# Property Q1 2021 State of the Market

*Although the market remains hard coming into 2021, underwriting appetite is strong across most sectors of property.*

The property market continued its upward rate climb as we entered 2021 and that trend is expected to continue, although not as dramatic throughout the year. We believe pricing in certain lines of business will peak during 2021 and then begin to decelerate. However, the recent winter storms in Texas and other parts of the southern U.S., which brought an unprecedented amount of ice, snow and freezing temperatures, are estimated to reach around **$18 billion in insured losses**. According to Inside P&C, this event is emerging as the largest insured loss from a U.S. winter storm in industry history. These unexpected losses will have an impact on pricing in both the domestic and international markets. We will keep our clients informed as this develops.

We're still seeing terms and conditions scrutinized more closely, with underwriters adding communicable disease exclusions, mandating higher deductibles, and applying limitations or sublimits on civil riot and commotion. This trend is also expected to continue throughout 2021.

"There are times when carriers view past renewal increases as adequate and are now offering a more moderate rate increase," says Harry Tucker, Amwins National Property Practice Leader. "However, accounts with difficult exposure characteristics and/or poor loss experience are still seeing stout price increases and more restrictive coverage."

"This is not a traditional hard market. In this market, supply and demand are not the principal drivers of pricing," Tucker says. "There is ample capacity in the market, its availability is dependent on risk perception and rate." In 2020, many carriers pulled out of unprofitable classes of business. This year, carriers are looking at those classes again if the rate and terms are deemed adequate.

While 2020 was the **most active hurricane season on record**, losses were generally below reinsurance retentions, leaving the primary markets to bear the brunt of claims. Carriers also took a hit in profitability from wildfires, convective storms and attritional losses, with several reporting combined ratios over 100%. Overall, carriers are looking to get back to profitability and continue to re-engineer their books, given the pre-2018 prolonged soft market pricing, loss experience and low interest rate investment environment.

However, the E&S market continues to grow at a significant rate. **According to AM Best**, the surplus lines market grew 11.2% in 2018 and 2019. "While the official numbers aren't in for 2020, there have been a number of new entrants into the market," says Tucker. "Though this capacity isn't enough to move the needle on market conditions, it's a positive sign that our industry continues to attract new capital."

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### CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

### LEGAL DISCLAIMER

# Segment Spotlight

## Cannabis / CBD

Capacity continues to be the single largest issue for cannabis operations, with some carriers leaving the space and few willing to offer more than $10 million of coverage in-house. "If you are brokering a cannabis account with a cultivation location, a manufacturer or possibly a small dispensary, you could be looking at a total insured value well over $10 million, which will likely require a layered program," says Jeff Katz, Vice President, Amwins Brokerage in Kansas City, MO.

Dispensary-only cannabis and CBD accounts with clean loss experience can expect a 10% renewal increase, while manufacturing and cultivation operations will see greater increases. Growing crop coverage will also typically be sublimited, and most carriers will exclude theft for any stock that is not locked in a safe or vault room every day after business hours. For business interruption, several carriers quickly applied drastic sublimits to coverage or excluded it entirely in 2020 due to COVID-19; however, some carriers have since reversed their stance, and coverage is expected to return to a pre-pandemic state.

"As cannabis remains a Schedule I drug by the DEA, the legal landscape continues to be a significant hurdle for insureds," Katz adds. "For this reason, many cannabis-related operations find themselves without coverage to CAT perils including flood. Some carriers have begun to offer DIC coverage to cannabis accounts for their buildings, but not greenhouses." With 15 additional states approved for recreational marijuana sales during the November 2020 elections, insurance for this class of business will only increase in demand.

Underwriting processes differ widely among carriers, so partnering with a broker that has established relationships in the space is key to success. "Retailers should be as diligent as possible with cannabis and CBD accounts when gathering information for the supplemental application. Call your broker to have a conversation about different carriers' appetites to ensure you're including the right information," says Katz.

## Hospitality

Poor attritional loss experience has resulted in carriers' continuing to push higher all-other-perils (AOP) deductibles, implement aggregate AOP deductible structures, and sometimes require a separate water damage deductible. "We're seeing heavy scrutiny continue on manuscript wording, and sought-after coverage extensions such as Reservation Cancellation are being significantly reduced or eliminated," says Kim Curcio, Executive Vice President, Amwins Brokerage in Edison, NJ.

The most difficult segment of the hospitality sector includes larger risks (over $1 billion schedules) with catastrophe exposure and poor attritional loss experience. "Coastal hospitality—specifically beachfront or barrier island—are proving to be exceptionally challenging as carriers are limiting their line size on these risks," says Michael Wood, Executive Vice President, Amwins Brokerage in Edison, NJ. "Loss creep from prior years' hurricanes continues to be an issue."

