# Professional Lines Q1 2021 State of the Market

*The hard conditions of the professional lines market mirror that of other liability lines, with buyers facing a continuation of higher rates and restrictive terms in 2021.*

Across all professional lines of business, the rate increases that were seen starting in 2019 have continued into the first quarter of 2021.

"No underwriters are telling us that they've gotten enough rate to see an improvement in their books. However, as the increases have compounded over time, we are expecting the rate of increase to slow down," says David Lewison, Amwins Professional Lines Practice Leader.

As market pricing has become more attractive to new capacity, several companies entered the professional lines space in the second half of 2020. However, expect new entrants to tread carefully in this space.

"Unlike prior hard markets where new capacity comes in and undercuts the market, today we're seeing newer facilities led by people who have extensive experience in the business," Lewison says. "We haven't seen the irrational behavior of the past."

## Segment Spotlight

### Cyber / Tech E&O

Losses have impacted the cyber insurance space, causing carriers to increase rates well into the double digits on both new and renewal business, with difficult classes such as manufacturing (due to business interruption losses) and municipalities (due to ransomware and targeted attacks) seeing spikes of 20-40%. In particular, ransomware is a growing threat, spurring the Cybersecurity and Infrastructure Security Agency to launch a campaign targeting ransomware risk.

Conditions in the domestic market are mirrored in London as well. "Cyber is the market that is hardening the fastest at the moment. Facilities are significantly reducing their limits and increasing their pricing across the board," says Roddy Graham, Managing Director, Amwins Global Risks Professional & Financial Risks.

In addition to increasing rates, carriers are also managing capacity more carefully. "Many carriers are echoing that they can sustain a $5 million hit, but the $10 million loss is something they are increasingly concerned about. We are therefore seeing more layering in programs, as well as a pushback on private equity portfolio companies and programs," says Richard Fernandez, Executive Vice President, Amwins Brokerage in Atlanta, GA.

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Carriers are also stepping up the underwriting scrutiny of accounts, particularly as issues created by the remote work environment are increasing threats to the network security environments for many businesses. “Companies that were not fully adaptable from a cybersecurity control perspective during the work-from-home phase have seen particularly destructive and damaging breaches this past year,” says Kevin Zinter, Executive Vice President, Amwins Brokerage in Chicago, IL.

Companies that lack important controls around multi-factor authentication and endpoint decryption are becoming harder to place. Coverage is also being restricted, including increased coinsurance and waiting periods for business interruption, sublimits for ransomware/extortion and caps on other limits, and new exclusions for losses related to the Solar Winds hack, violations of the Children’s Online Privacy Protection Act (COPPA) and government shutdowns.

Underwriters are also requesting more information beyond short-form renewal applications, and quote expiration dates are becoming a focal point on cyber insurance proposals. “Gone are the days where a quote can remain open or valid for months—many expire after 30 days,” says Megan North, Vice President, Amwins Brokerage in Seattle, WA. “It’s important that insureds take advantage of competitive terms when offered, because there are no guarantees on those terms past expiration as the cyber market continues to harden.”

## Public D&O

Although several new facilities have entered the market and are poised to provide capacity for tougher risks, the public company D&O market remains hard across all industry groups. Larger, established public companies (three or more years since IPO) are enjoying more stable pricing—as low as 8% increases compared to 25% or more for newer companies. “Overall, the market is experiencing increases in retentions, tightening in terms, new limitations including cyber exclusions and absolute BI/PD exclusions, and increased utilization of only the Side A Insuring Agreement to write difficult public risks,” says Bill Dixon, Executive Vice President, Amwins Brokerage in Edison, NJ.

Steeper increases are being seen in excess. “It seems that every excess carrier is now evaluating each renewal and seeking not merely an increase but an increase in the percentage they’ve been charging as relates to the underlying layer,” says Dixon.

Foreign risks with U.S. operations are increasingly difficult to place, and SPAC (Special Purpose Acquisition Companies) IPOs continue to be challenging, with only a handful of markets truly interested.

Markets offering primary coverage to SPAC IPOs with terms and retentions vary depending on size, experience of principals, industry segment and geography. “Most underwriters are now pricing SPAC extended reporting periods at 300% or more for six-year periods as claims relating to the acquisition of target companies seem to be on the rise and scrutiny from the SEC has been announced as a priority,” Dixon adds. “Some of the most aggressive markets in the SPAC space in 2020 have announced more conservative underwriting for 2021.”

Non-SPAC IPO’s and DE-SPAC transactions have become easier to place because more carriers are interested in offering terms given the potential for opportunistic pricing, attachment levels and restrictions. Also, buyers have become more educated about the hardened D&O market, the Cyan Decision (which drives the level of retentions) and the impacts of COVID-19 on their businesses.

While there is not yet widespread use of communicable disease exclusions, underwriters are scrutinizing the potential impact of COVID-19 exposure. “We have experienced tightening in many programs in terms of new limitations, including cyber exclusions, absolute BI/PD exclusions, replacing ‘for’ preambles, other subtractions from former ‘soft market’ forms, and increased ERP percentages,” says Dixon. “Much of this is either case specific for larger insureds or imposed as new underwriting guidelines on smaller risks.”

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In the London market, most new deals are in excess layers, with the exception of primary D&O on IPOs, with rate increases on U.S. companies averaging 15-25%. "For the first time since the early 2000s, we can see the London market capacity increasing in the D&O sector, which is a positive sign," says Graham.

## Private D&O / EPL

Private D&O has not been dealing with the level of rate spikes experienced on the public side, but a pullback is being seen in some soft-market coverage items where historically we had leverage to name our terms and conditions. Underwriters are also concerned about a rise in bankruptcies, particularly in hospitality and travel industries, as well as layoffs and their potential impact on EPL claims. In particular, EPL retentions in California continue to rise due to the litigious landscape in the state.

