STATE OF THE MARKET

Q2 | 2019

While the beginning of the quarter led us to believe markets were going to remain stable, the end of the quarter is telling a different tale. The pace of hardening has quickened in property, casualty and professional lines, presenting challenges for retailers and buyers. Our experts are keeping a close eye on rates, limits, and terms and conditions across all classes to keep you and your clients informed.

ON YOUR TEAM.

AmWINS® Group, Inc.

PROPERTY

In Q2, *the pace of hardening will accelerate* in every segment of the property market, presenting a challenging environment for retailers & buyers.

At the end of 2018, the property market had begun to see some firming, and that continued into Q1 of 2019. As we move into Q2, this trend has not just continued; it has accelerated.

"The message for retailers is that things are changing in property more quickly than expected, and the changes are deeper than anticipated," says Harry Tucker, Executive Vice President and National Property Practice Leader for AmWINS.

Adverse loss development has been a catalyst in this acceleration. Two consecutive years with combined ratios exceeding 100% across the market has heightened the focus of management teams and underwriters to drive rate and reduce aggregate exposure. Increasing rates are creating a deeper and broader change in the market. The obvious tough classes—including frame habitational, recyclers, and open lot—were the first to be affected, but now the trend has crept into broader classes and non-CAT exposed business.

"Along with rate increases, we are seeing more tightened risk selection, reductions in limits, increased deductibles, and close review of policy forms," says Tucker.

However, the bright spot for clients is that the market is still well capitalized. "Carriers still want to write premium," says Tucker. "The difference today is that they are applying a level of underwriting discipline we haven't seen in quite some time."

BUILDER'S RISK

For retailers, there is plenty of business activity to pursue in builder's risk. "In the frame builder's risk world, there is a lot of construction in the $50-100 million range, including multi-story buildings," says Frank Catalano, Executive Vice President at AmWINS Brokerage of the Midwest. "A year ago, there were about 35 cranes in Chicago. Today there are more than 60, and that level of increase is being seen in many other areas of the country, as well."

The challenge for retailers is that while demand for coverage is increasing, there has been some capacity constriction. "There have been considerable losses in the frame builder's risk world that are impacting the market," says Catalano.

These losses have driven up pricing significantly compared to a year ago. Additionally, markets have—in some cases—halved the amount of limit they are willing to offer on frame builder's risk.

"Underwriters are also being more careful, requiring more extensive underwriting data, including inspections and Geotech reports," says Catalano. "We can still put coverage towers together, but it takes more time and involves bringing in more markets."

REAL ESTATE

In the real estate sector, and particularly within the multifamily space, the marketplace is hardening. Loss experience is a driving factor, as carriers are now laser focused on returning their books of business to profitability.

"Carriers in many cases are quoting higher prices, higher deductibles, and/or restricting coverage, yet still receiving bind orders, which empowers them to hold their ground or push further on the next opportunity they review." says Bob Black, Executive Vice President, Property at AmWINS Brokerage of Georgia.

At the same time, there has been a reduction in capacity available for accounts with total insured value of $500 million or less. "Carriers are more closely managing their line sizes, with certain MGA's having no paper to offer at the moment, thereby requiring more program participants or the replacement of certain MGA's for sizable real estate accounts," says Black.

As a result of the reduction in capacity and re-underwriting of non-profitable books of business, we are seeing an increased flow of new business, which puts a strain on underwriting workloads. "Quotes are being issued much closer to the effective date than in years past, due to the magnitude of opportunities in the marketplace right now" says Black. "It's important for retailers to partner with a wholesaler that has strong relationships, full market access and real marketplace leverage in order to cut through the clutter."

Another hot topic in the marketplace right now is valuation. "A good number of carriers are heavily focused on valuation adequacy right now," says Black. Certain carriers are internally rating using higher values than are reported on the renewal SOV, while others may require valuations to be strengthened prior to quoting.

In Real Estate, as in any challenging sector, it's imperative for the retailer to share a quality submission with their AmWINS broker. Carriers and our underwriters want to write business, and in the current climate, quality submissions are more likely to result in a successful final outcome for everyone involved with an opportunity.

CARGO/STP

Cargo and Stock Throughput (STP) business placed in the London marine market has been hit particularly hard by the performance management underway at Lloyd's. "Brokers and clients are grappling with rate increases on accounts with and without losses, capacity shrinkage of more than 20% in the Lloyd's cargo market, and overall market hardening," says Toby Kayll, Managing Director of the Marine division at THB Group Limited, an AmWINS Group company.