With the hospitality sector's finances hammered by COVID-19 shutdowns, underwriters are concerned with low occupancy levels and paying closer attention to restaurant exposure within hotels. While the entire industry has been severely impacted, group business and central business district hotels will have the longest recovery period. Insurance to value continues to be heavily scrutinized as well. "Capturing accurate values for business interruption coverage has also been an ongoing challenge in the pandemic," says Tim Corley, Vice President with Amwins Brokerage in Edison, NJ. "Underwriters are requesting detailed worksheets and trend data to support calculations."

In a constricting capacity and firming rate environment, it is becoming increasingly important to understand an insured's lender requirements and their flexibility, if any, regarding carrier financial ratings, deductible minimums and overall limit purchasing. "We are finally starting to see some positive momentum in discussions between insureds and lenders," says Dennis DeLuca, Executive Vice President, Amwins Brokerage in Edison, NJ. "Specifically, as it relates to our insureds being allowed to incorporate a blend of S&P and non-S&P rated papers into their programs as well as lenders giving insureds their blessing to consider different deductible and loss limit options at renewal."

This flexibility allows insureds to consider a broader range of carrier, deductible and capacity options that had not been accessible to them in prior years. "These discussions can take time, so it is essential that insureds engage their key lenders early in the renewal process, which could mean starting this dialogue 120 to 180 days prior to the renewal date," DeLuca adds.

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## Real Estate / Habitational

The significant infusion of capital into the property marketplace at the end of 2020 and the start 2021 via new capital providers and recapitalized markets, has delivered an increased appetite for medium-to-large-sized real estate and multifamily placements. This development represents the first meaningful increase in capacity supply within these spaces over the past several years. Additional new and disciplined capital will likely continue to flow into the marketplace, attempting to benefit from the firm market conditions.

"Within the past few weeks, oversubscription has begun to occur in select situations for mid-size to larger real estate and multifamily placements, thereby tempering rate increases in such cases as compared to those experienced by these same insureds over the past two to three years," says Bob Black, Executive Vice President and National Real Estate Practice Co-Leader, Amwins Brokerage in Atlanta, GA. "Disciplined underwriting, careful management of line size and attachment point, and the restrictive terms and conditions imposed by underwriters are anticipated to continue throughout 2021 due to such factors as the overall loss magnitude of winter storm Uri (which is still being determined), continued profitability challenges, and the very low interest rate environment as compared to historical standards."

"Many carriers in these spaces still prefer to protect against attritional losses by utilizing $100K or larger AOP deductibles and aggregate deductibles, when warranted, based on an insured's loss frequency and severity," continues Black. Convective storm deductibles are also being added to accounts in high-risk locations, such as Texas, Oklahoma and Colorado.

"To the extent that an insured requires renters insurance from all tenants, implements non-smoking policies or applies any other procedures that would be viewed favorably by underwriters, such information should be shared with the retailer and wholesaler involved with the placement so these key details can be presented to carriers to distinguish the insured from other such opportunities in the marketplace," says Black. "These favorable details could also include a focused risk management department, utilization of stove-top devices, installation of water sensors, presence of sprinklers in the attic and smart technology." Additionally, detailed and accurate historical loss summaries are paramount. Large losses should be explained in detail with insight provided by the insured on steps taken in an attempt to prevent or mitigate such losses from repeating.

Adequate building valuation continues to be a hot-button issue for carriers that write business within these spaces, as costs for retail labor, steel and lumber **continue to surge**. In these conditions, it's essential for retailers to carefully review building valuations with their clients on an annual basis. "With occupancy rates sometimes impacted by the pandemic, retailers should review business income and rental roll figures to ensure the values reported match the insured's anticipated exposures," adds Black.

The Florida and South Florida condominium marketplace, in particular, has become a micro-hard market within the past four to six weeks. For instance, numerous carriers have recently exited or partially exited this class of business. Other key carriers have conveyed they will likely have utilized all of their available capacity or PML prior to the end of the year. As a result, and counter to the lesser rate increases which were experienced at the beginning of the year, 15-25%+ rate increases have recently become commonplace. "Named Storm, rather than hurricane, deductibles are once again becoming the norm and water damage deductibles are now many times being required, due to the poor loss experience for this peril," says Johnny Tolland, Senior Vice President, Amwins Brokerage in Delray Beach, FL. "The exit or retrenching from a number of key players in this space has sometimes brought back the viability of a wind-only and ex-wind approach to best complete certain placements."

Submission flow continues to be at an all-time high within these segments while staffing at many insurance companies is at less than desired levels. Struggling to keep up with submission flow, underwriters are gravitating toward clean, clear and concise submissions sent with adequate lead time and provided by their largest and most influential trading partners – such as Amwins.

