional layer of protection built to address incidents that cause bodily injury or property damage to others, legal costs to defend in related lawsuits, or incidents that take place outside the U.S. According to Consumer Reports, only 20% of homeowners carry umbrella coverage. The general rule is to have an umbrella insurance policy that matches your entire net worth. For instance, if your assets are valued at $2 million, you should secure coverage of at least $2 million. Umbrella policies begin at a $1 million limit and increase at $1 million increments. Annual premiums for a $1 million policy generally start around $200.

SPECIALTY MARKET TRENDS

Q&A WITH OUR SPECIALTY LINES TEAM

Below are some frequently asked questions that our specialty lines team encounters on a daily basis. Keep reading for their responses and valuable insights into the current trends shaping the Specialty Lines Market.

Why are Specialty Lines policies needed for my organization?
Specialty Lines of coverage such as Directors and Officers Liability (D&O), Employment Practices Liability (EPLI), Fiduciary Liability, Professional Liability, Pollution Liability, and Cyber Liability protect your financial and reputational security. These coverages help to reduce financial risks linked to legal defense, expenses, and settlements arising from allegations or cyber breaches.

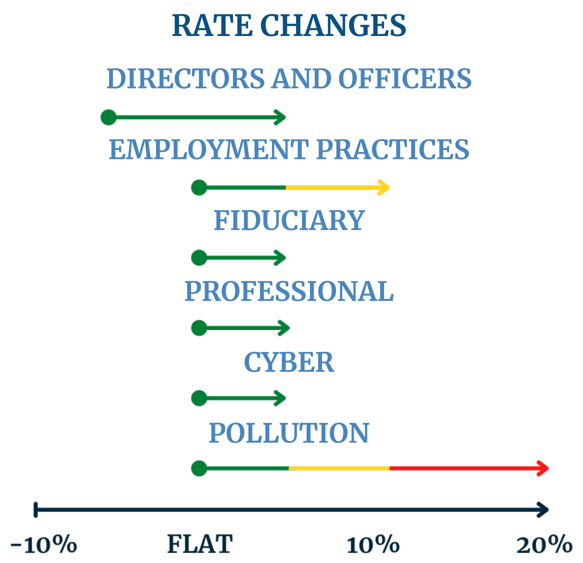
What trends are developing in the Specialty Lines market?
Specialty coverages are constantly changing, influenced by ongoing global conflicts, inflation concerns, financial challenges attributed to higher interest rates, and uncertainties surrounding upcoming political elections. Despite these factors, as we approach mid-2024, carriers are anticipated to maintain strong competition in both coverage and pricing. The market still boasts ample capacity, with new carriers entering the arena.

Some emerging lines that are becoming more prevalent include:

- **Excess Side A DIC Coverage:** For optimal personal protection of directors and officers, offering immediate coverage for defense expenses and settlements for claims filed against them when costs are not covered or paid upfront by the organization.
- **Abuse & Molestation Coverage:** Protection specifically designed for allegations of abuse or molestation is crucial when dealing with vulnerable populations to ensure adequate coverage.
- **Intellectual Property (IP)/Trademark Infringement Coverage:** Coverage is provided for defending against patent and other IP infringement allegations. This is especially important in today's digital era where content is widely shared, and IP rights are meticulously monitored and enforced.
- **Pollution Liability:** The trend of adding a Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) exclusion has extended to many Pollution policies. The endorsement contains extensive exclusions for bodily injury, property damage, as well as personal and advertising injury cause by PFAS exposures. PFAS, commonly referred to as "Forever Chemicals", can be found in everyday products such as cleaning products, food packaging, water-resistant fabrics, grease-resistant paper, nonstick cookware, and many personal care products and cosmetics.
- **Fiduciary Liability:** Organizations offer benefits such as medical, dental, vision, disability, and retirement plans to attract top talent, leading to fiduciary responsibility to manage plans in the participants' interest. Fiduciary coverage protects against the mismanagement of claims and liabilities. ERISA law mandates that fiduciaries ensure reasonable fees and investment performance. Excessive fee litigation affects coverage, with claims of high fees, often in larger nonprofit organizations. The average ERISA case cost exceeds $1,200,000.

