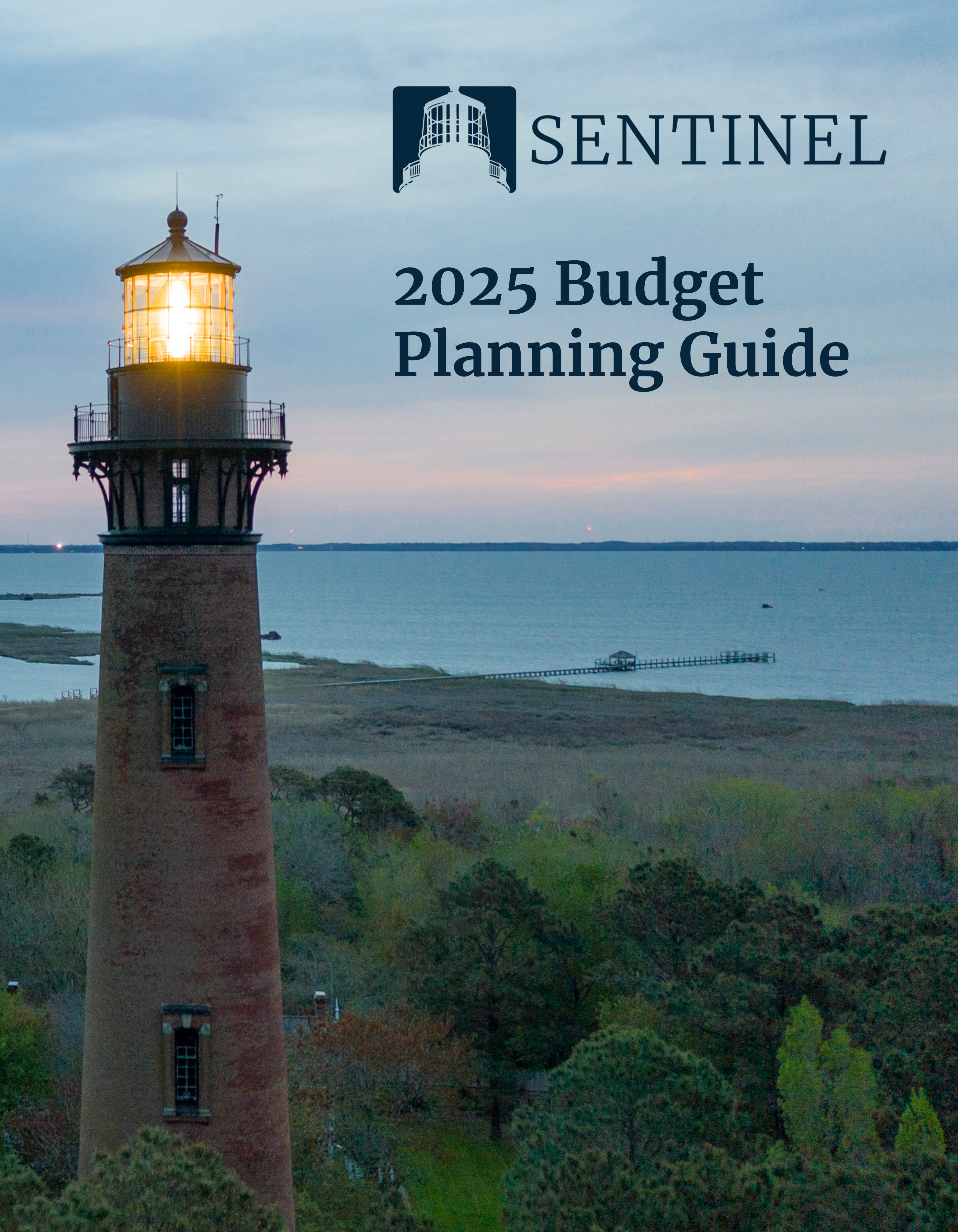

SENTINEL

2025 Budget Planning Guide

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

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Executive Summary

We are pleased to present our 2025 Budget Planning Guide. This publication showcases how Sentinel is uniquely Different by Design, leveraging the full power and resources of our enterprise to deliver insightful advice, guidance, and counsel.

James L. Holmes Jr.
Managing Partner, Sentinel

As we enter the final quarter of 2024, we remain committed to our independent approach by investing in value-added solutions and top-tier industry talent, functioning as an extension of your team. This strategy enhances our understanding of your priorities and the challenges you encounter. Every facet of our operations, services, and growth is specifically designed to benefit our clients.

Our dedication to providing an exceptional client experience is rooted in cultivating an outstanding internal culture. Sentinel thrives on clear expectations and accountability, upheld by our leadership, and embraced by every team member.

We've created a respectful and nurturing environment where talented individuals flourish and are empowered to practice their craft while feeling appreciated for their contributions. We take pride in promoting a culture that values teamwork, fostering a successful atmosphere for both our clients and employees.

Safeguarding Your Success

Commercial Property

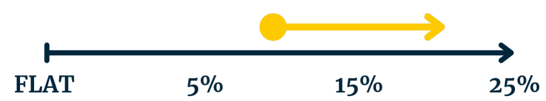
The commercial property insurance segment has been characterized by ongoing premium increases for much of the past decade. According to industry data, such rate jumps reached record-setting levels last year, surging by an average of 20.4% in the first quarter alone and only slightly falling to 18.3% in the latter half of the year. Not only were there significant premium increases, but carriers simultaneously restricted coverage language and increased deductibles, dramatically changing the landscape of policy construct.