## Energy

2020 was one of the most challenging markets on record for the downstream energy and power sectors. Property risk saw double-digit increases in nearly all cases and insurers reviewed all classes of business, reducing capacity, re-evaluating coverage forms and requiring strict compliance with loss control recommendations. Additionally, carriers imposed new coverage terms – including business volatility clauses and communicable disease exclusions – and are pushing to exclude resulting damage from cyber events.

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These conditions have put downstream energy insurance buyers in a bind. With the extension of the investment tax credit (ITC) and production tax credit (PTC), and continued low-carbon fuel standard credits, another year of rapid development of renewable energy projects requiring coverage is expected. “With the rapid proliferation of renewable projects comes a challenging risk footprint, combined with increased exposure to wildfire, windstorm, earthquake and hail,” says Rob Battenfield, Senior Vice President and National Energy Practice Leader, Amwins Brokerage in Houston, TX.

“The conventional renewable markets have severely reduced limits for these perils. We have spent countless hours educating and attracting new capacity to respond to the needs of our retail clients and their insureds,” Battenfield adds.

Any new capacity joining the market will likely not improve pricing for buyers. Instead, expect the majority of relief to come from carriers that have improved their position due to pricing increases taken in prior years. “We expect 2021 to continue to be a challenging year, where detailed information is key and early engagement with retail partners and their insureds is critical for positive renewal outcomes,” Battenfield says.

## Builder’s Risk

The builder’s risk market continues the path of firming, mirroring other market sectors. This is mainly attributed to the frequency of both attritional losses and large fires causing combined ratios across the industry to spike significantly. Large wood frame, modular construction and renovation projects have experienced the most severe impact over recent months, with few changes expected in 2021. Delays are also impacting building projects and necessitating policy extensions, which can be problematic for certain carriers.

“We can expect moderate rate and deductible upticks in the builder’s risk market as carriers look to sustain a consistent level of profitability,” says Grant Chiles, Executive Vice President and National Construction Practice Leader, Amwins Brokerage in Atlanta, GA. “Critical factors for new and midterm project placements include providing proactive, comprehensive and complete data during the planning and marketing stages, which will benefit the ultimate outcome on tougher projects.”

Rates for frame construction in the London Market have increased steadily in the last six to 12 months, in line with increases that have also occurred in the domestic market, helping provide capacity for these types of projects throughout the U.S.

“Terms for builder’s risk in the Lloyd’s and London company markets had been threatening to harden for some time before COVID-19 struck. When the pandemic hit, it provided the impetus for underwriters to also impose increased deductibles and more restrictive conditions on policy coverage across all types of construction and engineering projects,” says Steve Willsmer, Managing Director – Construction & Engineering Division, Amwins Global Risks. “In particular, water damage coverage deductibles are up and sublimits down due to significant losses.”

## Marine and Cargo

A dramatic decline within the auto hauler sector caused by the pandemic was seen in the middle of 2020, with insureds asking for mid-term premium reformations or even cancelling coverage. That sector rebounded toward the end of 2020. “Submission activity has increased for new ventures, and overall revenues for established motor carriers seem to be bouncing back,” says Zach Bowling, Senior Vice President, Amwins Brokerage in Chicago, IL. “With that said, the number of insurance carriers with capacity for this class have decreased and appetites have become more conservative.”

The motor truck cargo marketplace has firmed but is still somewhat immune to the dramatic hardening of the overall property market due to an abundance of capacity providers. “Inland marine underwriters have adapted quickly to the changing landscape, becoming more specialized and offering boutique coverages and service,” Bowling says.

In warehouse legal liability, capacity is being cut significantly, with lead lines decreased dramatically on renewals. “We’re putting together more quota share/excess placements than ever before, as traditional writers work to limit their exposures on this severity-driven business,” says Bowling.

In the London cargo market, most underwriters are still looking to turnaround underperforming books of business. “Their appetite for specific risks has become far more selective, especially in pricing catastrophe exposed accounts,” says Toby Kayll, Managing Director of Marine and Energy, Amwins Global Risks.

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Underwriters are also looking to increase non-CAT deductibles depending on risk quality, ultimately controlling the impact of a potential large loss. “Specifically, for container cargo, policy terms should be closely reviewed as some markets are limiting ‘on deck’ coverage in response to an increase in lost containers at sea,” says Alistair Barnes, Executive Vice President, Amwins Brokerage in Houston, TX.

While the London underwriters continue to show discipline, there are markets with growth goals and some new syndicates writing cargo. “Small-to-medium size inland marine cargo risks are favorable to a number of new London-based facilities without the requirement of subscription markets. With many carriers restricting their appetites, this approach will deliver the flexibility needed to be competitive in a fast-changing environment,” Kayll adds.

