AmWINS Group, Inc.

STATE OF THE PROFESSIONAL LINES & CYBER MARKET

PROFESSIONAL LINES UPDATE - Q2 2018

A mixed professional lines market presents some challenges, but plenty of opportunities, as well.

In a market as diverse as professional lines, it's not surprising to see significant differences in pricing and appetite across different sectors. Understanding those differences is key to brokers' growing their professional lines business.

"As with any E&S line, there are challenges for brokers, and there are opportunities. At AmWINS, our specialized knowledge of these individual sectors allows us to help retailers successfully navigate the marketplace and grow their business," says David Lewison, senior vice president and national professional lines practice leader, at AmWINS.

OBSTACLES

The good news for brokers and buyers is that, in general, the professional lines market remains well-capitalized and competitive. "There is some micro-hardening, but most areas present no significant obstacles to placement," Lewison says.

Two areas where the professional market continues to be difficult are cannabis and cryptocurrency risks. Regulatory and legal hurdles make those classes particularly challenging.

Another notable exception is professional liability for elderly services and care. As claims have increased in both frequency and severity, several carriers have pulled back from the market. At the same time, others have re-underwritten or sold their book to other insurance companies.

"In healthcare, long-term care, or other aging-related services, we've seen rates quadrupling or more. However, facilities are still binding coverage because they need to buy," says Lewison.

There are also some regional pockets of hardening that buyers will need to contend with. "In Cook County, as well as some parts of Florida and Kentucky, we continue to find healthcare underwriters being very cautious about professional lines because the courts in those regions have been painful to them," Lewison says.

OPPORTUNITIES

In most professional lines, brokers and buyers can find a competitive E&S market. Despite claim severity, financial service firms have been an area where AmWINS has experienced strong growth with retailers. A portion of that market growth can be attributed to

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demographics: as baby boomers approach retirement, they're looking more closely at what they have saved for retirement and are more sensitive to investment performance.

"The financial services errors and omissions space has always been a really tough area for underwriters because of constantly changing laws and trends in litigation. However, with our knowledge of the marketplace, we rarely have difficulty placing business," says Lewison.

Lawyers professional is also poised for growth. "With changes occurring both with law firms and in the insurance market, there has been turmoil in that market. Wherever there is turmoil, we look at it as opportunity. We have an exclusive market for firms with 25 or fewer lawyers with a broad appetite that has helped us win new business," Lewison says.

Private company D&O continues to be handled effectively by the standard market, but with increasing losses, some business has been moving to E&S. Private D&O insurers are seeing losses related to bankruptcy, intellectual property theft allegations arising from new talent recruitment, and increased complexity of claims against the larger private companies.

The market for public companies was expected to firm due to frequent mergers and acquisition claims and bankruptcies, but thus far has not. "Litigation against public companies for mismanagement slows down with a rising stock market, although there is some nervousness as stock valuations keep rising," Lewison says.

The uptick in merger and acquisition activity has led to increased sales of representations and warranties insurance. And with overall economic growth, architects and engineers (A&E) has also seen a notable spike in purchasing activity.

"Our A&E book has grown rapidly over the last year and a half. That's important for retailers because if you want to grow your business, you need to focus on sectors that are themselves expanding."

STATE OF CYBER

In cyber, despite the seemingly daily avalanche of data breach activity, insurers aren't seeing those breaches turn into liability losses beyond their expectations. As a result, buyers will find increasingly competitive rates.

"When the cyber market started 20 years ago, underwriters were charging an uncertainty premium that they have now worked out as they have become better at understanding the exposure. At the same time, the number of markets continues to increase," Lewison says.

However, the rate of cyber purchasing has notably slowed. "For the past few years, underwriters could count on 30 to 50 percent growth. Now they are telling us that they expect to see around 15 percent," says Lewison.

This slowdown in growth can be attributed to the fact that most of the larger buyers have already purchased coverage, and the adoption rate of companies under $500 million in revenue has been low. However, this low purchasing rate means there is growth potential for retailers who focus on educating small-company prospects about the need for cyber and who partner with a wholesaler that has access to the right markets and products.

"Small-company cyber is an area where we will be focusing," Lewison says. "We believe it is a relatively untapped market that presents a good opportunity. A year ago, our AmWINS Access division launched a small cyberliability binding authority with an admitted carrier. The product has most of the coverage advantages seen on larger risks, but at a small business price. At the low premium levels, we didn't want to be held up negotiating terms for each and every account, so it's all baked in for a quick quote-to-bind experience."