"We are seeing double digit rate increases in California and on healthcare accounts nationwide," says Matt Shanks, Executive Vice President, Amwins Brokerage in Atlanta, GA. "While accounts renewing in Q1 are getting hit with rate increases as the market was relatively flat to start 2020, in Q2 onward, we anticipate the increases in the market to settle on clean renewals." Additionally, underwriting is much more detailed, especially when compared to the same quarter last year.

Nevertheless, private D&O remains a bright spot for retailers in the professional lines market. "This is also a great time to prospect for new business as a lot of insureds are being caught off guard with major renewal changes. The good news is we still have a ton of competitive capacity, and this is why it's important to partner with a wholesaler like Amwins that has real market leverage and solutions," Shanks adds.

## Healthcare

Some new capacity has entered the healthcare space for hospitals as well as miscellaneous medical professional liability; however, the market continues to harden overall. Coverages being offered are decreasing, occurrence coverage is becoming scarce, and most renewals are seeing a 20-40% rate increase or more.

"Capacity for professional liability is scarce for hospitals and healthcare systems that reside in tough litigation venues such as New York City boroughs, Cook County, Illinois and Florida, to name a few," says Dave Statis, Executive Vice President with Amwins Brokerage in Charlotte, NC. "Additionally, capacity concerns, rate increases and changes to malpractice appetite by reinsurers have further increased pressure on malpractice markets to drive their own rate increases."

Long-term care and assisted living facilities are particularly difficult to place in the era of COVID-19. In excess liability, capacity continues to firm up with carriers being more judicious of their use of excess limits and increases of 30-40% are common. "Even after a year of rates increasing, most carriers still feel they are underpriced compared to the losses they are seeing. Underwriters still feel they need another 30% in rate increases to get to break even," says Don Tejeski, Senior Vice President and National Healthcare Practice Co-Leader, Amwins Brokerage in Newtown, PA.

"Underwriters are now requiring more information, including markets requiring ten years of loss information for some classes, particularly hospitals," says Phil Chester, Senior Vice President and National Healthcare Practice Co-Leader, Amwins Brokerage in Farmington, CT. Underwriters are also being inundated with submissions, including for new healthcare businesses created in response to COVID-19, such as testing labs and vaccination centers. Retailers should focus on submitting complete applications and getting to market 45 days before expiration.

For healthcare management liability, most markets are requiring insureds to respond to additional underwriting questions specific to the pandemic. "COVID-19 has caused many concerns among insurers in this space due to reduced revenues from suspending non-essential procedures, overall hospital management during the pandemic that can lead to litigation against boards, and layoffs or furloughs which can result in wrongful termination claims," says Statis.

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## Miscellaneous Classes

### Cryptocurrency

While Bitcoin, Ethereum and other altcoins have reached record highs in price and volume over the past few months, cryptocurrency remains an excluded class of business for most markets due to the high volatility, claims history and regulatory concerns. "As a result, markets that can consider cryptocurrency-related accounts for either professional or management liability are providing more restrictive terms than other classes of business," says Gordon Gray, Vice President, Amwins Brokerage in New York, NY. "Underwriters have a high minimum premium and are seeking to limit their overall capacity on any one account."

### Cannabis

The cannabis industry still faces an uncertain legal environment, which translates into very limited insurance market capacity and product availability with strict underwriting guidelines and scrutiny by underwriters. The purchase of private D&O for hemp and CBD operations is seeing an increase in anticipation of broader regulations, along with higher premiums and retentions for start-up businesses than in other sectors.

"With that said, market terms and conditions have become somewhat predictable, which has allowed a fairly efficient pre-qualification process," says Charlie Grodecki, Senior Vice President, Amwins Brokerage in Charlotte, NC. "Overall, the professional lines market is maintaining its conservative approach until further legislation will allow a green light on creative solutions."

"We are also seeing an uptick in submissions from ancillary companies that service or support the cannabis industry," says Aileen Spiker Berry, Senior Vice President, Amwins Brokerage in West Palm Beach, FL.

### Lawyers

Underwriting scrutiny has increased around accounts in California and Florida as well as in certain areas of practice, including estate and trust work, family law and real estate. Carriers may also be reluctant to offer more than $1 to $5 million in primary coverage. However, with MGAs forming some new programs, there has been more competition in the marketplace, keeping rates fairly competitive.

"With the competition in the marketplace, I suggest getting submissions in as quick as possible so we can aggressively market," says Philip Carbone, Executive Vice President, Amwins Brokerage in Phoenix, AZ.

### Architects and Engineers (A&E)

Geotech, structural, energy and residential exposures tend to be more difficult to write for A&E markets, and the most difficult venues include Florida, Texas and California. Some carriers are also taking a more cautious approach to habitational work due to COVID-19 impacts on construction activity. "However, there is still plenty of capacity in the marketplace and competition between carriers, with only slight renewal pricing increases," says Carbone.

### Fiduciary

This historically sleepy line is starting to heat up with increased claims activity stemming from retirement funds charging what might be considered excessive fees. We will dive deeper into this growing issue in an upcoming article in *The Edge*.

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## Summary

The bottom line for retailers is to prepare your clients for price increases, get to market early and provide the most complete submission possible. “The more information you have and the faster you get that submitted, the better off you will be,” Lewison says.

Despite the challenges of the market, there are also many opportunities in the professional lines insurance sector. Success starts with partnering with a wholesaler that understands this and has the underwriter relationships and solutions to write and retain business.

**Renewal Pricing Trends –** Professional Lines Renewals, Rolling