2025 Outlook and Trends to Watch

RATE CHANGES

PROPERTY

PROPERTY-CATASTROPHE



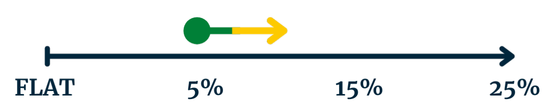
The standard insurance market pushed many accounts that were most prone to natural disaster losses (wildfires, hurricanes, convective storms, flooding, etc.) into the Excess and Surplus Lines markets, meaning even higher premiums and more restrictive coverage for those accounts. For many of the higher hazard exposure accounts that are in the E&S marketplace, we expect to see continued double digit increases. For standard market accounts, pricing is moderating to single-digit increases, but many carriers still demand adequate insurance limits, leading to higher overall insurance costs as limits rise. Further restriction of terms and increases in retention and deductibles has abated. However, the lingering effects of Hurricanes Helene and Milton may alter the previous steadier course.

We recommend annually reviewing your program to make sure that your property is neither overinsured nor underinsured. You should be adequately covered in the event of a loss, but not overcharged for unnecessarily high limits of coverage. When it comes to property conditions, carriers need to be advised of the level of attention to the general state of the property. Proper maintenance, housekeeping, landscaping, and overall cleanliness are all factors in receiving the most favorable terms and pricing.

General Liability

RATE CHANGES

GENERAL LIABILITY



The General Liability segment of the market is experiencing upward pricing pressure. While this line has seen only moderate increases in the last few years, there is concern that reserves for current and past claims will need substantial increases to fund for Social Inflation, Frivolous Lawsuits, Litigation Funding, and Nuclear Verdicts.

While these are newer concerns, there are no foreseeable changes to these trends unless we see significant shifts in social attitudes and major tort reforms in many states. We recommend reviewing your program annually and highlight any crucial coverage restrictions or exclusions to determine if coverage needs to be managed separately. Analyze your current and future operations to determine any exposures that may need to be addressed by your policy terms.

2025 Outlook and Trends to Watch

Social Inflation

Social inflation refers to the phenomenon where the increasing costs of insurance claims surpass the overall rate of economic inflation. This rise is associated with multiple factors, such as evolving social and cultural attitudes, legal and litigation developments, public distrust, and the influence of social media. Recently, there has been a noticeable trend toward more extreme liabilities for individuals or organizations accused of causing harm.

Frivolous Lawsuits

There has been a noticeable rise in frivolous lawsuits, which are cases initiated without merit or solely intended to embarrass the defendant. A prominent instance of this is the lawsuit against Texas Pete, the cherished hot sauce, claiming that the company deceived consumers because its products are not produced in Texas.

Litigation Funding

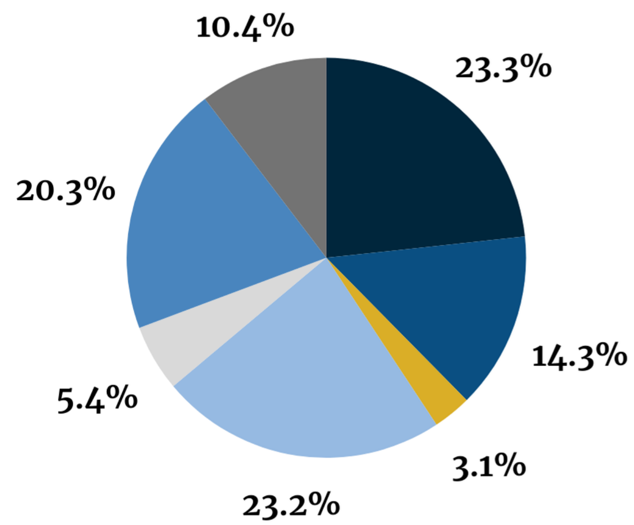
Litigation funding, often known as third-party litigation funding, enables entities to pursue legal claims while minimizing the financial risks associated with litigation. Private equity firms provide the necessary capital to file lawsuits in cases where it previously may not have been financially viable. As a result, this practice contributes to a rise in the number of lawsuits filling the courts and increases the amounts settled.

Forever Chemicals

An emerging topic of discussion and concern is PFAS (Per- and Poly- fluoroalkyl substances), often referred to as Forever Chemicals. These substances appear to be everywhere and are not easily eliminated. PFAS are likely to become the focus of significant lawsuits, similar to the cases of asbestos or tobacco. Considering all these factors, we can expect General Liability premiums to rise in the upper single to low double digits.

Nuclear Verdicts

Nuclear Verdicts refer to jury awards that far exceed typical expectations. These unusually high verdicts are poised to be one of the most pressing issues in 2025 and beyond. Considering the factors mentioned earlier, and with courts returning to normal operations post-pandemic, we are witnessing a notable rise in both the frequency and the scale of extraordinarily large, and often excessive, jury awards.



Nuclear Verdicts By Case Type (2013 - 2022)

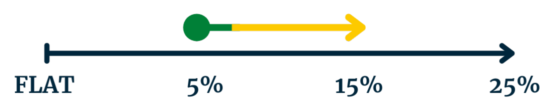
Source: U.S. Chamber of Commerce Institute for Legal Reform Report

Commercial Automobile

Numerous social and legal challenges affecting General Liability also have an impact on the Commercial Automobile sector. These factors can lead to premium increases of 5-15% for upcoming renewals. Additional contributors to rising automobile premiums include distracted driving, higher costs for replacement parts, escalating medical expenses, and a growing number of accidents and fatalities.

