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2023 MID-YEAR MARKET UPDATE

MARKET INSIGHTS FROM KAPNICK INSURANCE

Kapnick

BUSINESS INSURANCE | RISK SOLUTIONS | EMPLOYEE BENEFITS | WORKSITE WELL-BEING | PERSONAL INSURANCE | GLOBAL SOLUTIONS

From health and auto to life and property insurance, the market is in a state of flux. In this mid-year market update, we will examine the key trends that are driving change as well as the potential opportunities and challenges that lie ahead. By understanding these developments, leaders can make well-informed decisions about their strategies going forward.

TRENDS & OUTLOOK

Attraction & Retention Challenges: Attracting and retaining employees was a difficult task in 2022 as organizations struggled to fill a record-high number of job openings and navigate inflation, resulting in many organizations experiencing difficulty filling open positions. Increased competition among organizations resulted in employees having leverage, which they used to negotiate:

- higher pay
- competitive benefits
- more flexibility

In 2023, the labor market has shown signs that this trend may be changing, driven by economic uncertainty and a potential recession. Many organizations have slowed or frozen hiring, with some even conducting layoffs. Despite these changes, attraction and retention remains a major challenge for organizations—one that's likely to continue through 2023.

Inflation & Economic Uncertainty: Many economic experts have forecasted that rising interest rates and prolonged labor market challenges could lead to a potential recession throughout the United States in the next six to nine months. Additionally, inflation has become a major concern for organizations and consumers alike.

Amid a recession, organizations of all sizes and sectors usually experience slowing sales and decreased profits stemming from reduced demand and changing consumer behaviors. With the increased costs and reduced consumer spending organizations are seeing due to inflation, organizations are more likely to have to make difficult financial decisions due to their reduced margins.

How Kapnick Can Help: As leaders continue to deal with many of the challenges created by the hard insurance market, Kapnick can help. We help clients secure coverage and address key insurance, risk management and operational challenges, whether that is through the traditional insurance marketplace or alternative risk transference methods.

Our experts offer customized solutions for business insurance, employee benefits, and personal lines. Our teams are here to help you address increased insurance costs and solutions that work for your situation.

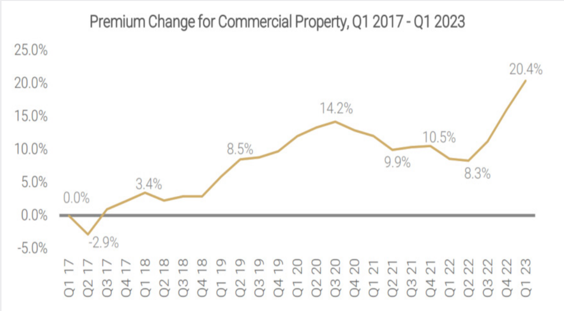
We take a proactive approach to risk, and provide services including:

- risk analytics
- advanced modeling
- loss control surveys
- claims advocacy and more

At Kapnick, we are passionate about providing proactive insights to help our clients become more efficient and implement impactful strategies to respond to the trends of today and the emerging challenges of tomorrow. That way, you can deliver value and truly stand out in today's competitive market, whether that is obtaining the best terms, rates, and coverages, or attracting and retaining top talent.

PROPERTY TRENDS

- Increasing premiums due to natural disasters and the rising cost of inflation.
- Difficulty obtaining excess and/or additional capacity, especially for catastrophe perils.
- Challenging occupancies are facing greater scrutiny.
- Increased underwriting requirements resulting in longer timelines to produce quotes.
- Mandatory safety and loss control improvements.
- Reinsurance rates and retained risk driving cost increases with larger rate increases for natural catastrophe perils.



