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Markets in Focus

Economic Overview & Market Update

Q2 2024

INTRODUCTION

The healthcare sector emerged from the pandemic transformed and on a path that will not be reversed: healthcare delivery changes affected almost all aspects of the industry. Technology innovation with greater reliance on artificial intelligence and a shifting environment of care, such as more outpatient services, home health and telehealth. Healthcare staffing and provider burnout are also continuing concerns.

State regulations are also dictating changes in healthcare delivery. While major, transformational initiatives like “Medicare for All” or other single payer models are unlikely to be adopted given current congressional stalemates, regulatory initiatives at the margins, will continue to drive change. For example, 2023 revisions to Medicare Advantage program coverage requirements will expand mandatory care in certain scenarios, creating a closer alignment between these plans and traditional Medicare plans.¹

Medicaid coverage, representing \$1 out of every \$6 spent on healthcare in the U.S., is an exception to the general extension of pandemic-era policies and trends.² Medicaid enrollment is expected

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to decline in 2024 as the continuous enrollment requirement adopted during the pandemic unwinds. Narrow expansions of coverage by some states will not be enough to offset this.³ This will likely increase demand for uncompensated care at public hospitals and clinics.

Finally, given that adverse health conditions are correlated with declining personal economic status,⁴ if the economic recovery does not reach persons at all levels of income, the effects of the diminishing safety net within Medicaid will be more pronounced.



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PHYSICIANS & STAFFING

Following a short strike in 2023 by tens of thousands of Kaiser Permanente workers in five states and the District of Columbia that included nurses but not physicians, these employees agreed to a 21% wage increase over five years.⁵

According to one analysis, by 2031 there will be a shortage of 135,000 physicians, with the largest gaps in areas such as family medicine, general internal medicine, hospital medicine, nephrology, ophthalmology, plastic surgery, thoracic surgery, and vascular surgery.⁶

A pre-pandemic study found that more than half of primary care physicians reported feeling time pressures as they visited with patients. Almost one-third felt they needed 50% more time with patients than they were allotted; nearly 25% felt they needed 50% more time for follow-up appointments.⁷ The proliferation of telemedicine will not necessarily improve this situation and could exacerbate physician burnout.

Hospitals and clinics will need to monitor this closely and attempt to offer a less stressful environment. They may consider compensation arrangements that are not based on patient numbers as well as providing greater support from medical assistants for time-consuming tasks like entering data and tracking forms.⁸

Meanwhile, the median age of Americans is creeping up and approaching 40.⁹ And whereas 70 years ago only 8% of the U.S. population was over 65, the percentage has more than doubled to 17% in 2022 and it is expected to reach 22% in 25 years.¹⁰ Healthcare institutions will need to counter this staffing shortage with innovative solutions, such as those related to flexible scheduling and making greater use of part-time staff members.

According to one analysis, by 2031 there will be a shortage of 135,000 physicians.



WHAT THIS MEANS FOR YOU

- + Consider the consequential effects of burn out. Burn out can lead to a variety of effects such as early retirement, poor patient care, medical errors, and malpractice.
- + Understanding the needs of healthcare professionals before burn out arises.
- + Recruitment and retention of physicians will be a long-term focus.
- + Potential increased risk of harm to patients as new clinicians transition from educational programs to real life clinical practice.
- + It's important to prioritize risk management, quality assurance, and keep strong documentation practices to reduce the impacts of malpractice claims.
- + The labor shortage puts pressure on healthcare institutions in other ways, as well, as they are forced to pay more for relatively scarce labor and rely more on expensive contract labor. Healthcare workers are emboldened to demand wage increases. Insurance premiums may rise as a result.



SENIOR HOUSING & CARE

With the first Boomers turning 80 in 2026, the long-awaited silver wave is reaching the age where many will be more open to considering Independent Living or need the services afforded by Assisted Living, Memory Care and Skilled Nursing. By 2034, the U.S. will have more adults over 65 than children.¹¹

Given the long lead time to bring a new property to market, historically low new construction rates due to challenges obtaining construction debt indicate new supply will likely not be able to keep pace with demand in the next four to five years.

All things equal, this would allow existing operators to grow occupancy, but staffing challenges may dampen growth.

As the average age of the U.S. increases, the ratio of care givers to those needing care will continue to decrease putting additional long-term pressure on recruiting, retaining, and training staff to care for residents.¹²

By 2034, the U.S. will have more adults over 65 than children.

WHAT THIS MEANS FOR YOU

- + Property insurance has seen significant increases with losses in recent years due to higher-than-average claims from natural disasters resulting in higher than expected losses not just for the primary insurers, but for their reinsurers. The result has been an increase in rates which in turn get passed on to those insured.
- + Expect additional capacity leading to a softening of the GL/PL market, but indicators like high staff turnover may result in higher than average rates.
- + Challenges in staffing and high turnover can result in employees who are not fully versed in the policies and procedures within a given organization. Failing to follow procedures or poorly documenting action taken to mitigate risk is a significant contributing factor in claims pursued by plaintiff attorneys.
- + The anticipated avalanche of COVID-related claims has not yet materialized, though many are still working their way through the system. As a result, general liability margins are more attractive to insurers, bringing back players who moved out of the market in 2020/2021 and attracting new entrants. This new capacity in the senior housing general liability space is mitigating sharp pricing increases.