RATE CHANGES

COMMERCIAL AUTOMOBILE

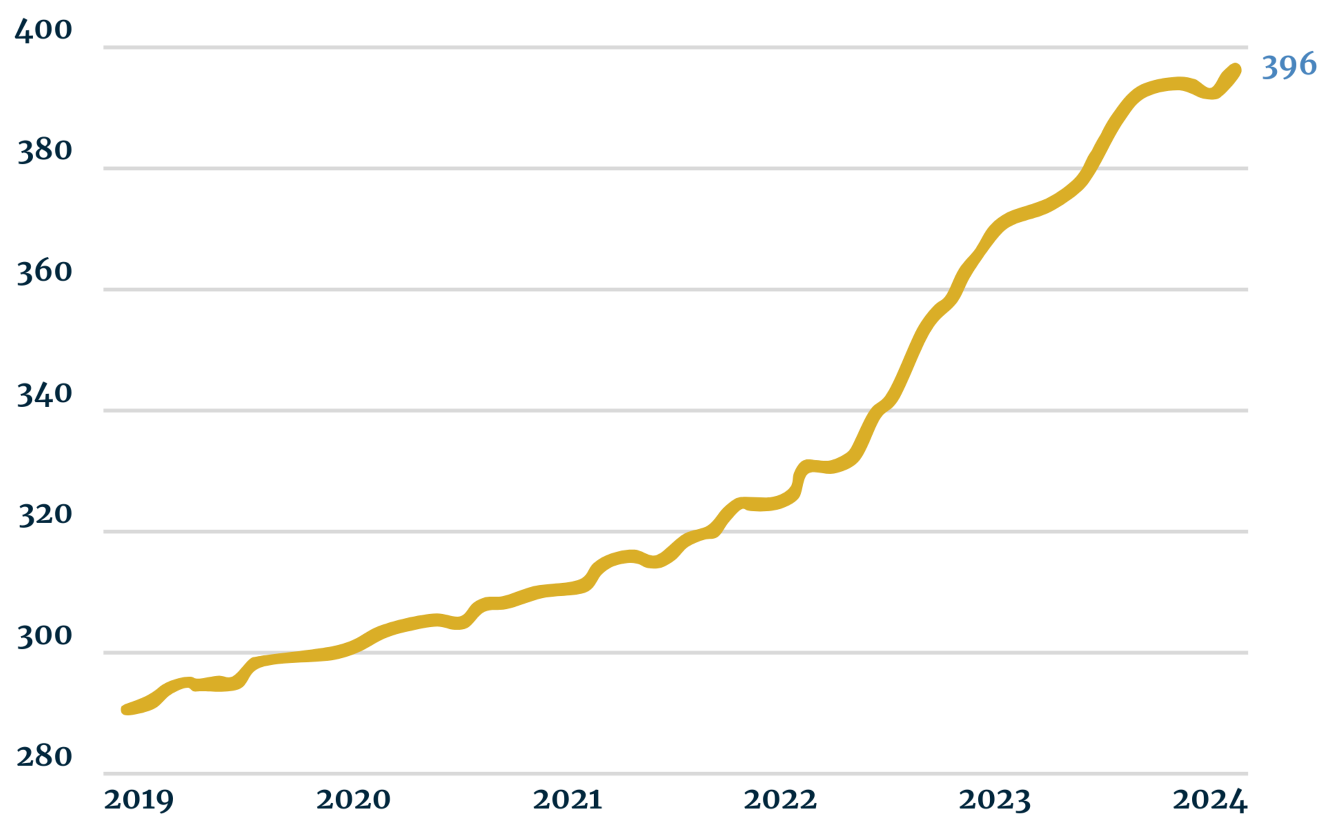


2025 Outlook and Trends to Watch

Although inflation and supply chain challenges have eased, the costs of automobiles, parts, and labor remain significantly higher compared to a few years ago. Today's vehicles are equipped with enhanced safety features such as cameras, driver assistance systems, and multiple airbags, which contribute to higher sticker and repair costs. In 2023, the number of miles traveled rose by approximately 2% compared to the previous year. As more individuals return to workplaces and schools, road traffic is increasing, which in turn raises the likelihood of accidents.

Distracted driving remains a significant issue, despite ongoing public awareness campaigns. Insurance carriers frequently mandate robust safety programs that incorporate telematics, monitoring of driving records, and fleet maintenance before offering coverage. While driving monitoring tools have been available for personal lines for several years, we are now witnessing more commercial lines carriers providing or requesting similar devices for commercial vehicle fleets. This shift aims to enhance driving habits across the organization, ultimately leading to a decrease in losses.

Consumer Price Index For Motor Vehicle Maintenance And Repair



Source: U.S. Chamber of Commerce Institute for Legal Reform Report

Workers' Compensation

Workers' Compensation remains one of the most competitive lines of coverage. We anticipate renewals to continue with mostly flat rates at renewal. Increased salaries have meant increased premium for the same employee count in recent years, but rates have remained relatively stable. Safety engineering and workflow processes and procedures mean safer workplaces with fewer accidents and injuries.

RATE CHANGES

WORKERS' COMPENSATION

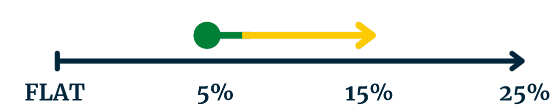
Carriers have been gregarious at quickly managing medical care and Return to Work programs to help contain medical costs and lost wages. However, medical costs and a more litigious environment will need to be monitored going forward, as these issues may begin to impact industry results quickly and negatively.

Umbrella Liability

The pricing and terms of the underlying lines, like General Liability and Automobile, are main drivers of Umbrella pricing and appetite. The upward pricing pressures in these markets are reflected in the Umbrella market.

RATE CHANGES

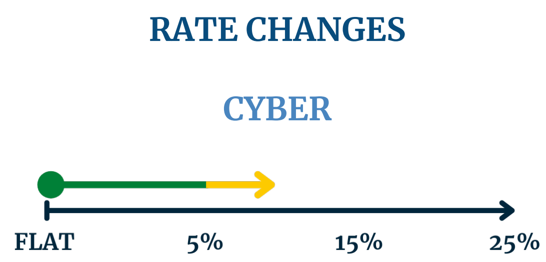
UMBRELLA



There remains an industry-wide concern with Nuclear Verdicts, Artificial Intelligence, and Forever Chemical issues that may impact renewal pricing and capacity. We expect to see larger awards, meaning many claims will pierce the primary layers of insurance, exposing the excess liability policies at an exponentially increasing pace.

