Q1 2025

Markets in Focus

HEALTHCARE

Economic Overview & Market Update

INTRODUCTION

Since the pandemic, health systems worldwide have faced tight budgets, ongoing workforce shortages, and clinician burnout all while adapting to new technologies. For 2025, about one-third of healthcare executives identified technology investments as a main priority, according to a survey conducted by Deloitte, driven by increasing consumer adoption of digital health tools—rising from 34% in 2022 to 43% in 2024.[1]

Deloitte's 2025 U.S. Health Care Outlook reports that nearly 60% of industry leaders have a positive outlook for the year ahead, up from 52% in the previous year. This optimism is driven by expectations of increased revenue and improved profitability in 2025.[2]

Healthcare mergers and acquisitions (M&A) activity surged in late 2024 as some organizations exited certain markets while others pursued expansion. EY projects that healthcare spending growth will outpace GDP growth in 2025 and beyond, projected to grow by nearly 8%.[3] While 65% of healthcare executives prioritize growth strategies to boost revenue in 2025, cost reduction ranks low among their concerns, with a stronger focus on organic growth through acquiring new consumers. However, increasing profitability while controlling care costs amid economic uncertainty could be challenging.[4]

Even though U.S. healthcare leaders hold a more positive outlook for 2025, stresses on healthcare systems continue to be unprecedented. As the U.S. population ages, demand for medical services will grow much faster than the supply of practitioners, leading to an estimated physician shortage of between 54,100 and 139,000 physicians by 2033.[5]

The Trump administration and the 119th Congress will likely have several regulatory and policy priorities that could significantly affect the healthcare industry, including Medicaid.[6] According to the Kaiser Family Foundation, the most significant changes to Medicaid in 2025 could include federal funding cuts and financing reforms, including a per capita cap on federal Medicaid spending, reducing the federal government's share of costs for the ACA expansion group, imposing Medicaid work requirements, reducing the minimum federal matching rate for Medicaid expenditures, and more measures totaling $2.3 trillion in Medicaid cuts.[7]

Estimates by McKinsey & Company state that Medicaid enrollment declined by nearly 6.5 million in 2023 and could fall further by 2.5 million to 3 million over 2024 and 2025 due to federal legislation allowing states to begin eligibility redeterminations that were paused during the pandemic.[8]

PHYSICIANS

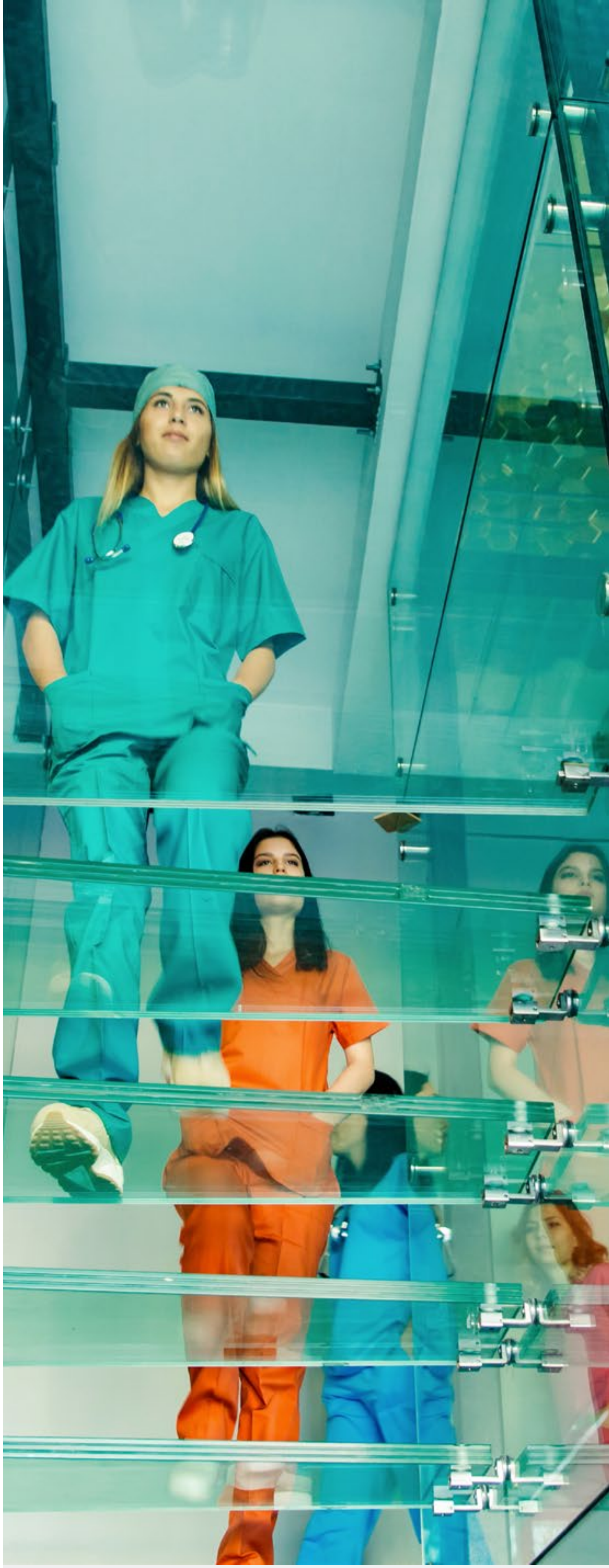
In 2025, physician practices will face rising operational costs and added financial strain due to declining Medicare reimbursements. The Centers for Medicare & Medicaid Services (CMS) have finalized a 2.83% reduction in the 2025 Physician Fee Schedule conversion factor, lowering it from $33.29 to $32.35.[9]

