

A.M. BEST RATING

A.M. Best's Financial Strength Rating (FSR) is the most widely recognized authority on the evaluation and rating of insurance companies based in part, upon their financial strength and policyholder surplus.

As a professional broker, it has long been our established policy to make every effort to deal only with companies having a Best's Rating of A++, A+, A or A-, Which are the four highest ratings available and a minimum of \$50 million in policyholder's surplus. It must be noted that neither Atlantic Pacific Insurance nor any affiliated Company guarantees the financial solvency of any insurance carrier. The following outlines A.M. Best's Company Rating scale and association descriptions.

A.M. BEST'S FINANCIAL STRENGTH RATINGS

SECURE

- A++, A+ = Superior
- A, A- = Excellent
- B++, B+= Good

Vulnerable

- B, B-= Fair
- C++, C+= Marginal
- C, C-=Weak
- D= Poor
- F= Liquidation

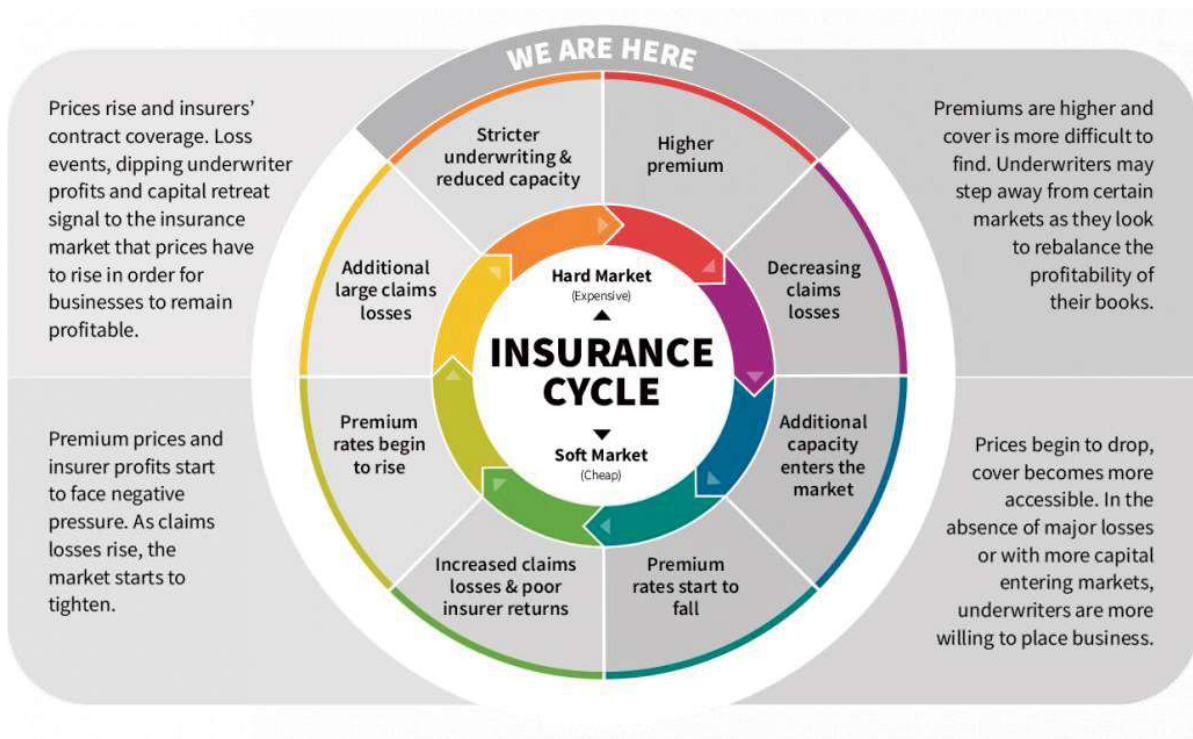


A COMPLEX MARKET

During the past 5 years, the insurance market has crept into one of the hardest markets since the 1980s.

Soft Market: aka Buyers' Market: stable or lowering premiums, broader terms of coverage, increased capacity, and competition among insurance carriers for new business.