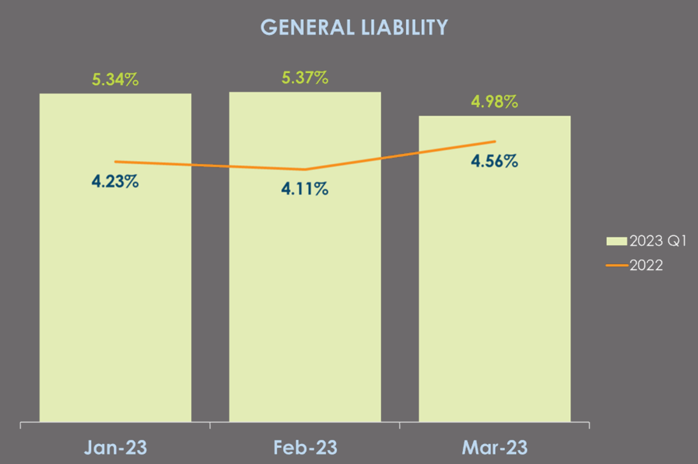
Source: The Council Commercial Proerty/ Casualty Market Index Q1/2023

PROPERTY OUTLOOK

As always, property owners benefit from working with advisors who prioritize proactive risk management, like Kapnick. This is particularly important in a challenging market. At Kapnick, we work with you to ensure the best property rates, terms, and coverages are achieved. We do this through leveraging:

- A thorough understanding of carrier appetites
- An early awareness of underwriting criteria
- Data analytics
- Accurate property valuations
- Risk retentions considerations

With careful planning and proactive strategies, organization leaders can ensure they are prepared with the best solutions for both their immediate needs and long-term success.



Source: Ivans Index The insurance industry's premium renewal rate index Q1 2023

GENERAL LIABILITY TRENDS

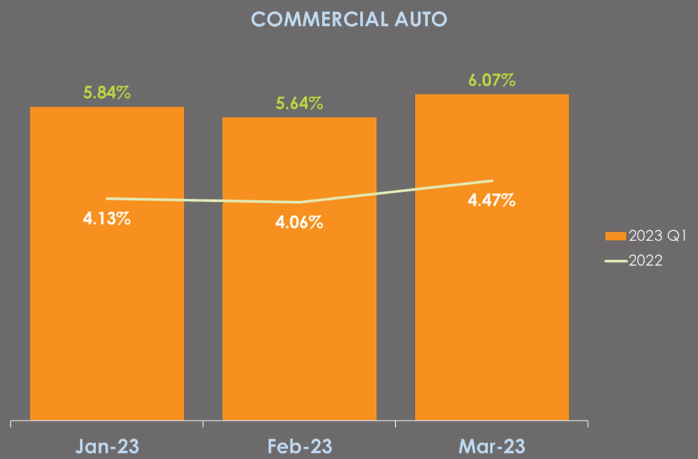
- Modest rate increases of 5-10%, with some organizations experiencing flat or even lower rate renewals.
- Increased competition from both legacy markets and new carriers for primary and excess coverage.
- Carriers crafting policy language for evolving risks (COVID-19, wildfire, drones, GMOs, traumatic brain injuries).
- Risk assumed by organizations through higher deductibles or self-insured retentions partly responsible for rate stability.
- Social inflation and nuclear verdicts continue to impact the market, leading to higher claims costs and tort reform erosion.

GENERAL LIABILITY OUTLOOK

Overall, 2023 is expected to remain a more competitive rate environment for general liability with carriers cautiously assessing risks before underwriting. As always, risk management is critical when obtaining coverage and creative solutions can be used to mitigate financial burden.

AUTO TRENDS

- Rate increases remain in the single digits while demand for higher combined single limit requirements increase, though geographic location does play a factor with states such as Florida, Texas, Georgia, Louisiana, California, and New York seeing higher increases.
- Telematics and other vehicle technologies are sometimes required by carriers to collect additional driving data.
- Adverse risk profiles continue to struggle in securing affordable coverage, while those with good performance receive more favorable rates.



