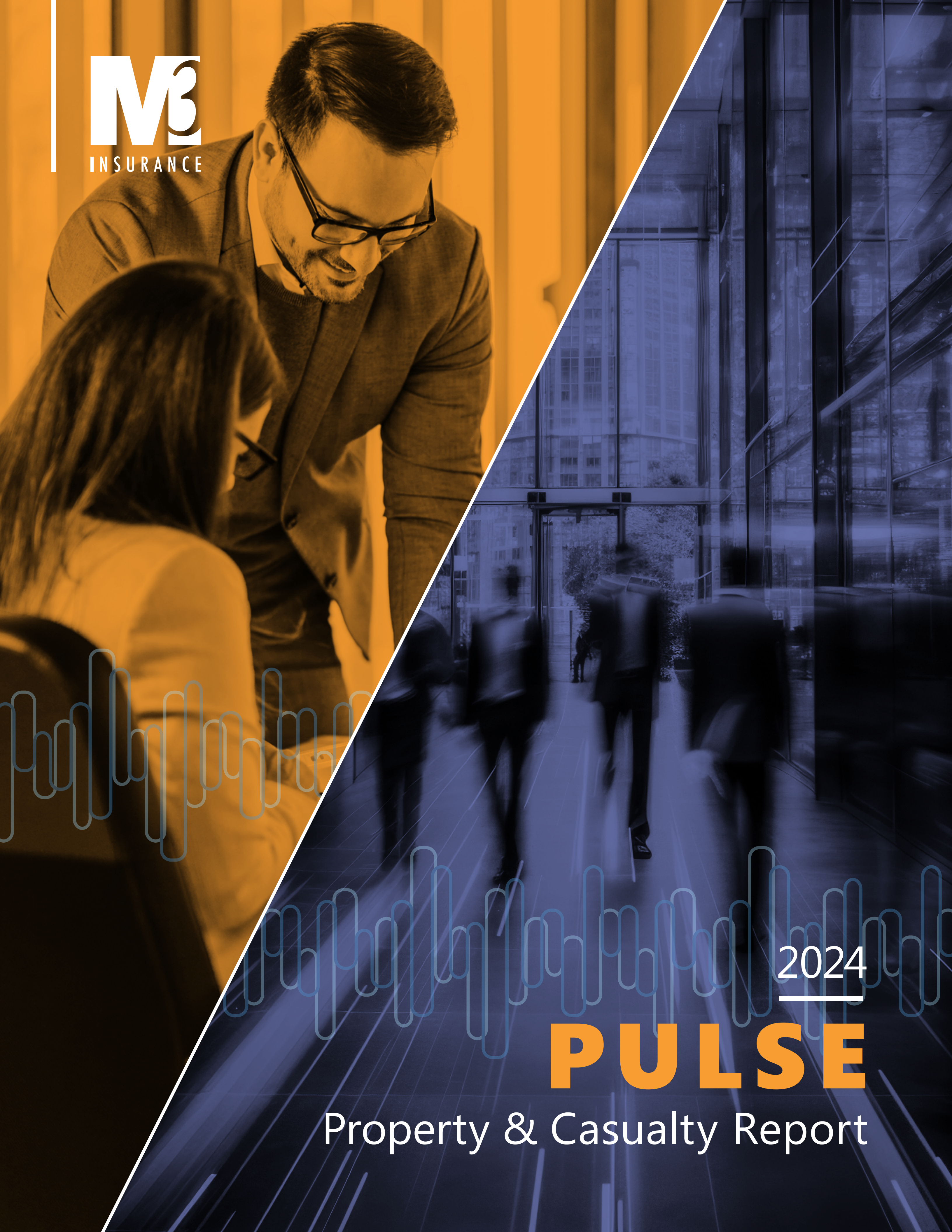

M3 INSURANCE

2024

PULSE

Property & Casualty Report

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INTRO

Your business is facing risks that are evolving faster than ever before. Financial risks, technological risks, societal risks, workforce risks — it's simply not "business as usual", and it hasn't been for some time.

With the pace of change accelerating, it's tough to expect any business leader to have their finger on the pulse of Evolving + Emerging Risks at every moment, and to then understand the strategies that need to be put into place to protect their organization, employees, and customers.

But your M3 team does.

Welcome to Pulse, M3's property & casualty report. Through the lens of rate and risk, we examine how the property & casualty market is affecting our clients across lines of coverage and industry sectors, and what risks we are predicting will be a focus throughout 2024.

This report is a reflection of our holistic approach. Our team is passionate about more than negotiating competitive renewals for our clients. We're dedicated to providing you with the insights and guidance you need to prepare your organization for the risks — and opportunities — ahead. Let's jump in.

Author:
Ross Heginbottom

Property

RATE TRENDS

2023 was a challenging year for property placements, littered with increased rates, a push for replacement cost valuation adequacy, higher deductibles, tightened terms, further underwriting scrutiny, and markets exiting after continued losses in certain business sectors. Many insurance companies worked to reconcile their balance sheets due to issues with reinsurance capacity, pricing, as well as an increase in large severe event losses. Rate impact was seen widely across industries as property rates increased for the sixth year in a row.[1]

Rates are expected to increase in 2024, but there are signs that those rate increases will not be at the same levels presented throughout the end of 2022 and 2023. We anticipate that there will be some variability in the level of property rate increases dependent on carrier relationship, loss experience, inadequately protected risks, coastal or CAT prone areas, and business segments such as frame or joisted masonry habitational, foundries, food manufacturers, and chemical manufacturers.

(continued)

WHAT IS CAUSING THE HARD PROPERTY MARKET?

M3 has had our finger on the pulse (pun intended) of the hard property market since we started to feel the ripples of rate increases more than six years ago. While insurance companies made drastic changes in their underwriting approach, many of the same concerns that impacted the property market in 2023 persist into 2024.