ARTIFICIAL INTELLIGENCE IN HEALTHCARE

There is tremendous room for more institutions to enhance healthcare quality and efficiency by utilizing artificial intelligence (AI) within both their administrative and clinical functions. In a survey of healthcare professionals in late 2023, less than 40% could definitively state that their organization utilized AI for tasks related to patient care, patient monitoring, imaging diagnostics, or even business operations. AI utilization was highest in hospital settings (55%) compared to outpatient facilities (25%).¹³ A McKinsey & Company report suggests that greater utilization of generative AI (i.e., “trained AI” that has learned from vast quantities of data) can “unlock a piece of the unrealized \$1 trillion of improvement present” in the healthcare industry.¹⁴

From a patient’s perspective, the enhancements could include personalized insurance coverage guidance, claims management, and out-of-pocket cost estimates. For providers, generative AI can support clinical and administrative functions related to, for example, the maintenance of patient records and the generation of patient forms and post-visit directives.

The adoption of AI is not without risks, however, and healthcare institutions will need to understand the weaknesses in the technology in order to incorporate human oversight steps at the right points in the various processes. Apart from misdiagnoses or missed diagnoses in clinical applications, there is the very real risk of exposing patient identifiable data or perpetuating bad data received from other providers. For all these reasons, AI should be pursued in the context of an appropriate legal and risk management strategy.

WHAT THIS MEANS FOR YOU

- + Successful implementation of AI may increase workflow challenges, diagnostics, and treatment. However, there may also be concerns about data reliability and negative impacts on misdiagnosis, privacy issues, and overall patient safety.
- + Ambiguity around which insurance policies provide coverage for the liability associated with the use of artificial intelligence.





HOSPITALS

Hospital and health services consolidation is a growing concern for private payers and government payers. Two trends, specifically, are receiving attention.

HOSPITAL CONSOLIDATION

Hospital and health system mergers and acquisitions (M&A) are heating up again following a lull during the pandemic. A recent survey found that 86% of health system executives felt that M&A would have an impact on their 2024 strategies.¹⁷ Policymakers have their eyes on this trend as well, concerned that horizontal mergers could drive hospital spending even higher, when this segment already is the largest component of healthcare spending.¹⁶

VERTICAL INTEGRATION

Hospitals are also strategically purchasing physician practices and smaller rural hospitals. Policymakers again are concerned about the resulting impact on costs borne by health care consumers and payers, since services that previously took place in physician offices could be shifted to the hospital outpatient department, a more costly option that receives a higher Medicare reimbursement rate. Further, these observers believe that as hospitals acquire these practices, they will gain excessive market share in their region as the doctors in those practices will be inclined to refer exclusively to their partnering hospitals.¹⁷

Regardless of political control in the short term, hospital consolidation and physician practice integration are expected to be hot button items for legislative debate and regulatory action.

WHAT THIS MEANS FOR YOU

- + Hospital consolidation is expected to continue as healthcare facilities experience financial pressures.
- + Sexual misconduct claims against hospital-employed physicians and large jury verdicts will affect insurance pricing due to increased underwriting scrutiny.¹⁸

Healthcare delivery models in the U.S. continue to evolve due primarily to tremendous advances in technology, but also thanks to an evolution in business models, partnerships, aging populations, and government policies. Healthcare institutions must continually adapt to those changes and take advantage of the opportunities they offer. However, new types and increased levels of risk accompany those changes, so at the same time, the institutions must explore and adopt the best risk management practices and risk transfer strategies.

GUIDANCE

WITH UPCOMING INSURANCE RENEWALS



BEGIN THE RENEWAL PROCESS EARLY

Partner with your broker early to prepare for any changes to increase greater renewal success. Maintain comprehensive insurance and review policies regularly.



PARTNER WITH INDUSTRY EXPERTS

It is important to work with your broker's industry experts who understand the business and the market when placing the specific risk. Collaborating with a team that can best represent your risk and partner with your operations is more critical than ever in this disciplined market.



HIGHLIGHT CYBER SECURITY & PROACTIVE RISK MANAGEMENT

IMA has a team solely dedicated to managing cyber risks. They offer expert assistance, including coverage analysis, financial loss exposure benchmarking, contract language review, in-depth cyber threat analysis, and strategic development of comprehensive, high-value cyber insurance programs.



CONTRACT REVIEW

Our contract review team adds value to our clients' overall risk management program by ensuring the indemnity language is market standard and doesn't expose our clients to unforeseen losses that may not be insurable.



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