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Manufacturing

Overview

In 2022, the manufacturing industry demonstrated strength and reaped the rewards of capitalizing on the momentum it gained from increased production demands stemming from COVID-19 in spite of facing continued challenges with talent retention and supply chain instability. However, prospects in 2023 look a little more mixed for manufacturing companies. Though there are areas of opportunity for the industry, significant headwinds may temper hopes of continued prosperity in 2023.

Labor shortages and a skills gap continue to pose a threat to the industry, with job openings in the United States reaching a high of 905,000 in 2022.¹¹³ Though this number decreased to 693,000 a year later, it is still quite significant. Manufacturing companies must find ways to curtail labor shortages by investing in talent retention and acquisition. And labor challenges also perpetuate supply chain issues. Though supply chains today show some signs of stabilizing, many manufacturing businesses still find it difficult to secure the raw materials, equipment, and supplies that they need to fulfill orders.

The manufacturing industry has managed to triage the impact of labor shortages and supply chain instability, but a tough economic outlook threatens revenues and profit margins. For one, inflation drives up operational costs and the price of raw materials. It also dampens consumer demand and spending, which results in decreased sales.

Some manufacturing companies have begun to see slowdowns in production because of diminished consumer activity. In April 2023, the Institute for Supply Management¹¹⁴ shared that all subcomponents of its manufacturing PMI were below the 50 threshold for the first time since 2009, a finding that fans the flames of concern over a looming recession.

In spite of headwinds, there are areas of opportunity that can help the manufacturing industry weather the wave of economic uncertainty. As an example, the CHIPS and Science Act provides considerable incentives for domestic manufacturers of semiconductors and electronic chips.

Under this legislation, the U.S. Department of Commerce will oversee \$50 billion in investments¹¹⁵ to expand domestic manufacturing of semiconductors, in addition to \$24 billion worth of tax credits for chip production.

The Inflation Reduction Act (IRA) of 2022 also contains incentives for manufacturers, with about \$47.7 billion¹¹⁶ earmarked for manufacturing operations that support the legislation's goal of reducing the United States' carbon emissions. The IRA also provides tax investments for public and private entities that invest in manufacturing companies that support clean energy and decarbonization goals, though they have to meet specific criteria.

Manufacturers also have an opportunity to leverage technological advancements to drive continued modernization and adaptability. Digital investments can empower manufacturing companies to pivot faster, improve operational efficiency, and contain costs. Automation and digital tools can help address challenges brought on by labor shortages and supply chains. However, when adopting any new technology, manufacturing companies need to be aware of the risks, as malicious actors are always seeking an opportunity to strike.

The manufacturing industry has made significant strides the past years to be able to face the challenges of a world that has been upended by global events. And once again, the industry is feeling the pressure of volatile events. We remain optimistic that organizations will be able to overcome a challenging economic environment by continuing to evolve, just as they have proven to do so when faced with the unknown.

As the manufacturing industry meets the tall order of adapting to wide ranging global disruptors, working with an experienced broker can help organizations address the challenges they face and obtain the appropriate insurance solutions for their business operations.

Benefits Considerations

Addressing worker turnover, labor shortages, and a growing skills gap in the manufacturing industry is a complex issue with no simple solution. Fortunately, there are steps companies can take to attract talent and reduce attrition. Manufacturers should consider pivoting recruitment efforts to attract a diverse, multifaceted workforce. Companies also have an opportunity to partner with high schools, local colleges, and trade schools to attract new workers.

When it comes to benefits, workers today want more, and in a tight labor market, employers have to deliver. Company culture, traditional benefits and fringe benefits, strong wages, and opportunities for career growth can help differentiate your business from the competition. Though it might be challenging to offer competitive wages and attractive benefits in light of growing operational costs in a difficult economic environment, think about the viability of business operations without the right workforce to support them, in addition to the true cost of employee turnover. To manage your benefits spend, explore plan design options that can result in cost savings.

Key Coverage Lines

In the pursuit of innovation and opportunities, the manufacturing industry continues to perform strongly. And the insurance market has taken note, with carriers hoping to capture the momentum driving the sector toward growth. As such, carriers have demonstrated that they are willing and able to evolve with their insureds to be able to attract new business while expanding their existing books of business. New market entrants are increasing capacity and keeping rates stable in spite of inflationary pressures and nuclear verdicts.

Management Liability

After years of heightened underwriting scrutiny and steep rate increases, rates are showing signs of stabilizing in management liability lines (D&O, EPLI, and fiduciary liability) for well-performing accounts. For D&O in particular, new capacity and carrier competition has allowed the market to soften a bit. Social inflation and nuclear verdicts continue to be top concerns for underwriters.

Liability

For general liability, most accounts are averaging rate increases from 5% to 10%. The excess liability space remains more volatile, with rate increases averaging 5% to 15%. Auto liability is also mixed, though rate increases are averaging 5% to 10%. Results for each line will vary by account, as loss history renders greater increases.

Workers' Compensation

Workers' compensation remains competitive in 2023, with most renewals being flat or even seeing slight decreases.

Cyber

Cyber liability is still a challenging line for manufacturing companies, though less so than in prior years. This is because carriers have worked aggressively to correct premium pricing. What were once 50% rate increases are averaging 10% to 15% in 2023.

Stock Throughput

A recently tumultuous line due to geopolitical upheaval and natural disasters, the stock throughput market is now also stabilizing. Again, results will vary greatly by business class and loss history. Accounts with favorable loss history may see increases between 2% and 8%, while those with poor history are seeing rates closer to 15% and 25%. Be on the look out for exclusionary language around war due to the Ukraine conflict.

Property

The commercial property insurance market remains extremely challenged because of the impact of continuous weather catastrophes, inflation, supply chain issues, and a challenging reinsurance market - making it challenging for carriers to properly price coverage. Expect underwriters to zero in on asset valuation during the underwriting process and demand up-to-date numbers. Rates will vary by asset class, geographic location, and loss history. We are seeing rate increases average between 10% and 20%.



Your Beacon of Opportunity

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If there is anything to take away here, it is that insurance results will vary greatly by the performance history of an account. To get the best results from carriers, we recommend being as prepared as possible for your renewal, especially if your company has experienced a loss. You want to have the time to gather data, implement loss controls, and package relevant information in a clear manner that is easy for underwriters to understand. Getting started on the renewal process with your insurance advisor at least four months in advance gives you time to go to market if you cannot get reasonable rates and terms.

We understand that the growing cost of insurance is likely a concern. When facing economic uncertainty and profit pressures, you want to ensure that you are doing all you can to contain the cost of your insurance spend. Our team of experts has proven experience navigating previous hardened insurance market cycles, and can help identify areas where you can transform your approach to risk management so you can obtain optimal results for your specific exposures. We are here to collaborate with you as you continue to transform to meet the demands of an unpredictable world.

References

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