*» **CLICK HERE to read an article from M3** highlighting the factors that continue to influence property market rates.*

Property *(continued)*

EVOLVING + EMERGING RISKS

A high level of attention is being given to severe convective storms, especially in the Midwest. In 2023, the U.S. experienced 28 separate weather and climate disasters costing at least 1 billion dollars. This represents the highest number of billion-dollar events in a calendar year which included 17 severe weather/hail events across many parts of the country.[2]

Insureds should expect to see wind/hail deductibles becoming more prevalent, even in Wisconsin, and insurance companies will be evaluating the concentration of their property values within certain areas.

The hard property market has presented situations where increased deductibles, limitations on coverage terms, and property limits may no longer follow the requirements outlined in leases, loans, or contracts. There have been situations where the requirements outlined in these agreements are no longer commercially available or perhaps cost prohibitive to an insured. Careful review of the property insurance requirements within these documents and approval processes for changes to the coverage terms should be conducted ahead of time to ensure continued compliance.

EXPECTED RATE INCREASE

in 2024, but there are signs that those rate increases will not be at the same levels as last year.

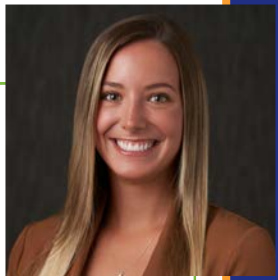
Underwriting scrutiny and the need for complete submissions will remain prevalent throughout 2024. With the emergence of AI and technology, underwriters are declining less desirable business using algorithms instead of open discussion. Insureds should be prepared to provide additional information surrounding the updates to the building(s), look to close any open loss control recommendations, and provide any documentation pertaining to the maintenance and care of their building to achieve the best results in this market.

Source: [1] https://www.ciab.com/resources/q4-2023-p-c-market-survey/
[2] https://www.climate.gov/news-features/blogs/beyond-data/2023-historic-year-us-billion-dollar-weather-and-climate-disasters#:~:text=In%202023%2C%20the%20U.S.%20experienced,U.S.%20in%20early%2DFebruary

Liability

RATE TRENDS

When it comes to general liability coverage, we believe rate increases will range between 1% and 9% in 2024. To help offset the impact of premium increases, we have seen insureds adopt some risk by opting to incorporate or increase their per occurrence bodily injury or property damage deductibles.



Author:
Brooklyn Hilton

In the context of general liability coverage limits, we have seen a gradual transition from primary limits increasing from $1,000,000 per occurrence/$2,000,000 policy aggregate to $2,000,000 per occurrence/$4,000,000 policy aggregate. This shift is responsive to the escalating demands of the umbrella marketplace, which necessitates higher underlying attachment points.

EVOLVING + EMERGING RISKS

It is imperative that organizations stay attuned to the legal climate and its repercussions on the insurance marketplace. **Some states and counties are notorious for being particularly litigious**, and this correlation is particularly significant in understanding how bodily injury and property damage claims might be handled. Your broker can provide insight into which jurisdictions could be particularly troublesome for your organization.

IN 2024
RATE INCREASES
WILL RANGE BETWEEN
1%–9%

Auto

RATE TRENDS

Commercial auto insurance rates continued to increase in 2023 and this trend is expected to continue in 2024. According to the CIAB Market Index[3] , rates increased on average more than 7% each quarter in 2023, with the second quarter seeing the largest average rate increase at 10.4%. This came down to 7.3% in the fourth quarter.

Author:
Kristi Kulas

EVOLVING + EMERGING RISKS

Increased auto claims activity, rising nuclear verdicts, increased cost of vehicle repairs, and medical bills continue to drive rate increases.

To be in the best position for a lower single digit rate increase in 2024, companies should focus on fleet management controls, non-owned exposure management, and driver training. While taking a proactive approach to managing risk should be the priority, post-accident investigation and corrective actions procedures can also help to prevent repeat accidents and identify additional training opportunities for drivers.

PUT YOUR COMPANY IN THE BEST POSITION FOR A **LOWER SINGLE DIGIT RATE INCREASE** IN 2024

Companies with larger fleets can also consider program changes to offset increased rates, such as increased physical damage deductibles, self-insured retention programs, or captives.

WHAT IS A NUCLEAR VERDICT?

Travelers Insurance defines a nuclear verdict as, ***"a verdict in favor of the plaintiff with a damage award that surpasses $10 million"*** *or "an outcome significantly larger than what anyone expected".*

Source: [3] https://www.ciab.com/resources/q4-2023-p-c-market-survey/

Workers' Compensation

Author:
Kelsey Haag

RATE TRENDS

For the eighth consecutive year, Wisconsin's overall rates decreased. Workers' compensation rates went down another 8.39% beginning October 1st, 2023.

When we look at medical cost trends, we see them as a function of medical price and utilization. Nationally, medical inflation in workers' compensation has been moderate, increasing just 2% per year between 2012-2021[4].

According to the WCRI findings, Wisconsin medical payments per claim are among the highest in the nation. Wisconsin is one of the few states to not have a medical cost containment strategy, resulting in higher medical inflation than states with a fee schedule. However, lower utilization and frequency is currently offsetting the medical price increase. Taking into consideration both functions of medical costs, the WCRI reports show Wisconsin medical payment per claim decreased 2% in 2020.

Furthermore, compared to other states, Wisconsin has one of the lowest average indemnity payments, benefits delivery per claim, and litigation costs, resulting in total claim costs being slightly lower than the national average.

> With some states approving minor rate increases, **THE FORECAST IS A MODERATE RATE INCREASE** in late 2024.