Hard Market: Increased premiums, strict UW guidelines, restrictive terms, conditions, capacity issues and carriers pulling out of certain areas and risk.



ANTICIPATED MARKET INCREASES

PRODUCT LINE	YEAR-END 2023 (YOY)	FORECAST 2024 (FIRST HALF)
PROPERTY		
Non-CAT Property w/ Minimal Loss History and Good Risk Quality	Up 5% to 15%	Up 5% to 15%
CAT Property w/ Minimal Loss History and Good Risk Quality	Up 25% to 150%	Up 15% to 30%+
CAT or Non-CAT Property w/ Poor Loss History or Poor Risk Quality	Up 25% to 150%	Up 15% to 30%+
CASUALTY		
Primary General/Product Liability	Up 10% to 15%	Up 5% to 10%
Primary Auto Liability w/ Fleet Less Than 200 & Good Loss History	Flat to up 5% ^{*^}	Flat to up 5% ^{*^}
Primary Auto Liability w/ Fleet Less Than 200 & Poor Loss History	Up 20% to 30% + [^]	Up 20% to 30% + [^]
Primary Auto Liability w/ Fleets in Excess of 200	Flat to up 5% ^{*^}	Flat to up 5% ^{*^}
Excess Auto Buffers	Up 40%+	Up 40%+
Workers' Compensation Guaranteed Cost	Down 10% to up 10% ^{**}	Down 10% to up 5% ^{**}
Workers' Compensation Loss Sensitive	Flat to up 5% ^{**}	Down 5% to flat ^{**}
Umbrella & Excess Liability (Middle Market)	Up 5% to 20% ^{***}	Flat to up 15% ^{***}
Umbrella & Excess Liability (Risk Management)	Up 10% to 25%+ ^{***}	Up 5% to 20%+ ^{***}
INTERNATIONAL		
International Liability	Up 10% to 20%	Up 0% to 5%
International Property, CAT Exposure	Up 20% to 30%	Up 20% to 30%
International Property, Non-CAT Exposure	Up to 20%	Up 2% to 5%

“CAT” Catastrophic Event / modeling

CAT BOND Catastrophe Bond- high yield debt instrument that is designed to raise money for companies in the insurance industry in the event of a natural disaster. CAT BOND allows companies to utilize those funds under certain circumstances (natural disaster, large hurricane, etc.)



ANTICIPATED MARKET INCREASES

PRODUCT LINE	YEAR-END 2023 (YOY)	FORECAST 2024 (FIRST HALF)
ENVIRONMENTAL		
Environmental Combined General Liability/ Pollution	Up 5% to 15%	Down 5% to up 5%
Excess Combined General Liability/Pollution	Up 7.5% to 15%	Up 5% to 15%+****
Environmental Contractors' Pollution	10% reduction to inflationary increase	>10% reduction to flat
Environmental Pollution Legal Liability	Flat to 5% increase	>10% reduction to 5%
Aviation		
Aviation	Down 5% to up 10%***	Down 5% to up 15%***
EXECUTIVE & PROFESSIONAL RISK SOLUTIONS (EPS)		
Public Company Directors & Officers Liability — Overall	Flat to down 20%	Flat to down 10%
Private Company and Not-for-Profit (NFP) Directors & Officers Liability — Overall	Down 7.5% to up 5%	Down 5% to up 5%
Employment Practices Liability (EPL)	Down 5% to up 10%	Flat to up 10%
Fiduciary	Flat to up 25%	Flat to up 15%
Crime	Down 5% to up 5%	Down 5% to up 5%
Kidnap & Ransom	Down 5% to up 5%	Flat to up 15%
Professional Liability/Errors & Omissions (E&O)	Up 5% to up 25%	Up 5% to up 20%
Representations & Warranties	Down 10% to 20%	Down 5% to up 5%
Cyber (Network Security & Privacy)	Flat to up 15%	Flat to up 15%
Technology Errors & Omissions	Flat to up 20%	Flat to up 20%