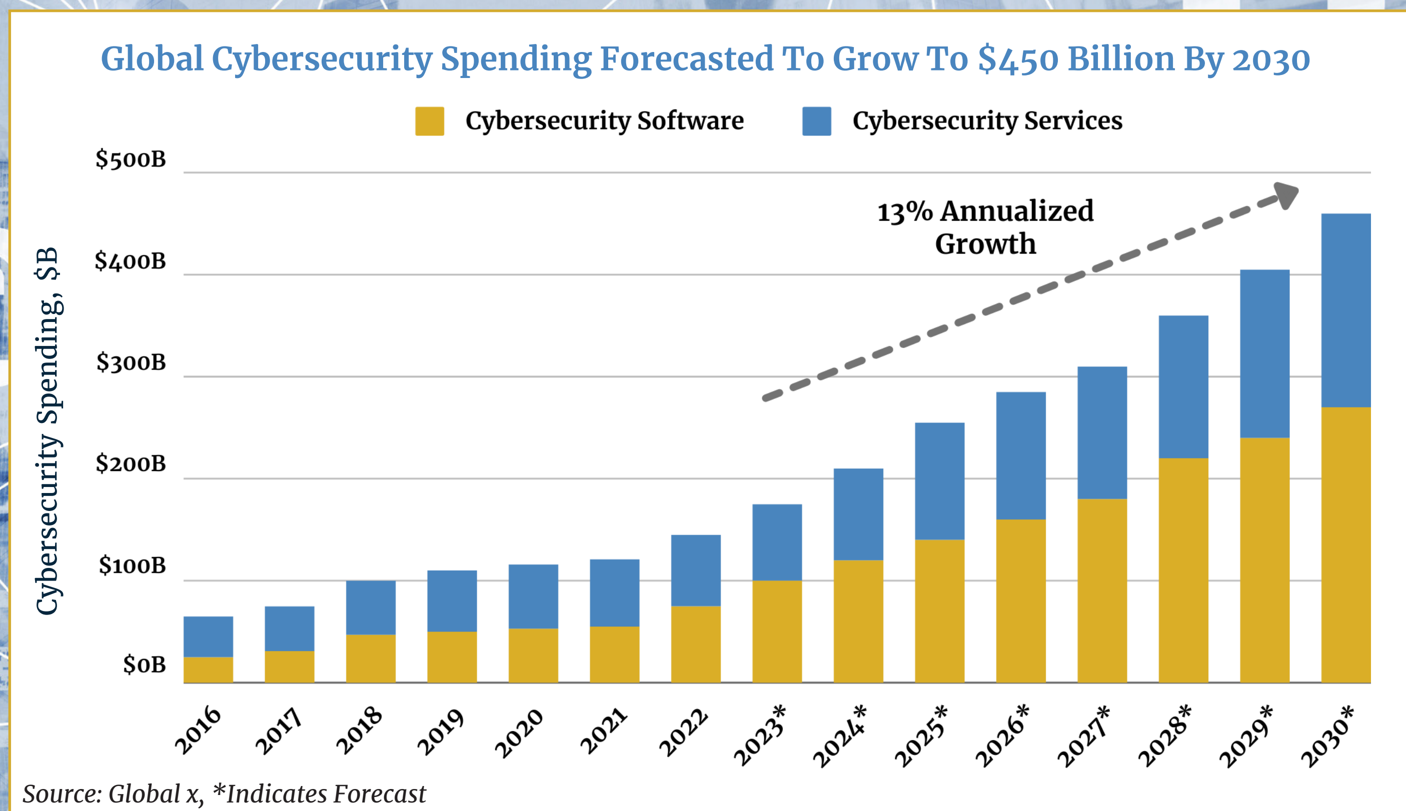
Reinsurers are already charging more for this line of coverage and restricting capacity, so carriers are following suit. Many carriers are still hesitant to offer more than $5 million primary limits and sometimes restrict to even lower limits for higher exposures. Expect to see 5-15% renewal rate increases, due to underlying price increases, higher reinsurance costs, and concern about these emerging issues.

Cyber Liability



The cyber market has been dynamic, with fluctuating claim frequencies and premium increases for policyholders. In 2022, underwriting profitability improved market conditions for 2023, but challenges remain, including coverage restrictions and tighter scrutiny. For 2024, renewals were stable or lower, with Fitch Ratings noting strong underwriting profits despite a 6% decline in average premiums due to pricing pressure.

Increased capacity from new and existing carriers is contributing to this shift, with limits reaching $10 million. The 2025 outlook indicates potential continued easing of market conditions, but pricing predictions are uncertain. Policyholders with strong cybersecurity measures are better equipped to navigate these changes and manage risks.



*Source: Global x, *Indicates Forecast*

Difficult Cyber Classes That Will Potentially Face Rate Increases

- Manufacturing
- Healthcare
- Architects
- Engineering Firms
- Real Estate
- Collection Agents
- Title Escrow
- Municipalities
- Schools
- Managed Service Providers
- Utilities
- Law Firms
- Technology (including game developers/distributors)
- Organizations with a large collection of PII or PHI records

2025 Outlook and Trends to Watch

Generative Artificial Intelligence (AI) Exposures

As generative AI technology advances, it offers operational benefits but increases the risk of cyberattacks, as criminals use AI for malware distribution, password cracking, and social engineering scams. The potential for significant cyber losses is rising, with studies showing 87% of organizations vulnerable to AI attacks but only 38% actively mitigating these risks. To address these threats, organizations need comprehensive cybersecurity strategies, AI-specific defenses, and continuous monitoring of emerging threats. Proactive measures will better position organizations to manage exposures effectively in this evolving landscape.