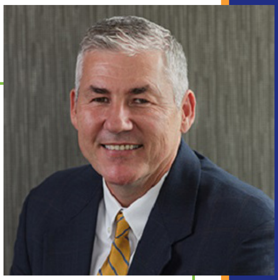
EVOLVING + EMERGING RISKS

So, what's to come for workers' compensation premiums? We're anticipating a slight rise in price, mostly driven by the increased exposure created by an expected increase in average hourly earnings. According to the Q4 2023 Conning report[5], rate filings are flat to negative, and that trend will likely remain.

With some states approving minor rate increases, the forecast is a moderate rate increase in late 2024. Wisconsin rate trends have typically followed the rest of the country, but we will have a better outlook on impact in the coming months.

Source: [4] https://www.ncci.com/SecureDocuments/AES_Content/Medical_Dillema.html
[5] https://www.conning.com/insurance-expertise/purchase-reports/article/PropertyCasualty%20Forecast%20and%20Analysis%20%204%20Issues/PCFMNEW

Umbrella



Author:
Jim Brunker

RATE TRENDS

Looking back on 2023, it's fair to say that umbrella premiums are increasing...at a decreasing rate. When we compare the Council of Insurance Brokers & Agents fourth quarter premium survey from 2023[6] to 2022[7], there is an average drop in umbrella premiums from a 9.6% increase down to 7.6%.

A few common factors contributing to increases for businesses of all sizes include increased reinsurance costs, rising commercial auto premiums which are scheduled underlying policies on an umbrella, and rising litigation costs. Nuclear verdicts remain a common concern among underwriters.

Finally, capacity remains an issue in trucking, commercial agricultural business, and higher hazard industries. On the primary layers of coverage, most insurers are still only willing to put up $1-5 million for these industries so it often takes multiple layers of insurers to build an umbrella tower.

On a positive note, for most businesses, excess layers have been coming in flat to very small increases, which enables our clients to obtain high umbrella limits at a lower cost per million of coverage than in recent years.

EVOLVING + EMERGING RISKS

One emerging risk that we are keeping an eye on in relation to umbrella policies would be the **potential product liability effects of artificial intelligence (AI)**. It's too early to foresee potential damages that could result from faulty machine learning or related applications of AI — self-driving cars that crash and so forth.

Another example would be the **perfected use of genome sequencing**. Genome sequencing has been around for a while, but "next-generation sequencing" is new. Many of these applications intend to move beyond DNA sequencing into RNA and protein sequencing. It would be difficult for any life science underwriter to predict future loss experience without any actuarial data about a technology that never existed before.

Similarly, an underwriter of a food manufacturer may be very interested in these next-generation sequencing skills that the FDA, CDC, and other regulators could be using in the future to trace food borne illnesses back to their sources more quickly and efficiently than the currently used genome sequencing.

HIGH HAZARD INDUSTRIES

including those with heavy transportation exposures, continue to see double digit increases in 2024.

[6] *https://www.ciab.com/resources/q4-2023-p-c-market-survey/*
[7] *https://www.ciab.com/resources/news-release-q4-2022-p-c-market-survey-results-are-in/*

Cyber Liability

RATE TRENDS

Cyber liability insurance continues to keep us on our toes. In 2023, we largely saw cyber insurance premiums decrease quarter after quarter. The average premium pricing increase dropped to 3.6% in Q2 2023.[8] This came as a surprise to many, as the frequency and severity of cyber related claims increased, with ransomware and extortion-based attacks accounting for the largest source of cyber claims by volume & frequency.[9]

Given the increase of claims that occurred in 2023, we may start to see pricing stabilize and potentially even see premium increases in 2024.

Author:
Megan Peyton

EVOLVING + EMERGING RISKS

Regulatory laws and cyber compliance

Heading into 2024, there are increased discussions of implementing more cyber compliance & regulatory laws on a state and industry. These regulatory laws will be industry dependent, so consider what industry your organization operates in. Are there talks of regulatory laws going into effect?

Seemingly, laws are being put into force from the top down. In July of 2023, the SEC (Securities and Exchange Commission) adopted new rules on cybersecurity risk management which requires registrants to disclose material cybersecurity incidents they experience.[10] The new rules will require registrants to also describe the material aspects of the incident's nature, scope, and timing, as well as its [likely] material impact on the registrant.

Further, there are state specific regulatory laws being discussed. In Wisconsin specifically, there is a new law proposed called the Wisconsin Data Privacy Act. In its simplest form, this act provides Wisconsin residents the right to access their personal data collected and maintained by the controller. And controllers must provide information to consumers free of charge.[11]

Given the increase of claims in 2023, we may see pricing stabilize and **PREMIUM INCREASES** **IN 2024**

(continued)

Source: [8] https://www.businessinsurance.com/article/20231101/NEWS06/912360639/Research-&-Rankings-Cyber
[9] https://commercial.allianz.com/news-and-insights/reports/cyber-security-trends-2023.html#threat
[10] https://www.sec.gov/news/press-release/2023-139
[11] https://www.foley.com/insights/publications/2023/11/wisconsin-state-assembly-data-privacy-act/

Cyber Liability *(continued)*

Review Your Third-Party Contracts

It's no secret that most organizations use third-party vendors to operate smoothly, however, this can cause major cyber exposure for your organization. When working with a new vendor, be sure to talk about what security practices they currently have in place. Be diligent with your data, and don't overshare.

ELEVATE YOUR EVALUATION PROCESS

- *__Create a vendor assessment__, which dives deeper into what cyber security your vendor currently has in place.*
- *__Maintain an inventory of what data you are sharing__ with your partner & review how your partners are gaining access to your data. Consider implementing MFA to secure your data and/or only allow access to what's necessary.*
- *__Consider adding contract language__ which includes how the partner confirms their cybersecurity practices.*

The Use of AI (Artificial Intelligence)

AI models continue to develop, and we're already starting to see the use of AI in cyber-crime.