PROPERTY DEVELOPMENT SINCE 2023

- 2023 showed one of the most challenging markets in over 2 decades
- Record total \$25B in weather and climate events occurred in the US in 2023 beating the previous 5-year average of \$18B
- Lawsuits, fraudulent roofs, large settlements
- Rising cost of construction (materials, labor, services) = higher claims
- Florida cost 3x the national average
- Florida represents 9% of the insurance market and accounts for 80%+ of the insurance claims
- Results:
 - Steep rate increases
 - Reduced capacity
 - Valuation adjustments (RCE)
 - Insolvent insurers
 - Tightening of terms, conditions, limitations and exclusions
 - Larger deductibles
 - Reinsurance cost
 - Lenders and other third-party requirement strains vs premium spending



CASUALTY DEVELOPMENT SINCE 2023

GENERAL LIABILITY

- Rates were less volatile for the year end of 2023, mainly for general and product liability
- Not seeing much aggressive competition between carriers on the GL and umbrella liability
- Assault and battery limitations and exclusions
- Defense cost within limits vs outside limits

UMBRELLA & EXCESS LIABILITY

- VERY strict underwriting
- Capacity issues
- Layering causing higher cost
- More umbrellas utilized in the past 5 years vs the past
- Rate increases steady throughout the end of 2023

WORKERS COMPENSATION

- Continuing to perform very well, with another year of decreased rates
- COVID has caused incomplete loss data, leading to concerns over actual losses, rate decreases and profitability
- Fewer workplace injuries than in the past
- Claims handling

AUTO LIABILITY

- Unexpected withdraw of several insurance carriers
- Carriers are being approved for another rate increase
- Lawsuit settlements have skyrocketed
- Telematics becoming a requirement vs opportunity for discount

CYBER

- Cyber threats continue to increase with the rapid growing AI and other technologies
- Ransomware and business email compromises threats increased more in 18 months than in the past decade
- Multifactor authentication and network security are a must to have in place for coverage

EXECUTIVE RISK: DIRECTORS & OFFICERS, EPL, PROFESSIONAL & FIDUCIARY

- Defense and social cost continue to rise
- New carriers entering this space is helping keep competition high and premiums lower



FUTURE TRENDS TO WATCH

PROPERTY

- Despite insurers repositioning capacity and adhering to more restrictive underwriting terms, CAT losses are continuing to increase at 5%-7%
- Minimal inflow of new capital into reinsurance market
- Concerns continue inflation pressures and uncertainty, leading to predictions of higher costing claims
- Evidence is appearing to show a softening market leading into end of 2024 and 2025
- Anticipate another rate increase, but nowhere near 2022-2024
- Poor loss history showing 30% vs 150% in the past 24 months
- Good loss history showing 15% vs 25%+ in past 24 months
- Increased technology and artificial intelligence in underwriting decisions, making it more efficient
 - Allows insurers to utilize machine learning to identify building details such as construction type, roof covering options, sqft, exposure to wind paths, flooding, crime, etc.
- **Habitational real estate continuing to be difficult for:**
 - Older constructed buildings (built prior to 1995)
 - Less than 10 miles from the water
 - Frame construction
 - Flat roofs

CASUALTY

- Carriers looking to package GL + umbrella together, saves on average 25% on premiums vs standalone
- Poor performing sectors such as habitational real estate, pharma and hospitality are still expecting a 10% average rate increase
- Auto liability is still forecasting large increases upwards of 40%, especially for those with large fleets or poor loss history
- For GL + umbrella we will see 5% to flat renewals, with favorable loss history
- Placement in the E&S / Non admitted market will continue to grow
- Limitations, exclusions and sublimit increasing



WHAT CAN YOU DO

- Review and understand limits, terms and conditions
- Begin early preparations for renewals (120 days)
- Create high quality submissions
- Shop markets and put the carriers to compete for your business
- Analyze the cost benefits on changes to your policy
 - Higher deductibles
 - Risk controls
 - CAT Preparedness plan
 - Subcontractor agreements with wavier of subrogation, primary noncontributory and additional insured status in your favor for their work
 - Protection
 - Building updates
 - Replacement cost
- Claims management
- General Liability - move primary to 2/4/4 limits, which will decrease umbrella premiums
- Packages available with same carriers
- Cyber security in place
- Establishing and maintaining sound board and committee reporting protocols
- Specialty property programs for risk on water, older construction