Given many factors impacting Employment Practices Liability (EPLI), how is pricing affected?
Employment Practices Liability Insurance (EPLI) protects businesses from employee claims related to legal rights violations such as wrongful termination, discrimination, harassment, and retaliation. While some package policies offer sublimits, the coverage limit is often inadequate. Now is the ideal time to upgrade from any "throw in" endorsement, as prices remain relatively stable. Any premium increases during renewals are typically linked to changes in exposure levels, such as an expanding workforce, rising discrimination claims, layoffs, or acquisitions.

While we are moving past pandemic and vaccine-related concerns, EPLI remains a vital coverage due to social inflation, return-to-work challenges, conflicts over hybrid work arrangements, and an uptick in class action claims stemming from employee activism.



What should we be aware of in the current Cyber market?
Cybercrime remains a significant concern for businesses, with claims frequency and severity up 13% and 10% year over year, respectively. In 2023, the FBI received 880,000 cybercrime complaints with reported losses of $12.5 billion. Ransomware, Funds Transfer Fraud (FTF), and Business Email Compromise (BEC) account for the vast majority of cyber claims.

Artificial Intelligence (AI) is transforming cybersecurity by enhancing threat detection, anomaly identification, and automating responses. AI analyzes data efficiently but also poses a challenge as cyber attackers can exploit AI for more advanced attacks.

To enhance business cyber readiness, it is important to implement robust cybersecurity controls and protocols alongside cyber liability coverage. Most cyber insurers require a completed Multi-Factor Authentication (MFA) form, ransomware application, and fully implemented cybersecurity measures for new and renewal accounts. However, these requirements are starting to ease for smaller risks.

CURRENT MARKET TRENDS

Transparency in healthcare costs continues to be a topic of interest for stakeholders of employer sponsored health plans and healthcare consumers alike. Unfortunately, the outcome of some of the recent legislation and transparency requirements is contributing to further confusion and misunderstanding around what consumers and plan sponsors can expect. Given some of the recent legislation, more flexible solutions have come to market.

Level-Funded Health Plans

Smaller size businesses employing as few as 20 workers are now eligible for Level-Funded Health Plans. These cost-effective plans allow sponsors to have fully insured protection as well as predictable monthly costs, retention of unused claim funding, and access to detailed claims data to inform health management strategies.

Copay-Only Plans

Copay-Only plans are becoming more prevalent and could increase in popularity in the coming years. These plans give members the ability to have health insurance that features only copay structures, thus eliminating the confusing deductible and coinsurance aspects of standard plans.

High-Performing or Limited Network Plans

Now considered a standard offering, High-Performing or Limited Network plans limit coverage to a select group of physicians, specialists, and hospitals. As a result, these plans are more affordable than traditional networks for all parties involved: insurance carriers, healthcare providers, employers, and employees. Providers in these networks typically accept lower reimbursement rates than out-of-network providers and these savings are transferred to employers through lower premiums.

Proactive Healthcare Models

These models are now available and provide transparency on the cost of healthcare procedures. Consumers can make more informed decisions and plan sponsors can incentivize employees and drive behavior because this model enables access to quality-of-care scores of the provider, specialist, and facility.

Virtual Healthcare

Leveraging technology and other communication platforms to provide increased convenience, virtual healthcare has become a necessity in this post-pandemic environment. The enhanced engagement and communication in virtual healthcare can reduce costs and claim frequency.

Holistic Decision Support Tools

The newest generation of these tools can help families with dual employer offerings decide which plan or plans would be best for them and their family members to enroll in. Employers are very intrigued with this newer tool as it can replace the “stick” effect behind spousal surcharges. Many employers are coupling these tools up with a HRA plan option that could incentivize their employees to enroll on spousal/partner plans creating a win-win for both the employer and employee.

ADDITIONAL MARKET TRENDS

Even with improvements in healthcare transparancy, there is no one-size-fits-all solution for employers evaluating the best benefits program for their workforce. Scan the QR code to discover more about the challenges the employee benefits market is facing or visit sentinelra.com/blog/2024-mid-year-employee-benefit-industry-trends.

SENTINEL

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SENTINEL STORM CENTER

Hurricane season officially kicks off June 1st and runs through November 30th. Experts state this season has the highest number of storms predicted ever in the 41-year history of this report, with the anticipation that storm season will start well in advance of the normal June kickoff. To help you weather the storms, we have launched our Sentinel Storm Center website that provides essential information on how to effectively prepare and recover from a storm. Scan the QR code or visit sentinelra.com/storm-center for more information.

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