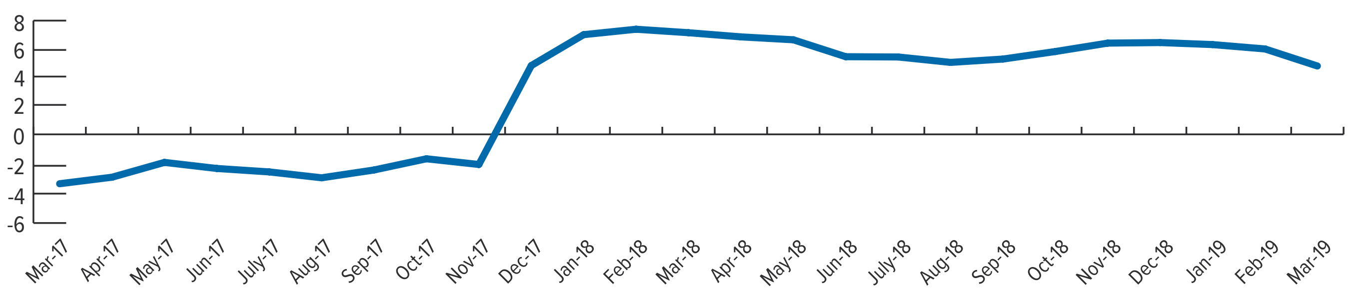
The changes began several months ago, when Lloyd's warned syndicates that it was implementing a performance management approach in response to unsustainable losses and that it would be seeking remediation plans for underperforming classes of business, including Cargo/STP. As a result of capacity constriction, pricing is being closely reviewed, along with risk profiles, limits, terms and conditions. Brokers are seeing cuts in line size, along with wording revisions or declinations due to class. Accounts considered "underpriced" are faring even worse.

Despite these challenges, the major cargo market leaders remain active; however, detailed information is being requested for all risks with stock exposure, and location surveys are becoming more common. "Every account is being scrutinized today," Kayll says.

In this climate, it is critical to provide a complete application with as much risk and exposure information as possible in order to obtain the best terms and pricing. Retailers will benefit from partnering with a wholesaler that can skillfully navigate the complexities of the changing London market. THB Group, AmWINS' London brokerage operation, has the expertise and industry relationships to assist retail agents in delivering the best solutions for their clients in today's complex and dynamic environment.

RENEWAL PRICING TRENDS—PROPERTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS property lines account data



CASUALTY

After years of an entrenched soft market, *the pendulum is swinging back to a focus on profitability.*

As we head into the second quarter of 2019, it has become clear that the pace of market change is accelerating. Buyers and brokers alike will see the differences in rates, limits, terms, and conditions across many classes of casualty coverage.

"The supply of capacity is stressed; however, demand continues," says Matt Jarrett, Director, U.S. Casualty at THB, AmWINS' London broker.

MARKET MOVEMENT

Loss development on casualty lines has been deteriorating, driving even greater market hardening than was projected. Not only have segments such as New York construction, real estate, and transportation firmed, but that firming is spreading into nearly all sectors of the casualty space.

"There is a significant restriction on capacity, particularly in problem areas," says Tom Dillon, executive vice president and national casualty practice leader for AmWINS. As noted, New York construction and excess transportation are problem areas, with several carriers dropping out of these markets in the past six months and the remaining carriers doing significant retrenching.

"The supply of capacity is stressed; however, demand continues," says Matt Jarrett, Director, U.S. Casualty at THB, AmWINS' London broker. "Carriers are increasing their attachment points, and we've also seen rates on line approaching 100% on certain risks."

On the West Coast, wildfires have not only caused billions of dollars in property damage, but also have wreaked havoc on the casualty market for the major utility companies. "Utilities on the West Coast right now is the hardest of hard markets. It is very difficult to place that business at this point. However, we have found pockets of capacity at the right price," Jarrett says.

Even outside those problem areas, brokers and buyers can expect to see that—after chasing premium for years—carriers are shifting to a focus on underwriting profitability. Capacity is also constricting in excess liability, with major players that previously had been willing to offer $50 to $100 million limits pulling back to $25 or even $10 million limits on individual accounts

"Those types of actions cut into marketplace capacity quickly, and we expect to utilize more carriers to fill out excess towers," says Dillion.

SEGMENT SNAPSHOT

Going into Q2, we expect to see the following in casualty market segments:

In **Real Estate**, habitational business remains problematic. Both primary and excess markets continue to increase pricing and pull back on underwriting of apartments, with lessors risk the more competitive segment.

In **Automobile Liability**, coming off another year of underwriting losses, we expect to see continued increases in rates and market constriction, especially in the excess space. Most carriers in this space are rerating this class, reducing their limit offering, raising their attachment point or exiting the class entirely.

Product Liability remains a space where underwriters are willing to be aggressive, but there is a caveat. “We are seeing some product liability accounts coming back into the E&S space and carriers asking for more renewal rate,” says Jarrett. “The message is that the space is trending toward hardening, although it’s still not there yet.”