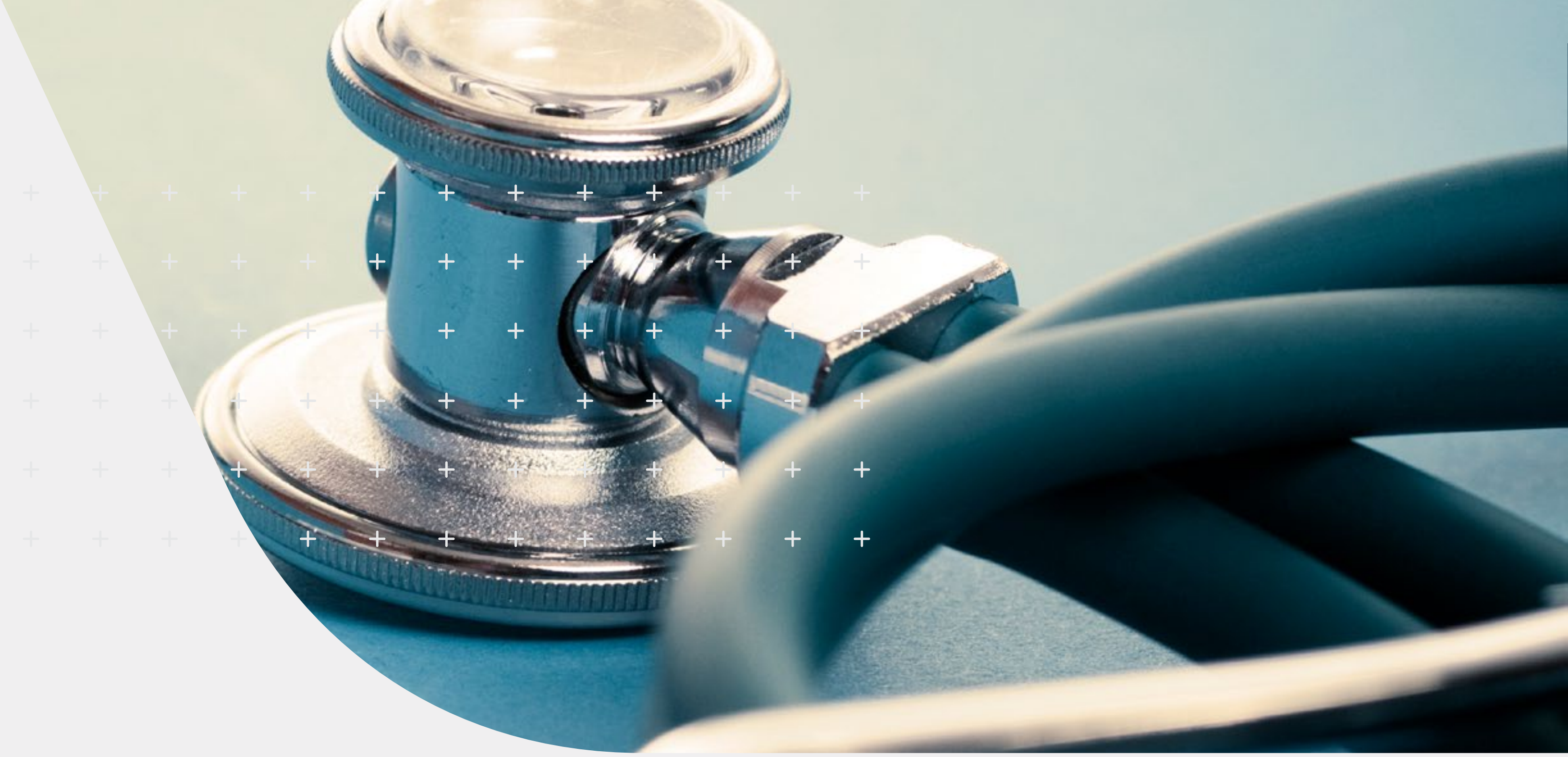
Physician medical practices will also face expensive staff recruiting and retaining, higher costs for medical supplies and equipment, and rising overhead expenses for rent and utilities.[10]