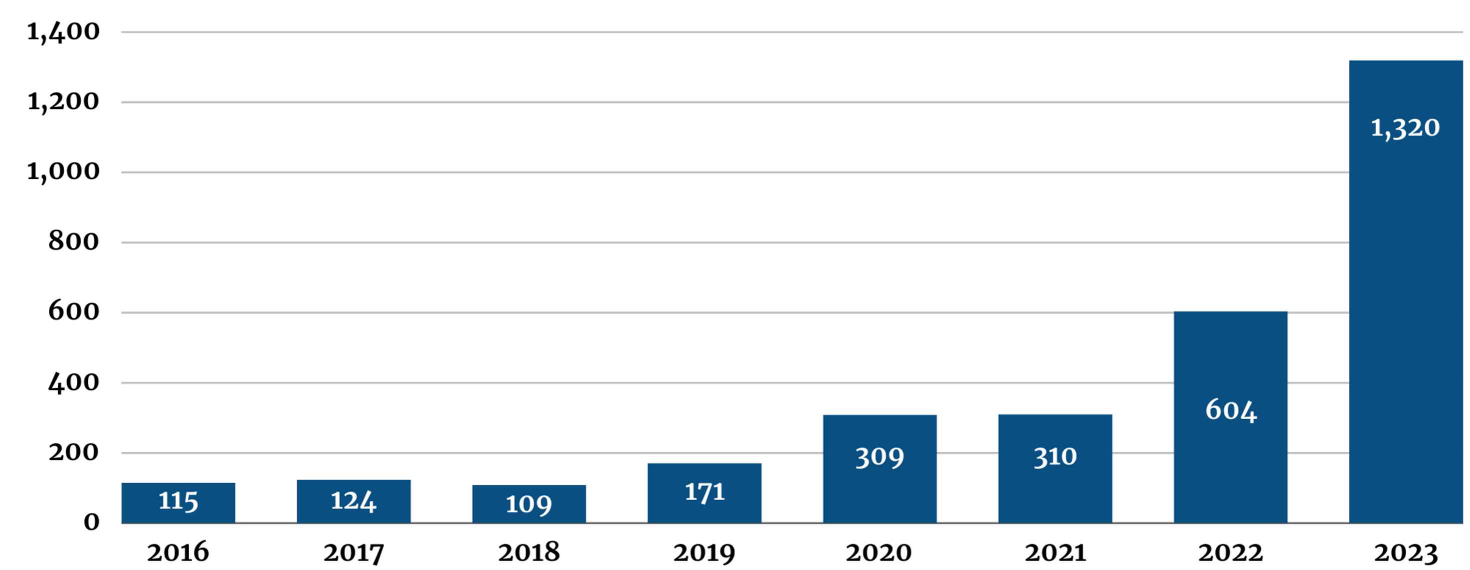
Cyberwarfare Risks

Nation-state cyberattacks are a growing concern, especially with rising geopolitical tensions and fears of global cyberwarfare. A report by the Office of the Director of National Intelligence indicates that major threats to the U.S. come from Russia, China, Iran, and North Korea. In 2023, Lloyd's of London, a leading international insurance marketplace, required insurers to revise cyber policies to include war exclusions, which prevent coverage for losses linked to war-related cyber operations. This creates challenges, as distinguishing between state-sponsored attacks and other cyber threats can be complex, complicating claims processing. This ambiguity leads to uncertainty for policyholders and insurers regarding coverage scope and financial impacts. Organizations should collaborate with cyber liability experts to navigate changing insurance policies and understand the nuances of exclusions.

Data Privacy Concerns

As businesses increasingly use tracking technologies to gather personal data, data privacy risks rise. Non-compliance with data privacy regulations can lead to severe consequences, including penalties and expensive lawsuits. Since 2020, 13 U.S. states have implemented comprehensive data privacy laws, and organizations must comply with federal regulations such as the Health Insurance Portability and Accountability Act (HIPAA). Some Cyber insurance policies may not cover losses from improper data collection, leaving businesses vulnerable. To reduce risks, organizations should adopt strong data privacy practices, perform compliance reviews, and consult legal experts. The rise in cyber incidents has also led to more data breach class action lawsuits, which can incur significant defense costs, particularly for the uninsured.

Data Breach Class Actions Filed By Year

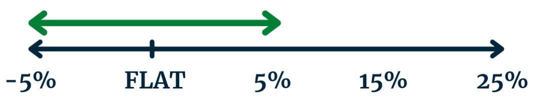


Source: Duane Morris, LLP

Directors and Officers Liability (D&O)

RATE CHANGES

D&O



After three years of rising Directors and Officers (D&O) Liability premiums, the market began to soften in 2022, with two-thirds of companies experiencing modest rate decreases. By 2023, nearly all policyholders saw significant reductions, averaging a 17.5% drop for public companies. This change is due to new carriers entering the market and increased coverage capacity, fostering competition.

While private and nonprofit organizations still face rate increases, the pace has slowed. Concerns about sustainability arise from reduced premium revenues despite strong underwriting profits, which may lead to market unpredictability. Most organizations can expect favorable pricing in 2025, but those in higher-risk industries may still encounter challenges.

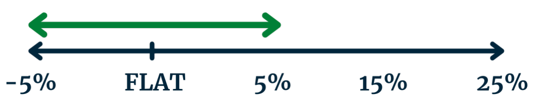
2025 Outlook and Trends to Watch

The increasing political divide on Environmental, Social, And Governance (ESG) Issues complicates decision-making for senior leaders, as conflicting views from various groups create pressure to align initiatives with company values. This polarization heightens the risk of litigation and D&O claims from both sides. A key focus of ESG-related litigation is Diversity, Equity, and Inclusion (DEI), with lawsuits alleging failures in board diversity and fostering inclusive environments. Such claims can result in severe consequences, including reputational harm and costly settlements, making ESG litigation a major factor in D&O claims.

