AmWINS Group, Inc.

STATE OF THE PROFESSIONAL LINES & CYBER MARKET

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PROFESSIONAL LINES UPDATE - Q2 2019

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.

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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.

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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.

RENEWAL PRICING TRENDS—PROFESSIONAL LINES RENEWALS, ROLLING QUARTERLY

Source: AmWINS professional lines account data