Amid a persistent shortage of physicians, particularly in primary care and rural areas, physician employment is expected to grow by an average of 4% through 2033, creating approximately 23,600 job openings. This employment growth is fueled by an aging population, rising chronic illness rates, and increasing demand for mental health services.[11] However, despite the projected employment growth, it will not be sufficient to close the anticipated shortfall of physicians by 2033, ranging from 54,100 to 139,000 physicians. ChenMed reports that by 2030, 34 out of 50 states will face severe physician shortages, primarily located in the South and West.[12] According to McKinsey & Company, nearly 20% of clinical physicians are aged 65 years or older, making organizations vulnerable to losing a significant number of physicians to retirement.[13]

Physicians continue to face heavy administrative burdens including complex billing processes, compliance documentation, and electronic health record management. These responsibilities contribute to burnout and can impact patient outcomes.[14]

The shift toward value-based care models among physicians continues to grow. A report by Humana found that over the past decade, 2.3 million more patients have received care under these value-based arrangements. The report also highlighted that those patients treated by value-based care physicians experienced significantly lower acute care usage and fewer potentially avoidable events.[15]





WHAT THIS MEANS FOR YOU

- To offset declining Medicare reimbursements, physicians should consider implementing cost-saving strategies or diversifying revenue sources.[16] According to KSM, "revenue cycle management should maintain at least 95% efficiency to ensure revenue stability, focusing on denial management and payer compliance with contract terms."[17]
- Leveraging technologies like AI to streamline administrative tasks can help alleviate burnout and enhance patient care.
- Contracted physician groups working within health systems are an increasing trend.[18] Indemnity agreements can become challenging because of these trends from the health system's perspective.
- The April 2024 Supreme Court medical malpractice case *Essex v. Grant County Pub. Hosp. Dist. No. 1* in Washington addressed the extent of hospital liability for the actions of a group of independent contractors working in the hospital's emergency room that were separately insured. The central legal question was whether the hospital could be held vicariously liable for the negligence of these independent contractors. In this ruling, the court expanded hospital liability by acknowledging that hospitals have inherent responsibilities to ensure patient safety and care quality, regardless of the employment status of the caregivers. The decision ultimately emphasizes that hospitals may be held responsible for the actions of independent contractors performing essential medical functions within their facilities.

ARTIFICIAL INTELLIGENCE IN HEALTHCARE

The adoption of AI technologies will continue to be top-of-mind for the healthcare industry in 2025 and beyond. Healthcare organizations are expected to invest more in AI to work towards automating key administrative processes.[19] By 2025, AI is expected to reduce healthcare costs by $13 billion.[20]

By YE 2025, AI-powered technology is expected to be used in 90% of hospitals for early diagnosis and remote patient monitoring.[21] A Royal Philips report found that 43% of health leaders already leverage AI for clinical decision support in in-hospital monitoring, with further investments planned over the next three years.[22]