Employment Practices Liability (EPLI)

RATE CHANGES

EPLI



We saw a slight cooling of market conditions in 2023 for the EPLI market, with most insureds experiencing more modest premium increases ranging from 3% to 7% throughout the year. In 2024, the trend of softening conditions continued with experts reporting an average rate increase of just 1%, signaling a continued improvement in market conditions. Policyholders can anticipate slight premium increases into 2025.

2025 Outlook and Trends to Watch

In early 2024, the Equal Employment Opportunity Commission (EEOC) released updated enforcement guidance aimed at preventing both in-person and online workplace harassment. In addition, evolving legislation surrounding pregnancy discrimination and pay equity is contributing to rising EPLI exposures. The federal government enacted two significant pregnancy discrimination laws: the Pregnant Workers Fairness Act and the Providing Urgent Maternal Protections for Nursing Mother's Act. These laws provide protection and accommodations for pregnant and nursing employees across the country, raising the stakes for businesses to ensure compliance.

The EEOC also launched its REACH initiative, which focuses on reducing gender and race related pay inequities. In support of this initiative, several states introduced new wage discrimination laws in the first quarter of 2024, and more states are expected to follow suit. These new legal developments are likely to increase pressure on companies to proactively address pay disparities and discrimination concerns. Placing companies that are noncompliant at heightened risk of facing legal penalties.

Fiduciary Liability

RATE CHANGES

FIDUCIARY LIABILITY

After three years of rising Directors and Officers (D&O) Liability premiums, the market began to soften in 2022, with two-thirds of companies experiencing modest rate decreases. By 2023, nearly all The Employee Retirement Income Security Act (ERISA) requires fiduciaries to guarantee reasonable fees and effective investment performance.

Over the past four years, the rise in litigation regarding excessive fees and claims has posed significant challenges for Fiduciary Liability carriers. While pricing has stabilized somewhat, with most insureds experiencing only minor changes in premiums, cases involving excessive fees or class actions still lead to higher retentions based on plan size and exposure. for public companies. This change is due to new carriers entering the market and increased coverage capacity, fostering competition.

Although the number of new litigation cases has decreased since the peak in 2020-2022, many ongoing lawsuits continue to impact the market, and settlement costs remain elevated. In addition to excessive fees, there are concerns about litigation related to outdated actuarial assumptions in defined benefit pension plans and potential claims stemming from ERISA amendments affecting health plans. The overall outlook indicates a need for ongoing caution, without any major shifts anticipated.

Pollution Liability

The pollution market is experiencing a notable surge in demand, driven by increased regulatory scrutiny, more stringent environmental standards, and a growing public focus on sustainability. Companies are recognizing the importance of specialized pollution liability coverage, as general liability policies frequently fall short.

Many pollution policies are now excluding Per- and Polyfluoroalkyl Substances (PFAS), commonly referred to as "Forever Chemicals," from coverage for bodily injury, property damage, and personal and advertising injury. The expenses associated with environmental cleanup and pollution-related lawsuits are rising, significantly impacting industries such as manufacturing, real estate, agriculture, and transportation. As climate-related occurrences, such floods that lead to chemical spills or mold contamination, organizations are facing increased liability risks and potential harm to their reputations.

RATE CHANGES

POLLUTION LIABILITY

Professional Liability

The Professional Liability sector is facing heightened competition due to new entrants and an increase in capacity. Even with affordability, certain classes remain complex, including financial institutions, real estate, construction and engineering, technology, cryptocurrency, cannabis, and healthcare.

Insurers are continually challenged to set appropriate pricing and policy terms that accurately reflect the high-risk nature of these industries.

Organizations looking to renew or obtain Professional Liability coverage in this landscape should prioritize insurance placement and seek guidance from a specialist to help identify and manage financial and reputational risks.

RATE CHANGES

PROFESSIONAL LIABILITY

Homeowners

RATE CHANGES

HOMEOWNERS

In 2023, homeowners' losses resulted in underwriting losses of $16 billion, with only one hurricane making landfall in the United States. A growing number of claims filed are from secondary perils. Many homeowners' carriers have been aggressively pushing for significant rate and premium increases for several renewal cycles in an attempt to get ahead of continued underwriting losses.

Regulatory constraints and recent severe weather-related events have impacted anticipated results, and underwriting losses are still projected. Homeowners Insurance is expected to perform poorly in 2024 and 2025 with a turn towards profitability in 2026. Experts predict double-digit new written premium growth over the next two years to work towards profitability. Any return to overall underwriting profit still hangs in the balance as storm season winds down, after some devastating damage from Hurricanes Helene and Milton.

2025 Outlook and Trends to Watch

Overall, the outlook for 2024 remained more favorable than 2023 due to strong premium growth from improving rate structure and inflation. The personal lines industry overall has momentum and has been a key driver for growth in the property and casualty segment. Premiums have grown steadily at 8% throughout 2024 and are expected to grow at 5% or more in 2025. We expect to see an improved combined ratio in 2024 and 2025 relative to the combined ratio of over 100 posted for 2023.

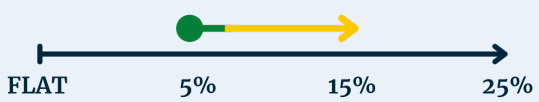
Potential volatility from catastrophe losses through year-end and rising reinsurance costs remain a concern. Homeowners' carriers have reported net underwriting losses in six of the past seven years. Inland convective storms and increasing loss severity stemming from rising material and labor costs continue to adversely impact results. Any return to overall underwriting profit still hangs in the balance as storm season winds down. Any additional catastrophe experience will dampen improving patterns in 2024.