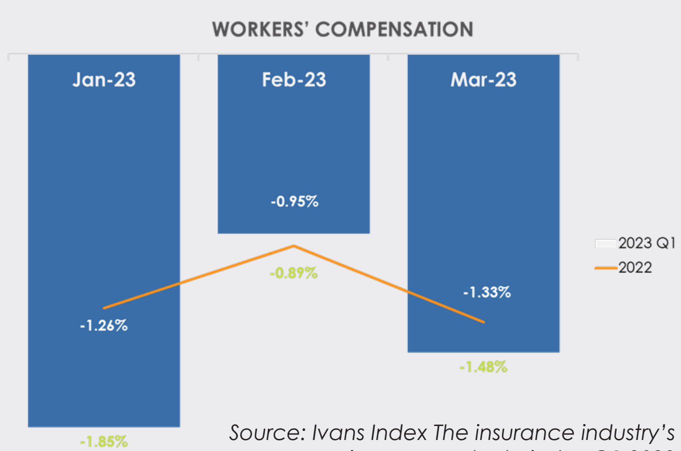
Source: Ivans Index The insurance industry's premium renewal rate index Q1 2023

AUTO OUTLOOK

Organization leaders can impact their rates by taking steps to ensure they have good performance records, implementing telematics and other vehicle technology for additional data collection, and increasing deductibles or self-insured retentions when necessary. By taking these steps, leaders can work toward reducing their premiums and ensure they are receiving the best possible coverage.

WORKERS' COMPENSATION TRENDS

- Rate decreases with rate stability expected for guaranteed cost buyers.
- Growing competitive environment, with carriers offering packages that include workers' comp and liability coverage.
- Increasing loss severity due to complex or life-altering injuries.
- Mental health distress linked to greater risk of workplace accidents.

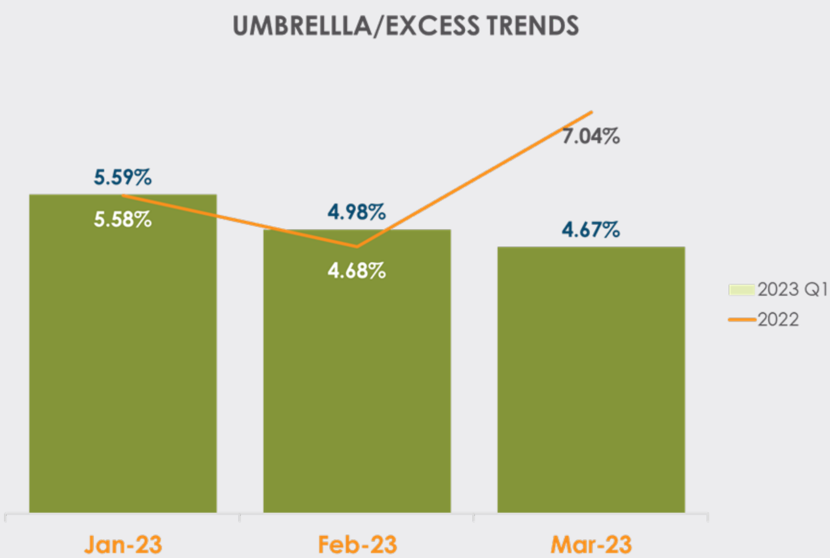


Source: Ivans Index The insurance industry's premium renewal rate index Q1 2023

WORKERS' COMPENSATION OUTLOOK

The outlook for worker's compensation in 2023 and beyond is positive. Premiums are expected to remain stable with minimal rate reductions, while loss sensitive policies may require more analysis.

With an increasing number of large losses arising from complex, life-altering injuries, organizations should adopt supportive workplace cultures and mental health initiatives for employee well-being. Engaging a broker who specializes in both safety and well-being, like Kapnick, can provide invaluable, coordinated insights into cost-saving strategies.



Source: Ivans Index The insurance industry's premium renewal rate index Q1 2023

UMBRELLA/EXCESS TRENDS

- Lead umbrella markets continue to push increases, especially for habitational and auto lines in challenging regions due to the need for higher limits.
- Increased competition for higher layers in excess towers, providing more competitive pricing and access to higher limits of coverage.
- Improved price stability with more competitive offerings from carriers that are feeling better about their underwriting practices.
- Increasing capacity for middle-market organizations.

UMBRELLA/EXCESS OUTLOOK

Despite the volatility of umbrella/excess insurance, competition is steadily increasing. However, this increased competition has yet to reach a level where most organizations can expect flat renewals or rate cuts until 2024.