For example, if you get an email or a call from a business partner asking you to wire money somewhere other than where you normally send money, take the extra step, and verify that it's a legitimate request. Consider implementing controls, such as call-back verification. Don't rely on just voicemail or email — this simple verification could save your organization thousands.

P&C Captives

Author:
Brendan Bush

A HARDENING MARKET

The broader insurance market has witnessed a hardening trend, impacting various sectors and lines of coverage, including property, auto liability, and umbrella. As rates rise and underwriting becomes stricter, many businesses face higher premiums and reduced coverage options.

In this challenging environment, captives have gained even greater significance as a strategic risk management tool. As businesses grapple with the challenges of obtaining adequate coverage at a palatable price point, captives can provide a lifeline. Insurance brokers will play a crucial role in assisting clients in leveraging captives to mitigate the impact of the hard market, reduce costs, and ensure comprehensive coverage.

KNOWING YOUR OPTIONS IN 2024

Group Captives

Amidst the hardening insurance market, group captives have become a beacon of hope for mid-sized companies. By pooling resources and sharing risks with other best-in-class companies, members can collectively tackle the rising costs of traditional lines of coverage. These captives offer stability, cost predictability, opportunity for return on premium, and the ability to negotiate with insurers from a position of strength, all of which are critical in a hard market.

Single Parent Captives

Large corporations, faced with escalating premiums and reduced capacity in property and liability lines, have turned to single parent captives as a means of taking control over their risk exposures. Single parent captives allow for tailored coverage solutions and efficient capital allocation, providing much-needed flexibility in the face of the hardening insurance market.

831(b) Microcaptives

In the context of the hardening insurance market, 831(b) microcaptives have demonstrated their resilience. While regulatory scrutiny remains, legitimate microcaptives have proven to be a viable option for businesses looking to manage escalating insurance costs. These structures offer greater risk control — particularly relating to low frequency, high severity exposures, helping businesses navigate the challenging insurance landscape.

Management Liability

There are two lines of coverage under the umbrella of management liability that are important to cover as we look to 2024.

Author: Jeanne Flanagan

Directors and Officers Liability Insurance

RATE TRENDS

The directors and officers liability (D&O) insurance market for private and nonprofit organizations benefited from favorable pricing and broader coverage through 2023, helped by factors such as new market entrants.

This availability of abundant capacity is driving competitive market dynamics, and carriers will continue to compete on price and coverage throughout 2024. Claims-free accounts with strong financials will likely see flat rates and lower pricing, but where insureds had experienced material premium relief in previous renewal cycles, the extent of decreases may begin to flatten.

CARRIERS WILL CONTINUE TO COMPETE ON **PRICE AND COVERAGE** THROUGHOUT 2024.

EVOLVING + EMERGING RISKS

With broader coverage generally available, underwriters continue to restrict coverage as it relates to the Biometric Information Privacy Act (BIPA), many using blanket exclusions in reaction to developing claim trends. They view bankruptcy as the most concerning exposure, followed by antitrust, and mergers & acquisitions.

We question how long this soft market will continue. External events could cause it to contract rapidly. New risks, including technology and the growth of artificial intelligence (AI), if inappropriately applied or developed, could lead to shareholder action. Ongoing global conflicts, inflation, financial difficulty due to higher interest rates, and the upcoming political election cycle could also impact the D&O market.

(continued)

Management Liability *(continued)*

Employment Practices and Fiduciary Liability Insurance

Many private and non-profit organizations also purchase employment practices (EPL) and fiduciary liability coverage, included as additional coverage parts, with their D&O.

RATE TRENDS

The EPL and fiduciary market is still strong with competition, keeping the market stable. The extent of EPL rate increases will be determined by many factors, particularly industry, loss history, and location of employees. Assuming no change in risk profile and no losses, rate increases are more likely to be close to flat or flat. California continues to be the most problematic jurisdiction, while New Jersey, New York, and Florida remain challenging.

Fiduciary liability premiums should remain competitive barring any significant changes in plan structures and plan assets.

EVOLVING + EMERGING RISKS

Layoffs and return-to-work remain a concern, and carriers are increasingly seeking to sublimit or exclude litigation stemming from biometric information privacy statutes, which are expanding. Insurers are also watching how AI impacts the hiring process and may lead to claims of discrimination.

Excessive fee litigation remains in the spotlight, with smaller plans also being targeted, and higher excessive fee or mass/class retentions will continue.

As exposures facing private and nonprofit organizations escalate, M3 recommends working with a specialty broker. Specialization is key to securing adequate, competitive insurance program options when dealing with complex insurance coverages.

SPOTLIGHT ON SELECT INDUSTRIES

Overall, the private and nonprofit management liability marketplace is stable and competitive despite mounting exposures, and 2024 will continue to see enhanced competition. Some industries, such as ***healthcare, athletic organizations, and higher education****, or organizations with adverse loss experience,* ***are likely to see higher than average rate change*** *across all lines.*

BY INDUSTRY

Construction & Real Estate

Author:
Brad Winchester

Author:
Isaac Bechen

CONSTRUCTION RATE TRENDS

There are several positive things occurring nationwide and locally here in the upper Midwest when it comes to insurance rates for contractors. Workers' compensation rates are down in most class codes in 2024 and have been for the past few years. While contractors emerged from the pandemic, work appears to continue to be plentiful, and the support for infrastructure is trending in a positive direction. The increasing workload is driving higher expected workers' compensation losses (more payroll = higher expected losses), but contractors have been successfully outperforming expectations and collectively driving workers' compensation rates downward.

Other coverages are also seeing either flat rates or average minimal increases (less than 10%) including Contractors Equipment, Professional Liability, General Liability, D&O, and Cyber. Umbrella and excess liability lines continue to face upward rate pressure, especially in construction companies that have heavy auto fleets.