Florida continues to remain the most expensive home insurance market in the country. Over the past decade, the number of options for Floridians has steadily decreased as well – fewer providers with many restrictions. Florida has just approved eight new carriers which many believe is a sign of the market turning. More companies can mean more competition and will provide many buyers with alternatives for the first time in years.

Umbrella/Excess Liability

RATE CHANGES

UMBRELLA/EXCESS LIABILITY



Unprecedented losses are affecting the personal umbrella market. Factors such as rising healthcare costs, social inflation, and a constantly evolving litigious environment are contributing to these challenges. The demand for higher limits of liability offered by personal umbrella or excess policies is growing increasingly essential.

What used to be minor accidents have quickly escalated into settlement demands reaching six and seven figures. This surge in demand has led to significant growth within the umbrella market segment. Coupled with the necessity for rate increases due to the escalating severity of losses, there will be a need for ongoing pricing adjustments in 2025. However, when you break it down, the cost of most umbrella policies is often very inexpensive, providing peace of mind.

Personal Automobile

RATE CHANGES

PERSONAL AUTOMOBILE

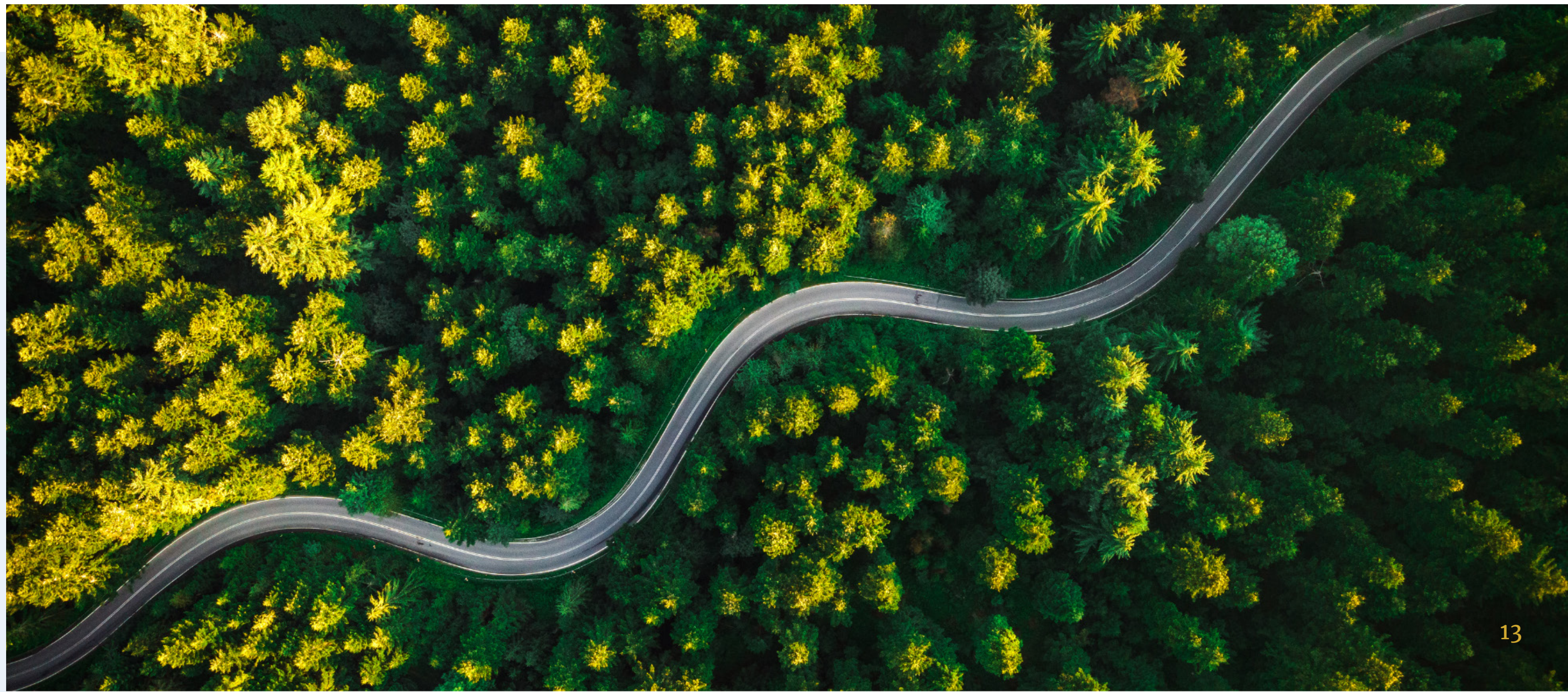
Private Passenger automobile is by far the largest product line of the United States Property and Casualty market with a net written premium of well over $300 billion. This line has been on a rate and premium correction course for several years. The personal automobile net combined ratio has improved in 2024 over original estimates with profitability anticipated in 2025.

2025 Outlook and Trends to Watch

Paid losses have increased by over 42% from 2019 to 2023. Many insurers have responded to this trend by radically increasing reserves for loss payment and loss adjustment expenses. The average personal automobile claim settles at over $23,000. This has pushed the majority of carriers to double-digit rate increases for years. The cost of automobile insurance has risen by almost 64% from 2014 to 2023. On average, nationwide personal automobile premiums grew by an average of 14% in 2024. This overall pricing trend in personal automobile leads to about 1 in every seven drivers forgoing car insurance nationwide, varying widely by state.

Personal automobiles have been particularly volatile over the past four years. Underwriting profits from pandemic-related lower personal automobile usage in 2020 led to record underwriting profits and then a sharp increase in claim activity in 2022 and 2023. Substantial rate increases throughout 2023 led to considerably better combined rations in 2023, but increased pricing momentum has perpetuated in 2024. This continued rate push, and tapering claims are expected to lead to near-break-even results or better for year-end 2024, though results will vary widely by carrier.