Environmental is still competitive on CPL, small site business, and pollution/professional, thanks to new markets that have entered in recent years. The one exception seems to be New York exposures.

Public Entity is seeing stable market participation, despite heightened underwriting concern around several issues, including wildfires, CTE, and abuse/molestation claims.

The **Sharing Economy** remains dynamic yet challenging. “Many standard-lines companies claim to write sharing-economy businesses, but often lack the experience to do so. The E&S market is a key resource for brokers and buyers in this space,” says Dillon.

MARKET PREPAREDNESS

Despite the challenges, retailers can capitalize on the 2019 casualty market. “Even though underwriters are retrenching, they still want and need to write business,” says Jarrett. “The difference is that they are looking for improved terms on the business at rates where they feel will be profitable.”

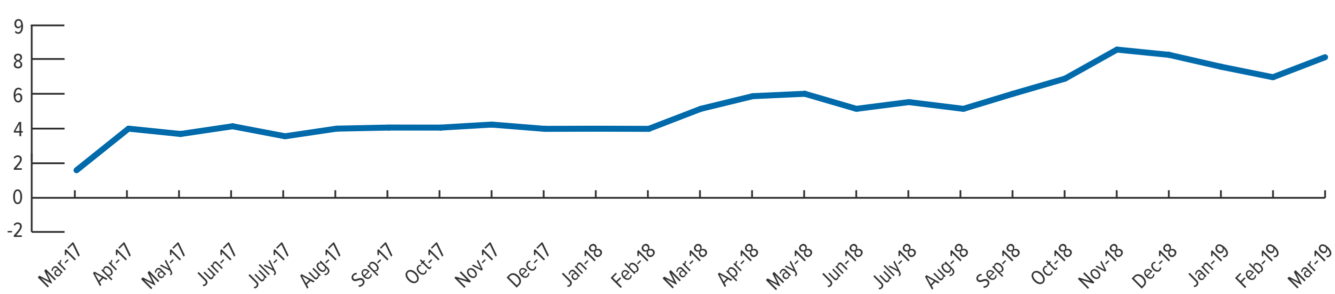
“This is the time for brokers to show their expertise,” adds Dillon. “It’s not just about saving money any more—it’s about creating value for the client and solving problems.”

Now more than ever, it’s important that retailers work with a wholesaler that can help navigate the market. “Nobody wants to deliver bad news to a client,” says Dillon. “At AmWINS, we have the established relationships and expertise to help retailers create and deliver effective insurance solutions.”

“This is the time for brokers to show their expertise,” adds Dillon. “It’s not just about saving money any more—it’s about creating value for the client and solving problems.”

RENEWAL PRICING TRENDS—CASUALTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS casualty lines account data



PROFESSIONAL LINES & CYBER

Professional liability is a *diverse market,* and differing conditions exist across different lines.

In general, Management Liability is seeing increasing hardening for both public and private companies, as well as healthcare-related firms. E&O and Employment Practices Liability (EPL) remain very competitive, as do miscellaneous lines, but there are some problem areas. Cyber continues to evolve, with the best programs being those that are customized to a particular industry segment.

D&O

Changes have definitely taken place in D&O. "We are seeing a lot of different things happening, including hardening, but that hardening is very specific to certain carriers, classes, and jurisdictions," says Kevin Zinter, senior vice president at AmWINS Brokerage of Illinois. "Higher education is one of the most difficult now, especially for-profit education, where we are routinely seeing double-digit increases." Additional sore spots include California heavy risks, bankruptcy risks, cannabis-related risks, crypto currency exposures, and M&A activity.

Capacity for public company primary D&O is evolving, with carriers pushing 10 to 15 percent renewal increases or retention increases. There have been a few new entrants, but their impact on capacity has been more strategically focused. "Most of the new entrants have been opportunistic," Zinter says. "They will come in and offer lower limits, but at a price." Much of this arises from the Cyan decision by the Supreme Court, which brought venue shopping back to class actions. Plaintiffs can find friendlier state courts, as well as bring their case in federal courts, which drives larger litigation expenses and settlement values.

For retail brokers with clients who are preparing to go public, it's best not to make any promises on the pricing. "We are seeing a very limited number of insurers willing to offer terms for the primary and low excess for IPOs," says David Lewison, senior vice president and national professional lines practice leader for AmWINS. "We're also seeing underwriters only willing to offer smaller limits lower in the program. Expect to use a few layers of small limits to start off the program, and don't expect to see meaningful price reductions for excess. This is a reaction to the higher frequency of litigation associated with IPOs."

In private company D&O, carriers are reviewing their books and pushing for rate increases on historically underperforming classes. "Carriers are saying enough is enough. We're seeing less pushback from retailers on single-digit increases, and carriers are often asking for much more in certain targeted classes," Zinter says.