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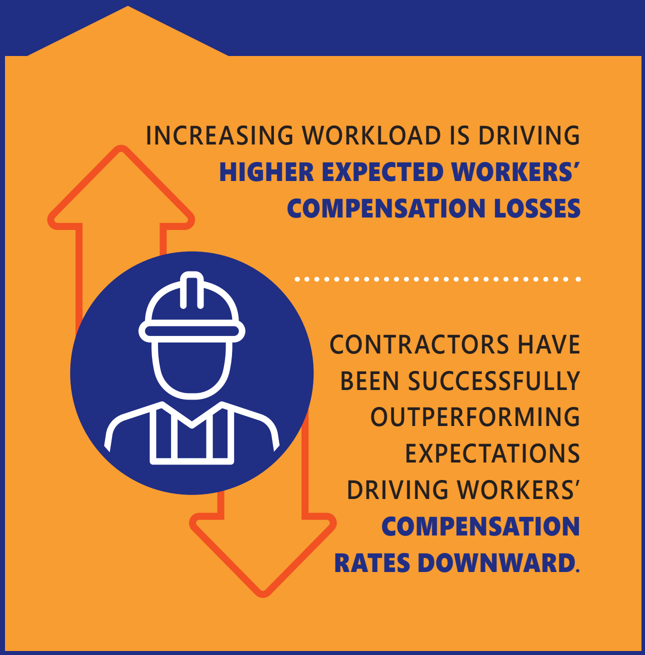

Source: [11] https://www.ciab.com/resources/q4-2023-p-c-market-survey/

Construction & Real Estate *(continued)*

REAL ESTATE RATE TRENDS

While the outlook is clear as mud, one thing is for certain: Insurance companies are getting the rates and terms they desire in a nationwide effort to realize long-term profitability.

For developers and/or property management companies, property insurance premiums have continued to increase due to a variety of factors. Catastrophic weather-related events in the Midwest have hit mutual carriers hard — they have braced themselves for steep reinsurance costs due to rising loss ratios. Some have pulled out of certain areas of the Midwest due to saturation, while some have pulled out of states altogether.

Due to unprofitability, carriers are pushing back on valuations to ensure properties are insured to adequate amounts. That, in combination with a rising rate environment, continues to put stress on property portfolios, especially pre-1985 wood frame. We are encouraging our clients to plan for capital expenditures, especially when their portfolios include aging roofs, outdated electrical panels, and non-sprinklered buildings.

EVOLVING + EMERGING RISKS

As our general contractor clients continue to perform work nationwide, we are encouraging them to explore alternative ways to manage risk, specifically with the work of subcontractors they are not as familiar with.

An emerging way to transfer risk is through subcontractor default insurance (SDI), which takes the place of a bond and compensates the general contractor for resulting losses from the subcontractor's default. If a claim happens, SDI insurance responds quickly and allows the general contractor to have control over the work to aid in timely project completion. In comparison, if a bond claim happens, it can be a drawn-out process when the surety carrier steps in to run the project. To explore SDI options, the general contractor must have volume of work and a thorough prequalification process of subs stepping onto the jobsite.

SURETY

Author:
Travis Schreiber

BUILDING BOOM FUELS GROWTH IN SURETY INDUSTRY

Construction spending drives the surety industry, and there is reason for optimism in the construction market. Increased infrastructure funding is making an impact at the federal, state, and local government levels. Private sector construction also remains relatively solid, despite the high interest rates of 2023.

Contractor backlogs are strong, driven by the abundance of work and increased labor and material costs. Many companies are increasing their surety program capacity to keep up with their opportunities.

There has been significant growth in the number of carriers that have entered the surety market. Increased competition for premium can lead to reduced underwriting standards to pick up market share. Reduced underwriting standards can subsequently lead to losses for a surety.

EVOLVING + EMERGING RISKS

While construction spending and associated costs are driving record surety premiums, losses are also increasing. The Surety & Fidelity Association of America (SFAA) quarterly reports through Q3[12] show losses have been trending upwards throughout 2023.

Generational turnover is a significant force in the surety and construction industries. Business owners are retiring or selling their business to the next generation, or, in some cases, private equity. The surety industry is also experiencing similar turnover as decades of experience retires each year. On a macro-level, there are less experienced people on both sides of the table in a surety discussion.

There are great opportunities ahead, but not without challenges. Sureties and contractors will need to maintain discipline to successfully execute on their business plans in 2024. Businesses must maintain strong controls and actively communicate with their bond agent and surety company to ensure their surety program keeps pace with their business needs.

Source: [12] https://surety.org/research-resources/research-statistics/

Public Sector

The public sector should be prepared for another year of moderate to high rate increases, ranging from 10 to 25% across most lines of coverage.

Author:
Mark Meeks

RATE TRENDS

While inflation has cooled, resulting in greater stability in pricing of materials and labor, carriers offering property insurance to the public sector continue to feel pressure from their reinsurance markets to ensure that property valuations align with replacement cost calculations.

If your total insured values are less than 100% of replacement cost, this initiative alone has the potential to increase property insurance pricing 10 to 15%. And, factoring in carriers' ongoing need for rate increases to meet increased claims and expense obligations, some public entities may be looking at property premium increases from 20 to 30% in 2024.

In addition to increasing premiums for property insurance, carriers are also taking action to reduce their exposure for losses caused by specific perils, such as wind and hail, by adding policy language that restricts coverage and/or increases your deductible.

MODERATE TO HIGH RATE INCREASES

expected ranging from 10 to 25% across most lines of coverage

The public sector should also expect to see 10 to 15% rate increases in their general liability, automobile, and umbrella pricing. The emergence of nuclear verdicts and the increasing popularity of electric vehicles (and the increased cost to repair an EV) are primary drivers behind the insurance industry's need to secure rate increases for these lines of coverage.