London auto physical damage premiums have been steadily increasing over the past 18 months, although levelling out recently mainly due to higher values of new power units as well as larger fleets made possible by low interest rates. However, decreases are available on the right account. “We have found competition for commercial physical damage domestically as well as with some London underwriters, a few of which are below the market norm. This capacity is not from the established specialist trucking syndicates,” says Jon Humphreys, Managing Director of U.S. Transportation, Amwins Global Risks.

## Logistics

Although the supply chain was heavily impacted by COVID-19, the logistics industry has shown strong resilience overall in returning to normalcy.

“The U.S. has one of the largest supply networks in the world, not only capable of handling the demand but also capable of adapting to market conditions. We are confident that such adaptations will result in a unified and stronger chain,” says Alex Rosas, Executive Vice President, **Amwins Specialty Logistics Underwriters**.

Although renewed capacity is coming into the market, particularly on the E&S side, this capacity is but a fraction of the losses suffered recently and the insurance market for logistics is continuing an upward rate trend in search of profitability. Carriers are also pushing to include communicable disease exclusions on their forms, driven in part by reinsurers’ excluding coverage from treaties as well as concerns over the role of logistics in the distribution and warehousing of COVID-19 vaccine shipments.

## London Update

In the London marketplace, many syndicates and London companies are positioning themselves to take advantage of the improving rate environment. “The majority of syndicates and carriers that we work with are looking to increase their writings in 2021,” says Toby Colls, Managing Director of Worldwide Property, Amwins Global Risks.

“We’re seeing a considerable increase in capacity from the majority our markets. Many underwriters are trying to write bigger lines on renewals, new and existing layers, and new business. They are also looking to move up from primary layers to higher levels because the rate is there,” says Colls.

Available capacity is being driven not just by higher rates and improving market terms and conditions, but also by more favorable than expected reinsurance treaty renewals. “Early reports suggest the 1/1 treaties were not priced as aggressively as a number of syndicates feared,” says Colls.

“Along with an increased appetite overall, underwriters are now looking more favorably at some areas of property than in the past, such as industrial accounts, including foundries, recyclers and food processors,” says Kim Plant, Senior Worldwide Property Broker, Amwins Global Risks. “Growing capacity is also available for larger habitational placements if they demonstrate adequate pricing and retention levels.”

Underwriting volume is incredibly high, and submission quality and timeliness are paramount. “There is a need to commence the quoting process much earlier than in past years to allow time for underwriters to review and model each risk,” says Steve Knight, Head of Broking for North America Worldwide Property, Amwins Global Risks. “Information provided should be detailed and accurate, especially where there is exposure to catastrophe perils.”

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Finally, new technology is coming into play to streamline the underwriting process. For example, Amwins Global Risks recently bound the first risk with Ki syndicate using a **fully digital and algorithmically-driven platform**. "This has the potential to transform the placement of business in Lloyd's and could well be a disruptor to the current lead and follow nature of the London market," says Colls.

Another significant example of this is the **Global Health Risk Facility**, a new Lloyd's syndicate that has been developed to provide comprehensive insurance for global health commodities focusing primarily on distribution of products to low-income countries. "Underwriters are aware of the need to use new technology to their advantage and are encouraging innovation and new products," says Kayll.

### Bermuda Update

Bermuda has helped bolster capacity in the market over the past 12 months, with over $15 billion in capital raised across all lines. To deploy the capital, several startups have entered the property market on the E&S and reinsurance side. Additionally, various Lloyd's of London syndicates have established Bermuda platforms, either writing as part of a syndicate or as a separately capitalized carrier.

"Bermuda is now a full-fledged market with capacity available from primary through to high excess," says Alan Waring, Non-Executive Director, Amwins Bermuda.

Bermuda capacity is focused not just on catastrophe cover, but also on providing large limits to industrial and manufacturing risks that have had coverage restricted by U.S. standard writers. Typical insured values exceed $200 million on accounts in tough classes and $500 million on other classes, with minimum premiums typically ranging from $50,000 to $100,000.

## Summary

The good news for retailers and buyers is that, unlike some previous hard markets, underwriting appetite for property business is generally strong. "In the past, we saw markets pull out of classes of business. We don't see that happening today," says Tucker. "Now that rates have come up and terms have restricted, underwriters have begun to be more flexible in what they will write."

Retailers should be aware that time-strapped underwriters often prioritize business directed to them by their largest and most respected trading partners. Amwins has extremely broad and meaningful market relationships, including many limited distribution markets and exclusive capacity solely deployed through Amwins brokers.

**Renewal Pricing Trends –** Property Renewals, Rolling Quarterly