The healthcare sector has been particularly hard hit with shareholder claims related to mergers and acquisitions, causing carriers to push for lower sublimits on Anti-Trust and Regulatory suits.

In general, underwriters are approaching D&O risks with more caution, including making greater use of D&B scores and other financial measures due to the number of bankruptcy-related claims they have suffered. Insurers also continue to be stung by payment of claims never contemplated by the actual D&O policy language.

"Some markets are getting a little exasperated with paying claims outside actuarial models, which also feeds into the desire to raise rates in general," says Zinter.

EPL AND E&O

The employment practices liability (EPL) insurance market still has not firmed as some had predicted, although underwriters are carefully watching claim activity in the "Me Too" era.

"We are seeing some large settlements out of the "MeToo" movement, as well as a small uptick in wage-and-hour suits. However, it hasn't been enough to move the market," says Andrew O. Pritchard, professional lines executive vice president at AmWINS Brokerage of New Jersey.

New capacity continues to enter the market, although counterintuitively, new entrants are pursuing tougher risks. “Because EPL prices are so low, carriers realize they are not just going to come in and sweep up the market. Instead, they are going after more difficult accounts and building premium opportunistically,” says Pritchard.

E&O is also competitive, with a few areas of exception. Lawyer’s professional remains an ongoing challenge, particularly for smaller firms that lack process controls that larger firms may have. Miscellaneous lines is also still extremely competitive, again with the exception of a few problem areas, including electric scooter manufacturing, crypto currency, and anything cannabis-related.

“We see markets wanting to write cannabis operations, but they struggle with how to deal with the patchwork of state regulation. The markets that do write it are doing so quietly,” says Lewison. “In crypto, we are getting more requests to find solutions because investors are making bets on what currency survives and want to be protected if they make a bad bet.”

HEALTHCARE

The medical professional liability marketplace has been hardening over the last 6 to 12 months, with several markets withdrawing from segments of the market or exiting altogether. The correctional medicine market also continues to harden, with only a handful of players writing in this space, several markets exiting, and remaining markets increasing deductibles and retentions due to the frequency and severity of claims in this class of business. The hospital market is also seeing climbing loss severity. Although miscellaneous medical is still competitive overall, there are certain segments where markets have tightened guidelines or exited, such as ambulance risks.

Additionally, the long-term care (LTC) space has been hardening, with several players recently exiting and others taking rate increases, increasing retentions, and tightening underwriting guidelines. At least one or two additional markets or MGAs are expected to exit the space in 2019, while remaining markets will continue to reduce their writings in tougher venues such as Florida or New York City.

CYBER

There are over 150 cyber markets already and new entrants still coming into the space, including many standard-lines carriers. Pricing continues to fall, and coverage continues to broaden. The only activity even resembling a pullback is some reduction being seen in sublimits for social engineering claims.

Although the cyber market is no longer the Wild West of the insurance market, there is still a lack of standardization among policies. This can lead to buyer confusion and makes it essential that both the retailer and wholesaler understand coverage forms well. On the other hand, creativity among coverage forms leads to a great opportunity for retailers provide coverage custom-tailored to a targeted segment.

“Particularly with newer players, we are seeing industry-specific coverage grants, as well as language reflecting that the carrier understands the space so they can stand out from the crowd,” says Sam Kravitz, senior vice president at AmWINS Access.

For retail brokers, the E&S market still has an important role to play in securing excess limits, as well as custom cyber coverage. AmWINS also offers a program designed for small, transactional cyber risks.

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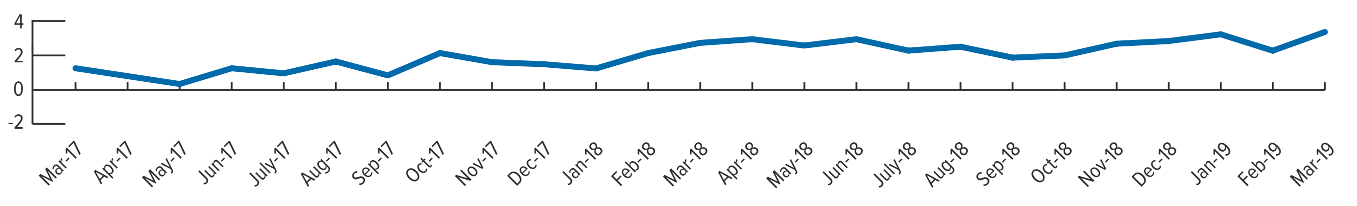
RENEWAL PRICING TRENDS—PROFESSIONAL LINES RENEWALS, ROLLING QUARTERLY

Source: AmWINS professional lines account data



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