While more competitive options may be available for certain areas of coverage, leaders should still approach their renewal with caution and be prepared for potential rate increases.

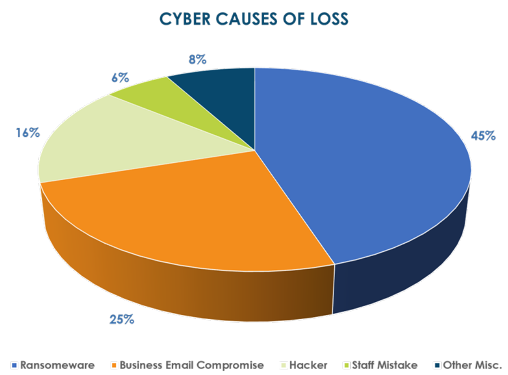
As always, leaders who work with a reliable broker with access to the latest market data and insight on how to best structure their coverage, like Kapnick, will ensure the most affordable and comprehensive coverage for their umbrella/excess insurance needs.

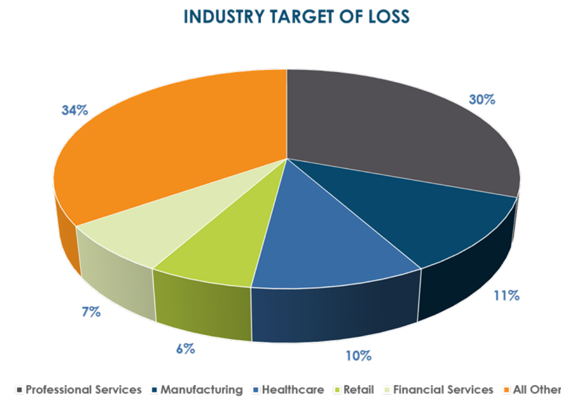
The specialty risk insurance markets have experienced significant fluctuations, yet remain relatively stable. By understanding these trends, leaders can make the best decisions when it comes to their organization's insurance needs.

CYBER TRENDS & OUTLOOK

- Although there is ample capacity ($7.2 billion US market with over 150 carriers participating), pricing is still generally increasing across the board but at a greatly decelerated pace primarily due to improving cyber security control risk profiles and competition among carriers.
- Small and middle-market accounts are still experiencing 5%-15% increases or more, while larger organizations may still see rate increases, up to 7.5% on average for risk-neutral accounts.

FREQUENCY





Source: NetDiligence 2002 Cyber Claims Study (2016-2021)

CRIME TRENDS & OUTLOOK

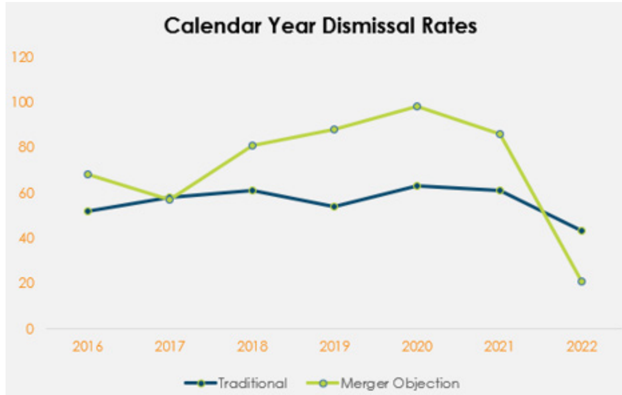
- Premiums in 2023 are trending in the 5-10% increase range and depend mostly on loss history and crime-related exposure changes such as employee count increases or decreases, location count increases, and financial growth.
- Capacity remains stable; no new carrier entrants to the market.
- Carriers may attempt to force retention increases depending on exposure changes.
- Social engineering/Fraudulent Funds Transfer Fraud coverage is readily available however carriers are resistant to provide more than $250k-$500k sublimits on most accounts.
    - Supplemental applications are still required for underwriting with a focus on vendor relationships and internal controls.