(continued)

Public Sector *(continued)*

EVOLVING + EMERGING RISKS

Having the ability to secure cyber coverage with more stable renewal pricing has improved over the last 12 to 18 months. Unfortunately, **public entities continue to be attractive targets for cyber criminals**, and that will not change due to the amount of personal information contained within your systems. Public entities that take proactive steps to invest in cyber security and staff training will benefit by having more policy options to choose from, and they will likely see more stable pricing.

The Wisconsin Compensation Rating Bureau is reducing rates in 2024, meaning workers' compensation coverage should offer some premium relief to offset some of the adverse premium impact associated with other lines of coverage mentioned above. While that is good news for insurance buyers, insurance carriers will be collecting less overall workers' compensation premium, and this will likely reduce dividend amounts they can offer.

As a result, you should **expect the average dividend in 2024 to be in the 10 to 25% range in the public sector**. Having favorable loss history and an effective return-to-work program are viewed favorably by carriers and can help maximize the dividend amount offered to you.

INCREASING CLAIMS ACTIVITY FOR PUBLIC SECTOR LIABILITY LINES

*Educators Legal Liability and Public Officials Liability premiums are typically smaller than other lines of coverage maintained by a public entity, but **loss costs associated with these two lines can often lead to loss ratios exceeding 100 percent**. With premium being relatively low, but legal defense hourly rates being in the $400-$500 range, just the cost of defending a public entity can easily exceed the premium collected by the carrier.*

***Claim activity continues to increase for both lines of coverage, and you should expect to see premium increases** in the range of 20 percent in 2024.*

Food & Agribusiness

The throughlines within the food and agribusiness industry in 2023 were workforce challenges, continued pressure of wage increases, inflation, growing mergers and acquisitions and consolidations.

Author:
Jen Pino-Gallagher

RATE TRENDS

The biggest insurance challenge for the food & agribusiness industry has been the property insurance market. Operations with aged properties, large TIVs and unsprinkled locations have been dealt with double digit, and, in extreme cases, triple digit property premium increases.

Additionally, the mutual insurance crisis in several Midwestern states has resulted in businesses having to find alternative carriers as the mutuals consolidate or exit business completely.

Large TIVs and unsprinkled locations have been dealt with double digit, and, in extreme cases, triple digit property

PREMIUM INCREASES

Within the agricultural cooperative sector, an industry dominated by co-ops over 75 years old, property insurance premiums have begun to stabilize after increasing for several years. In the food processing sector, companies that have made investments in sprinkler systems, modernized facilities, and proactive risk management tools are seeing premium rate relief.

Proactive steps business leaders can take include:

- Revisiting property valuations to ensure they are consistent with current values
- Working with the insurance broker to develop open communications with underwriters to ensure you are effectively "telling the story" regarding your operation

(continued)

Food & Agribusiness *(continued)*

EVOLVING + EMERGING RISKS

Greater attention is being paid to the **direct link between workforce shortages and a rise in food safety violations**. As employers within the food processing sector continue to struggle to recruit and retain employees, risks of food safety violations increase. Even in operations with successful recruitment strategies, fully staffed does not mean fully trained.

Officials at the highest level of the federal government continue to sound the alarm of the risk of **cybersecurity issues within the food and agricultural industries**. The formation in 2023 of the newest IT-ISAC (IT - Information Sharing and Analysis Center) focusing on the food and agriculture sectors attests to the fact that cybersecurity issues are alive and well throughout the supply chain. And, as food processors add automation and lean into technology-based solutions to meet FDA's Food Traceability final rule requirements, the stakes for maintaining a cyber-secure environment have never been higher.

Within the traditional agriculture sector, the ongoing trend of mergers among agriculture cooperatives continues, creating larger operations spanning wider geographies. The numbers of dairy farms are declining, while size and average herd per farm increases. **This growing mergers & acquisitions environment** is leading to increased interest from buyers in mitigating the underlying risks, along with the ability to identify and execute risk transfer solutions before the transaction is signed or closed effectively and efficiently.

NEW ERA OF SMARTER FOOD SAFETY INFLUENCES RISK MITIGATION STRATEGY

Food safety continues to be a top priority *as the FDA rolls out the four core elements of the New Era of Smarter Food Safety and companies respond* ***by focusing on tech-enabled traceability, prevention and outbreak response, retail modernization and food safety culture.***

Healthcare

Author:
Kevin Murray

Entering 2024, the property and casualty insurance market is in a state of regular change. Although there remains capacity available for insurance carriers to grow in many lines of coverage, there is ongoing concern among underwriters regarding growing exposures and potential for larger claims with threats from unfavorable legal venues, cyber attack advancements, and catastrophic nature disasters. How healthcare organizations prioritize these risks will determine the extent to which insurance fluctuates.

RATE TRENDS

Cybersecurity and liability have been the leading focus of C-Suite individuals within all types of healthcare groups. Bad actors used artificial intelligence (AI) to become increasingly sophisticated in 2023, which led to a dramatic spike in phishing and social engineering attacks.

In the short term, most cyber liability insurance markets are still focused on positive results from 2022, and an experienced broker with specialization in cyber liability within the healthcare industry can likely offer options with better terms and pricing than what was available the past several years.

CYBER LIABILITY

most insurance markets are still focused on positive results

Management liability (directors & officers, employment practices liability, fiduciary liability, employed lawyers) insurance is currently stable in the healthcare industry but expected to start entering a hard market by the end of the year.

Property and auto insurance costs have been increasing for about six years with dwindling capacity amongst insurance carriers and reinsurance. The frequency of natural disasters, material and labor costs, and the price of new technology have all played roles in the higher premiums and narrowing options. This has not changed a great deal going into 2024, but there is optimism that the market will stabilize soon.