Leveraging AI and automation to streamline key processes such as claims processing, customer service, and payment can enhance operational efficiency. The resulting cost savings can be reinvested in digital upgrades, workforce training, and patient experience improvements.[23] The AI nursing assistant market alone is forecast to reduce 20% of nurses' maintenance tasks, saving $20 billion annually.[24]

Nevertheless, 59% of health leaders report financial challenges as a key reason they cannot invest in new or more advanced medical equipment or technologies.[25]

WHAT THIS MEANS FOR YOU

+ Increasing malpractice claims with the increased usage of AI is a major concern.
+ The increasing utilization of AI technologies raises important questions regarding liability and appropriate insurance coverages. These coverages could range from professional liability, product liability, technology errors and omissions, and cyber liability. Carriers are being closed off regarding questions of where these claims would apply, as they continue to have discussions over its ambiguity.
+ Healthcare organizations should establish well-defined governance structures and high-quality, unbiased data incorporating diversity and the social determinants of health, to help ensure ethical considerations in AI deployment. Stringent data quality standards should be maintained.[26]
+ AI model performance may decline if applied to a patient population that differs from its training data, resulting in inaccurate or inappropriate responses. It is crucial to ensure that the target population aligns closely with the characteristics of the data used for training the model.[27]
+ According to Deloitte's 2024 U.S. Health Care Consumer Survey, 30% of consumers do not trust the information provided by generative AI, and 80% want to be informed when their doctor uses the technology to make decisions. Enhancing consumer trust with the use of generative AI in their care will be crucial.[28]
+ The regulatory landscape of AI in healthcare is expected to expand, and healthcare organizations must also ensure compliance with current regulations that could apply to AI, such as the Office of the National Coordinator for Health Information Technology's HTI-1 Final Rule.[29]
+ AI in underwriting, while also increasing in usage, should still be used with human oversight.

HOSPITALS

Hospital financial and operating performances are going into 2025 largely stabilized. According to a report by Kaufman Hall, operating margins, outpatient revenue, and average length of stay have improved from 2023.[30] According to a report by AMWINS, the median YTD operating margin was 5% in May 2024 compared to just 0.7% the year before.[31]

M&As are expected to increase in 2025 between hospitals, primarily among financially distressed hospitals and stable organizations seeking resources for future growth, including small, rural hospitals and urban/suburban organizations.[32]

The American Hospital Association predicts a 3% increase in inpatient utilization over the next decade, reaching 31 million annual discharges. This rise in inpatient utilization is expected to drive up overall care costs. CMS projects a significant increase in U.S. national health care expenditure (NHE), with individual medical costs reaching a “13-year high” in 2025. NHE is anticipated to grow by 70% to $7.7 trillion by 2032.[33]

This rise in overall care costs is driven by inflationary pressures, increased utilization across service lines such as inpatient rehab and behavioral health, the growing prevalence of chronic diseases, and increased spending on prescription drugs.[34]

Hospitals are expected to seek reimbursement increases during insurance contract renewals over the next three to four years to offset recent cost inflation. In addition, hospitals will focus on enhancing labor productivity and adopting technological innovations, aiming to boost earnings before interest, taxes, depreciation, and amortization (EBITDA) margins from 7.8% in 2024 to 8.6% by 2028.[35]

WHAT THIS MEANS FOR YOU

+ Cyberattacks targeting healthcare organizations' sensitive patient data are increasing, with 92% of healthcare organizations reporting having experienced a cyberattack in 2024 compared to 88% in 2023.[36]

+ Increased litigation alleging delayed or missed diagnoses is expected to persist in 2025 as an ongoing result of deferred care from the pandemic.

+ Increased market competition, particularly on larger accounts, is stabilizing premiums and starting to drive them down, with excess liability being the exception (umbrella increases of 30% or more are expected in 2025).[37]

+ As more carriers without specialized healthcare forms enter the market, healthcare organizations should be cautious about lower premiums as they may signal reduced coverage, exclusions, or a less established carrier with financial risk.[38]

+ Hospital workforce challenges, such as talent shortages and retention issues, are expected to persist in 2025.[39] Understaffing can exacerbate employee burnout issues, potentially leading to higher workers' compensation and/or medical malpractice claims.