PRIVATE D&O TRENDS & OUTLOOK

- The slow but steady increases in U.S. bankruptcies and company liquidations adds significantly to the probability of private-company D&O litigation brought by unsecured creditors. Underwriters have re-doubled their focus on current and projected financial condition because of this.
- Assuming carriers are comfortable with the financial outlook of the organization, they are generally increasing rates based on actual changes in exposure (financial size/condition, employee count, claims). Most renewals are now trending in the flat to +5% increase range assuming a neutral risk profile.

PUBLIC D&O TRENDS & OUTLOOK

- Public Company D&O market conditions continue to improve. While Q4 2022 still saw modest year-over-year increases in premiums, we are now seeing overall reductions on average. Market capacity has also increased – mostly on an excess basis which is where most overall program reductions are being seen. Average year-over-year pricing is now trending down 5% with the vast majority of renewals in the -7.5% to +5% range.
- Claim frequency has dropped however dismissal rates are trending down and calendar year settlement severity is up meaning an increased backlog of higher alleged gross investor losses for 2022 filed claims.



Source: NERA Trends 2022 Full Year Review

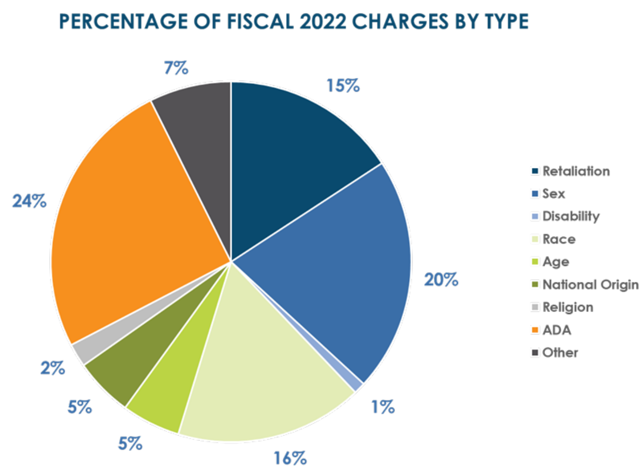
- Additional excess capacity and reduction in IPO/SPAC activity should continue to stabilize market conditions in the short term. However, good primary capacity still remains scarce.
- Insurers will remain strict about minimum retention levels and deployed capacity.

FIDUCIARY TRENDS & OUTLOOK

- Overall market conditions remain relatively stable compared to other specialty lines with primary carriers generally increasing rates modestly. Most renewals are trending in the 0-10% range.
- It is likely that employee benefit plan participants will focus their attention on investment manager fees and expenses more than ever given pull-back in the stock market and rising interest rate environment.
- Funding status may turn negative for defined benefit plans putting stress on those sponsors.
- Distracted and remote HR have led to more administrative errors and omissions.

EPL TRENDS & OUTLOOK

- The employment practices marketplace remains challenging due to the increased inventory of EPL litigation coming out of COVID and enhanced EEOC enforcement. Overall renewal rates for Q2 2023 are trended in the 5-10% increase range for a neutral risk profile.
- Many carriers have set minimum retention levels at $100k or higher regardless of size of company. Others are declining to quote any primary new business currently. Large organizations may expect bifurcated retentions for mass/class actions.



Source: 2023 KSR Market Conditions General Q2

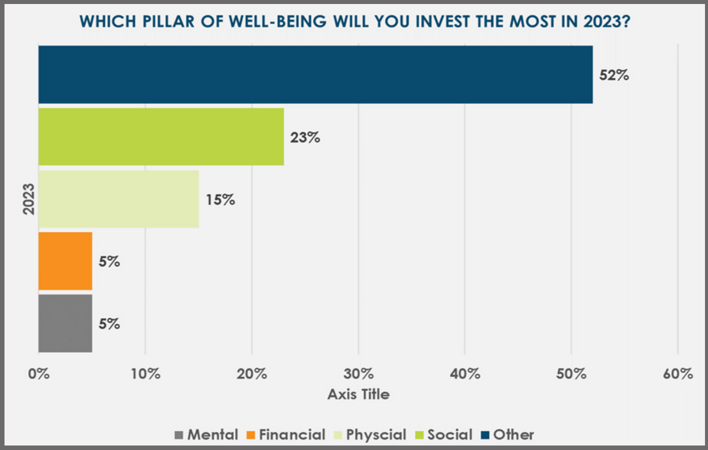
EMPLOYEE BENEFIT TRENDS

- **Increased prevalence of large claims:** Organizations are seeing more and more very large claims from a small group of covered employees and dependents driving overall plan costs. Specialty drugs are a large contributor to these claims.