(continued)

Healthcare *(continued)*

EVOLVING + EMERGING RISKS

Just as cyber liability insurance is a key focus for the healthcare industry, so are the risk management steps needed to tighten up **cybersecurity**. The involvement of those in charge of IT in the insurance purchasing and assessment of risk is crucial for the security of the organization and patients. Healthcare organizations should review contracts and nature of relationships with third parties such as business agreements, healthcare system affiliations, service providers, and outside IT management companies to ensure the security of data.

Social inflation of litigation, rising healthcare costs, a staffing shortage, need for affiliations or mergers, and private equity involvement among several other factors have drawn the attention of insurers regarding management liability coverages. The ongoing pressure for immediate action of healthcare systems could lead to less than prudent decision making and create regulatory or liability issues moving forward.

Medical malpractice industry claims are resulting in a call for additional rate nationwide due to an unexpected **spike in severe lawsuit outcomes such as nuclear verdicts**. There is push from new insurance company entrants into less litigious venues, such as Wisconsin, to offset exposure in more troubled areas of the country. This has been beneficial to healthcare groups operating in those favorable venues in the short term, but we recommend reviewing your options with a trusted insurance broker to ensure stability.

Overall, there is a greater need to have a well-versed insurance broker actively engaged within your organization to address, educate, and implement initiatives to best control the ongoing and future risk of healthcare.

HEALTHCARE & LONG-TERM CARE CYBER HYGIENE

*You may think that cyber attacks only affect large hospital organizations, but statistics actually show that **58% of malware attacks are on small businesses** (2018 Data Breach Investigations Report).*

*» **CLICK HERE to read an article from M3** highlighting key areas of cyber hygiene healthcare and long-term care organizations should be aware of.*

Senior Living + Social Services

RATE TRENDS

Dozens of billion-dollar weather-related loss events year-over-year have resulted in continued capacity constraints driven by reinsurers. Underwriting scrutiny continues for aging buildings & frame construction type, and fluctuations in property values and constructions costs have resulted in thorough re-examination of building values annually. Property carriers will continue pushing price increases and increased retentions, at minimum, with projections showing increases between 10-25% or greater, depending on your regional locale.

Author:
Sara Kekula

Providers should address their asset management strategy, including infrastructure investment and property preservation opportunities. Undetected water leaks, frozen pipes, humidity, or temperature changes continue to cause costly property damage for senior living & social service organizations. Consider installing IoT water loss sensors to minimize damage, which sense potential issues and send notifications before small problems become big ones.

On the casualty lines, there will be continued emphasis on proactive risk management & mitigation strategies to secure favorable insurance terms and coverage options. General and professional liability and auto premiums are rising (5-20% for general and professional liability, and 4-10% for auto liability), citing adverse claim development as well as economic and social inflation as key drivers. The bright spot continues to be workers' compensation, with ample capacity and rate/pricing stability.

Investing in a comprehensive approach to risk management, senior living and social service organizations can position themselves for long-term financial sustainability and operational resilience. Moreover, consideration of alternative risk financing strategies may be a viable option, depending on your tolerance for risk.

(continued)

RISK APPETITE VS. RISK TOLERANCE: DISTINCT BUT INTERCONNECTED

Risk appetite pertains to an organization's willingness to embrace and pursue risks in alignment with its strategic objectives, whereas risk tolerance pertains to the organization's capacity to withstand and manage the adverse outcomes of those risks. ***Both concepts are critical in shaping an organization's risk culture, informing risk management strategies, and guiding decision-making processes to achieve a balanced risk approach.*** *The M3 senior living & social service team consults with our clients to aid in developing an enterprise risk management strategy to empower risk-informed decision making to achieve strategic goals.*

Senior Living + Social Services *(continued)*

EVOLVING + EMERGING RISKS

Senior living and social service organizations will continue to face volatile, uncertain, and complex challenges. Understanding and preparing for the evolving and emerging risks specific to this industry is essential to fostering resilience and sustaining operational success in the face of ongoing transformation.

1. **Technological Innovation.** The adoption of new technologies presents opportunities for efficiencies while also posing new challenges for network security or data privacy concerns. There are evolving product offerings to mitigate risk specific to resident/client care, but may come with their own risk when adopting within your organization.
2. **Regulatory Compliance + Reform.** Evolving healthcare regulations & increased oversight, changes in Medicare/Medicaid, and changes to care delivery practices are some of the nuanced complexities that providers will continue to face.
3. **Human Capital & Workforce Management.** Workforce shortages, succession planning, workforce mobility, talent competition paired with evolving labor and employment laws & increased regulatory oversight will continue to be a challenge, while the demand for a skilled workforce will continue to increase.
4. **Disaster Preparedness.** Providers must reassess disaster preparedness, resilience planning, and infrastructure adaptability to mitigate the impacts of climate change or unplanned catastrophic events (including, but not limited to, cyber incidents, fires, active shooter or workplace violence incidents, etc.)

SENIOR LIVING & SOCIAL SERVICES ORGS ARE A TOP TARGET FOR CYBERCRIMINALS

"Healthcare is continuously one of the top targeted industries by cyber attackers. That is attributable to the data that is held within healthcare organizations. ***It is some of the most valuable data on the dark web – and the attackers know that.*** *When it comes to ransomware or extortion, they know they can get a healthcare organization to pay because they don't want that data released."*

— Matt Thomson, Director of Cyber Liability, M3 Insurance

Manufacturing + Distribution

RATE TRENDS

Like most other industries, the manufacturing and distribution sector is being dramatically impacted by the hard property market. Dynamic weather conditions across the entire country have led to unprofitable conditions for P&C carriers across the entire industry. These losses have further led to increased reinsurance rates that carriers ranging from regionals to nationals rely on to spread risk within their portfolios. These loss trends coupled with multiple years of inflation related to construction costs have come to a head and led to an increased rating environment that has been unseen over the last decade and will continue into 2024.