We have seen underwriting results vary widely among the 10 largest personal automobile carriers. While carriers continue to take significant underwriting actions, competition may lead to downward pricing pressure and overall performance decline in 2025. Many factors are considered when underwriting personal automobile coverage including your driving record, credit history, mileage driven annually, coverage limits and deductibles, the vehicles year make and model, driving experience, and where you live. It is important to understand your coverage options and choose the right coverage, not just the right price. Each state has posted minimum liability requirements, but these are far from adequate coverage limits.



Level Funded Health Plans

By offering level funded health plans, employers can provide their employees a flexible health plan with stable monthly fees and stop loss coverage that helps protect them from high claims costs. These plans have been growing in popularity among small businesses in that they provide the benefits of a traditional self-insured health plan at a lower financial risk to the employer.

In its 2023 Employer Health Benefits survey, the Kaiser Family Foundation (KFF) reported that the percentage of small employers on level funded health plans has increased from 13% in 2020 to roughly 38% in 2023. Recently, Level funded (or balanced funded) health plans have been made available for employers in North Carolina with as few as 12 eligible employees.

Copay-Only Health Plans

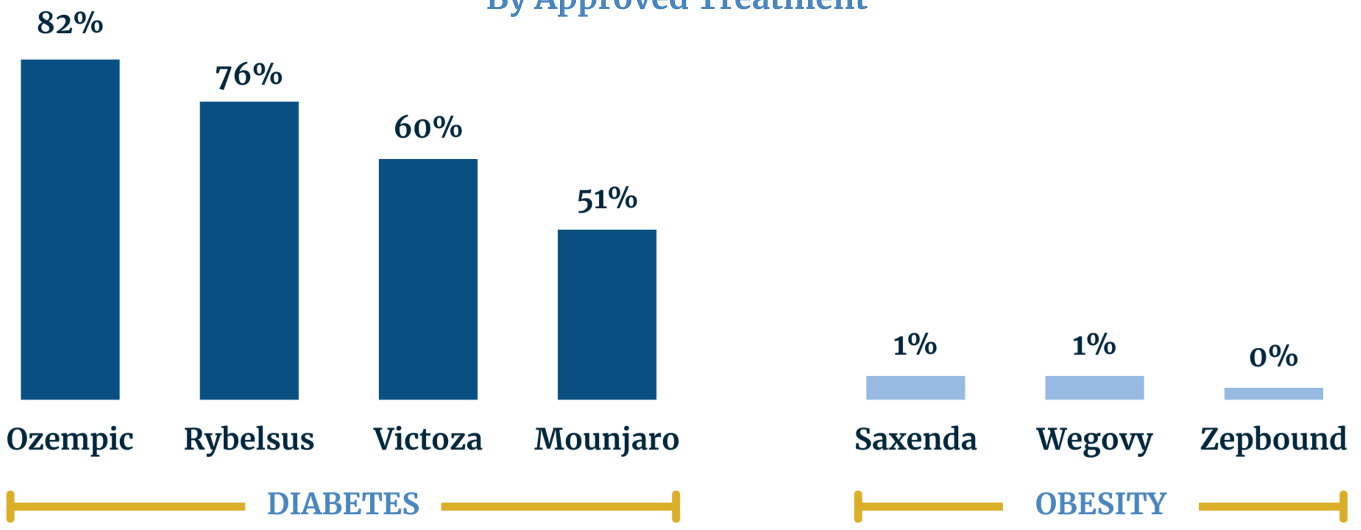
Carriers are beginning to offer copay-only health plans that charge a single copay for each instance or visit, regardless of how many services are included. These types of plans have no deductibles or coinsurance associated with in-network services, but they are incurred with out-of-network services. Copay-only plans do however contain higher month premiums than most health plans but are built so employees can pay a low flat-rate copay. This helps employees know in advance what their eligible care costs before receiving care.

Some carriers are taking the concept copay-only a step further by offering different copay dollar amounts based upon the provider visited and/or place of service. Tiering structures are based upon both outcomes and costs associated with providers. This allows employers combine the simplicity of copay only plans and provide some cost savings through member utilization steerage.

GLP-1 Drugs

The costs associated with GLP-1 continues to be a heavily debated topic as employers struggle with how to cover this class of medications. Costly GLP-1 drugs are rarely covered for weight loss by Marketplace Plans. When they are covered for diabetes, they almost always require authorization and utilization management.

Share of ACA Marketplace Plans Including GLP-1 Drugs In Formularies, By Approved Treatment



Source: KFF analysis of federally facillitated ACA Marketplace formulary data

As employers get larger and consider self-funded plans, they may have more flexibility in the coverage of these medications. A recent survey report from the International Foundation of Employee Benefit Plans (IFEBP) indicates that employer coverage of glucagon-like peptide-1 (GLP-1) drugs have increased. The June 13th report indicates that 57% of employers provide coverage for diabetes only (up from 49% in 2023) and 34% provide coverage for both diabetes and weight loss (up 26% in 2023).

According to the IFEBP survey, of those employers who currently offer GLP-1 coverage for diabetes, 19% are considering offering the drugs, which typically cost between $1,000 and $1,500, for weight loss. As of August 1, 2024, many state Medicaid plans, including North Carolina began adding coverage for FDA approved obesity management medications.

Key factors employers consider for GLP-1 drug coverage in obesity care:

- 76% Obesity as a risk factor for chronic conditions and associated costs
- 71% Broker/consultant/PBM recommendations
- 62% Impact/effectiveness of cost-control mechanisms
- 57% GLP-1 label expansion
- 56% Long-term costs
- 39% Lack of clinical studies for long-term use of GLP-1 drugs.

Source: International Foundation of Employee Benefit Plans (IFEBP)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