- **Transition to virtual tools and processes:** Organizations are increasingly relying on digital HR solutions such as cloud-based platforms and app-based technologies for employee benefits administration and communication, such as those offered by Kapnick's TPA services.

- **Holistic well-being programs:** In addition to wellness initiatives such as gym memberships and nutrition counseling services, more organizations are embracing holistic well-being, such as Kapnick Strive, which incorporates mental health supports, financial wellness, social well-being and more to improve the overall health and well-being of their workforce.

  This is illustrated by a March 2023 poll of 288 organizations done during the Assurex Global compliance webinar.



Source: Assurex Investment Employee Well-Being Employee Benefits Market Check Survey March 2023

- **Use of analytics for decision making:** Data-driven analytics can help determine the best employee benefits strategy. By leveraging these insights, organizations can better understand their workforce and make informed decisions.

- **Rise of flexible benefits:** Flexible benefit plans allow employees to customize the selection and mix of benefits according to their individual needs.

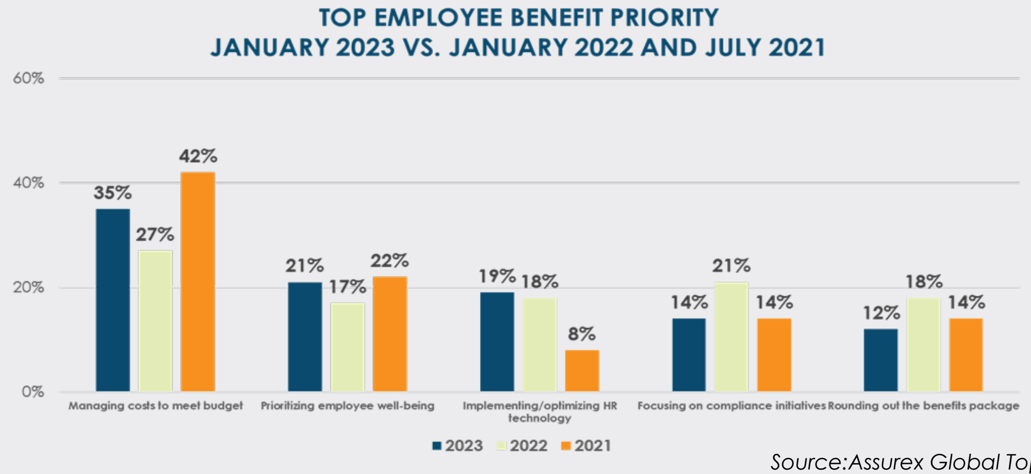
- **Expansion of voluntary benefits:** A wider selection of voluntary benefits such as accident insurance, critical illness insurance, long-term disability insurance, legal services and pet insurance can meet the changing needs of employees.

- **Rise of healthcare consumerism:** Employees are now becoming more empowered in their healthcare decisions, and organizations are offering healthcare services, such as Kapnick Strive's biometric screening or telehealth, and educational opportunities that allow them to make more informed choices, such as those provided in Kapnick's monthly newsletter.

- **Increased focus on mental health:** In light of the nationwide mental health crisis, organizations are providing more support and resources to help employees manage stress and anxiety. This includes access to counseling services, mindfulness activities, and online tools such as meditation apps.

EMPLOYEE BENEFITS OUTLOOK

As the landscape of employee benefits continues to evolve in 2023, organizations are faced with numerous trends that require attention and adaptation and may need to prioritize according to their goals. By being mindful, organizations can remain competitive in the market and create a benefits package that meets the needs of their employees and aligns with their overall business goals.