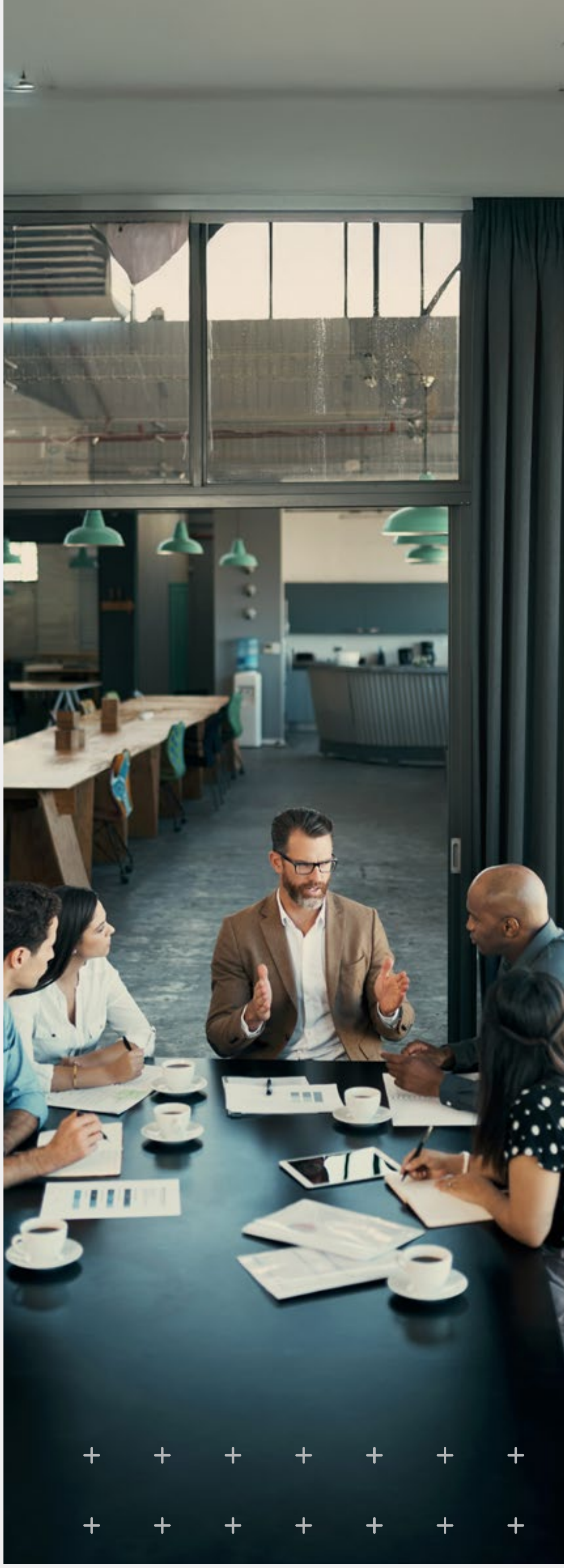
+ The shooting of United Healthcare CEO Brian Thompson has prompted questions and concerns about risk management related to healthcare executive security. Potential coverages that could apply include active shooter and workplace violence, but it remains ambiguous.

IN SUMMARY

The healthcare industry is undergoing significant transformation in 2025, driven by financial pressures, impending regulatory changes, and technological advancements. AI adoption in healthcare is accelerating, with hospitals leveraging AI for early diagnosis, patient monitoring, and operational efficiency. However, regulatory scrutiny of AI is expected to intensify, requiring compliance with evolving guidelines. Questions surrounding liability, coverage applicability, and ethical deployment of AI remain primarily unresolved, necessitating clear governance structures and adherence to stringent data quality standards.

Physicians face mounting challenges, including declining Medicare reimbursements, administrative burdens, and workforce shortages, further prompting a shift toward value-based care and technological solutions to streamline administrative tasks. Mergers and acquisitions among hospitals are also expected to rise. Cybersecurity threats for hospitals remain a critical concern, with a rising number of cyberattacks targeting sensitive patient data. At the same time, nuclear verdicts in malpractice cases are driving up insurance premiums, leading insurers to tighten their underwriting standards. Additionally, underwriters remain focused on managing exposure to sexual abuse allegations through policy provisions such as coinsurance and RDI clauses. Meanwhile, medical malpractice insurance premiums are projected to rise due to increasingly common nuclear verdicts.

GUIDANCE



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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