Author:
Derek Laczniak

Author:
Dana Hellenbrand

Due to reduced capacity based on occupation, construction, and geography, appetite for marketing of commercial property risks remains minimal in the open market and even more challenging for monoline risks. Insureds looking for alternatives should look to bundle other profitable lines of coverage where possible to increase the attractiveness of their commercial property exposure and begin the process early.

In addition to property concerns, general liability and product liability remain relatively stable within the industry, specifically for organizations with lower hazard products and limited claim frequency. Carriers are continuing to look for some rate increase, but often this is only to offset the sharper rate increases that they are seeking on more challenging lines of coverage like auto and property.

Given continued concern, specifically in some geographies, over nuclear verdicts driven by social inflation in cases of alleged negligence between a wronged party and a company/insurance carrier, carriers continue to underwrite the contractual risk transfer that is in place within an organization's supply chain.

EVOLVING + EMERGING RISKS

Insureds must be mindful of what once were advisory recommendations relative to their commercial property that have now become mandatory. Failure to adhere to guidelines such as NFPA Sprinkler Systems, Construction Types, and Storage Configuration can lead to further rate tightening at renewal time.

With the challenging overall P&C market, opportunities to share in risk through the use of deductibles and self-insured retentions within the products liability space can start to provide reasonable payback periods. This is especially true with products that have a higher hazard reputation but no formal frequency of losses or above average controls. These types of tools along with potential growth of sales in an improving economy can help soften rates and reduce premium spend even in an environment of growth.

Transportation and Fleets

RATE TRENDS

Commercial auto insurance remains an unprofitable line of coverage for the majority of insurance carriers over the last several years. The continued rise in litigation surrounding organizations at fault accidents coupled with the increase of nuclear verdicts associated with severe accidents has led to unprofitable conditions across the product line. Separate from the spiraling liability losses, cost of repair given increased technology with new vehicles has led to a never-ending inflation for repair and physical damage.

EVOLVING + EMERGING RISKS

Carriers have started to focus on geography of fleets, regardless of where an organization's corporate headquarters is located. Specific states are on the radar of insurance carriers where they have bans on even incidental exposure. States like Georgia, Pennsylvania, Illinois, and California remain states where carriers will look to limit even incidental exposure.

With uncontrollable settlements and verdicts associated with at fault accidents, insureds must do everything within their power to present a best-in-class fleet safety program. This includes ongoing monitoring of authorized drivers motor vehicle records, a thorough fleet safety program, as well as tight controls around personal use of business vehicles. Failure to do so will result in underwriting surcharges or appetite restrictions.

Organizations with larger fleets or in the business of transportation need to also consider the use of telematics within their vehicles. These include technology tools like hard breaking and speed monitoring as well as front- and rear-facing camera systems. While these programs come at a capital cost, they can generate opportunities to unlock additional insurance carrier markets, reduced rates, as well as enhanced defense in the event of litigation.

International

Author:
Nate Troyer

RATE TRENDS

Overall, the international market is slightly softer than the domestic market. Organizations can expect that their renewals on international coverage won't be quite as difficult as those they face on domestic lines of coverage.

One thing to note: we are seeing restrictions with certain countries who are involved with hostile actions or war, including Israel, Russia, and Ukraine. Ocean cargo carriers may not cover products being shipped to, or within, these territories.

GLOBAL RISKS REQUIRE GLOBAL EXPERTISE

If your organization has places, products, or people in countries outside of the U.S., it's important to engage with your broker partner to assist with customized solutions, as there may be opportunities to simplify your program structure and create consistency among your coverage.

As an example, a centralized global program could help minimize your coverage gaps, achieve premium savings, and help you eliminate coverage redundancies, while utilizing your global umbrella policy can eliminate duplication of limits in each country.

In addition, working with a broker who has dedicated experience in placing coverage for international risk can help ensure that all necessary locally admitted policies are being purchased in alignment with local regulations.

Tribal Nations

RATE TRENDS

Property premiums continue to be a primary area of focus come renewal time, especially for those that have experienced property loss history in the past five years. Clients considering increasing their property deductibles are not seeing the premium relief they were used to even four or five years ago. Tribal programs and carriers are also doing their due diligence to ensure that they capture the right premium for the right exposure, increasing valuations by trend factors and conducting reviews of cost-per-square-foot at high-value locations.

Author:
Ryan Pulvermacher

Tribal government and tribally owned businesses have, for the most part, taken the necessary steps to put cybersecurity controls in place to protect their valuable data. These cybersecurity initiatives were sparked by increases in cyber liability renewal premiums, a focus on protecting customer data, seeing high-profile claims in like-industries, and the realization that some tribal-specific electronic data might be forever lost in the event of a cyber incident.

EVOLVING + EMERGING RISKS

As Tribes diversify their business ventures through economic development efforts, it is important that they consult with risk and insurance partners to know **if new or expanded business ventures are covered by existing programs**. This applies to all lines of coverage.

Brokers should be engrained in their clients' businesses and ask challenging questions to help clients understand their exposures and how to transfer and mitigate risk. Tribal entities deserve risk and insurance partners that are familiar with the vision, structure, and nuances of tribal government and tribal economic development.

While the market has seen a slowdown in cyber liability premium increases due to these security measures put in place, cyber criminals are not cutting back on their efforts and tactics to gain access to tribal data. With M3, tribes and their businesses can leverage the experience and guidance of director of cyber liability, Matt Thomson, who spent years serving in the U.S. Air Force as a cyber operations officer where he conducted both offensive and defensive cybersecurity operations.

RISK STRATEGY: BUSINESS PLANNING FOR TRIBES AND TRIBAL ENTITIES

Tribes have unique risks*, and as they continue to expand into new endeavors, it can be challenging to juggle current initiatives with new exposures.* ***It's important to have a long-term strategy in place.***

» CLICK HERE to read an article from M3 *showing how a business plan with a strong focus on risk management and insurance can ensure that tribal assets are protected now and into the future.*