Source:Assurex Global Top Benefit Priority In 2023 Employee Benefits Market Check Survey January 2023

Kapnick can help organizations navigate the ever-evolving benefits landscape by providing prioritized, tailored solutions that meet their unique needs. Our team of trusted advisors and experts are well-versed in the latest trends and can provide guidance on:

- current regulations
- cost management strategies
- benefit plan designs
- holistic well-being programs
- voluntary benefits
- more

We offer an array of solutions that include:

- plan design consultation
- benefit benchmarking
- administrative services such as COBRA, FSAs, and online enrollment platforms
- enrollment support
- employee education and communication
- compliance support

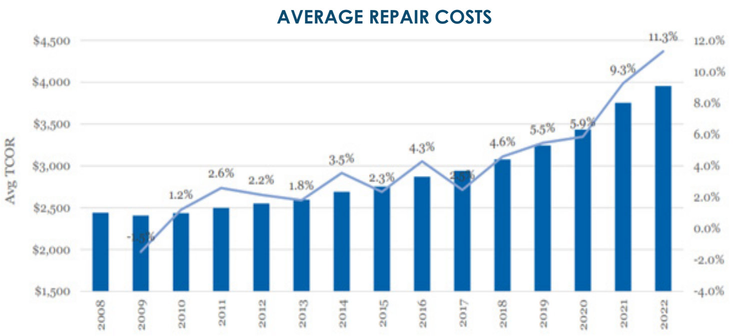
With our comprehensive approach, we take care of the details and help you create a competitive employee benefits program that meets your needs, while you focus on what you do best—growing your organization.

HOMEOWNERS TRENDS & OUTLOOK

- Increases in premiums due to inflation, climate change disasters (such as Michigan's 2023 ice storm), higher material costs, supply chain issues and increased claims for fire and water damage.
- Tighter underwriting guidelines with more inspections.
- Higher demand for home security measures in response to changing conditions and weather events. Additionally, the use of automatic water shut-off devices has been gaining traction due to their ability to detect water flow or leaks and prevent damages.

Overall, the outlook for homeowners insurance in 2023 is one of increased costs and more stringent coverage. However, by taking the necessary steps to properly secure their homes, homeowners can still ensure they are adequately protected.

AUTO TRENDS & OUTLOOK



Source: CCC intelligent solutions Inc updated 18Jul22

- Increased cost and difficulty in renewing policies due to rising inflation and historically inadequate insurance rates.
- In Michigan, the MCCA fee will increase July 1st to $122 for unlimited PIP and $48 for all other options including opt out.
- Programs for discounts are becoming more popular, including:
  - Good student discounts
  - Phone apps that monitor driving behaviors for possible discounts
  - Online driving courses for young drivers, who receive a discount after passing the course

Rising inflation and inadequate rates could continue to cause difficulties for renewing policies, while consumers may become more price-sensitive and shop around even more for car insurance. While there are still uncertainties, it's likely that the industry will continue to evolve in order to meet the changing needs and demands of consumers.

INDIVIDUAL LIFE TRENDS & OUTLOOK

- Rising premiums (which may necessitate whole life policies).
- Increase in the number of people without life insurance or with inadequate coverage.
- Misaligned cost expectations and qualification among black Americans and women creating need for an advocate who is passionate about serving the needs of all customers, particularly those from underserved communities.

Ultimately, the outlook for personal life insurance in 2023 offers both challenges and opportunities that can be successfully managed by taking proactive steps to ensure adequate protection.

Navigating this challenging environment requires working closely with an experienced agent, understanding why you need life insurance, your goals and your budget.

EMPLOYEE BENEFITS

ANGELA DEAN
PRESIDENT, PARTNER

PROPERTY & CASUALTY

DON ENGLE
PRESIDENT, PARTNER

BENEFIT ADMINISTRATION & COMPLIANCE

JODIE SHERWOOD
SENIOR VICE PRESIDENT

WORKSITE WELL-BEING

SARA ARMSTRONG
SENIOR VICE PRESIDENT

RISK SOLUTIONS

AMY DEKEYSER
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DOUG MILLER
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