2021 / Q1

State of the Market

First Quarter, 2021

Over the last 12 months, there have been countless lessons learned. One of the most important is that no one can predict the future. As an industry, we spend an inordinate amount of time trying to make predictions, but the market fluctuations are impossible to anticipate. At Amwins, our focus is on our clients and helping them deliver the best product the market can provide. Our goal is to add value to our clients – regardless of the market environment – through a sustainable platform that delivers knowledge, market access and unique solutions.

While no one can predict the future, at Amwins we're always prepared for it. It's a confidence rooted in our 150-year vision, a methodical mindset that lets us balance purposeful innovation with long-term stability. This approach, along with our culture of collaboration, allows us to look down the road and say: "Bring on the future."

While I'm hopeful that there is light at the end of the COVID-19 tunnel, we'll likely see hardening market conditions persist throughout 2021. In our Q1 State of the Market report, we leverage our unique market perspective and the collective expertise of our specialists around the world to bring you the latest market intelligence spanning rate, capacity and coverage trends across numerous lines of business and industries.

Finally, as you've probably noticed, Amwins has a new brand identity. You can expect the same high level of service, expertise and market access that you've come to know from Amwins, but with a brand that matches who we are today and our focus on the future.

Sincerely,

James Drinkwater
President, Amwins Group

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Property

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."

Segment Snapshot

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.

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.

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. 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."

New technology is coming into play to streamline the underwriting process.

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.

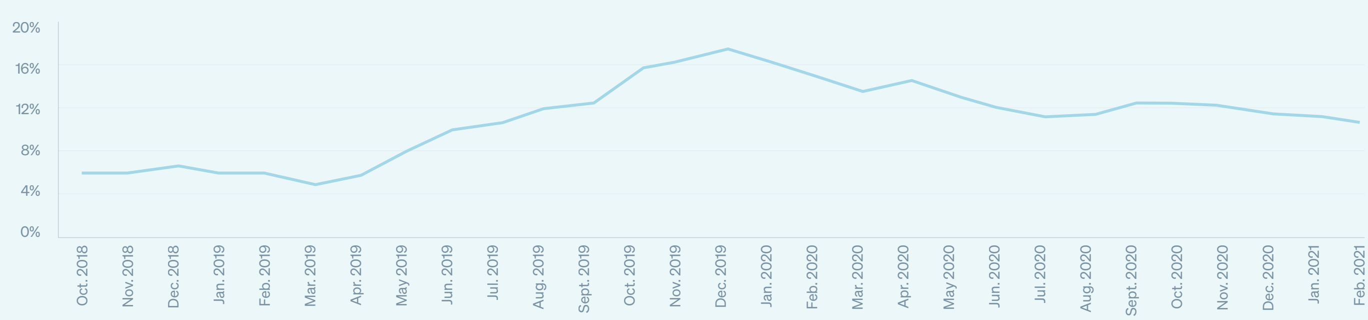
Bermuda capacity is focused not just on catastrophe cover, but also on providing large limits to industrial and manufacturing risks that have had coverage restricted by U.S. standard writers. Typical insured values exceed $200 million on accounts in tough classes and $500 million on other classes, with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



Casualty

Understanding the market, preparing quality submissions and choosing experienced partners with access to available capacity are keys to navigating this challenging casualty environment.

The story of the casualty market in the first quarter of 2021 has similar themes to the end of 2020, with both attritional losses and nuclear verdicts continuing to drive pricing increases. While primary general liability remains fairly flat, rate continues to be the driving force in the excess marketplace. “In the excess market, the average rate increase over the last 12 months has been over 50%. And we have seen increases as high as 300% in certain industry segments,” says Tom Dillon, Amwins National Casualty Practice Leader.

A key difference in the market this year is that the new carrier entrants into the excess space have begun to temper rate increase in the traditional E&S areas of the market. This capacity has come from both London-based and domestic sources. “The capacity we’re seeing come into the marketplace is experienced capacity. Meaning well-established, well-regarded and well-capitalized insurance executives are willing to deploy their capital in tougher spaces, such as infrastructure projects and large commercial projects,” Dillon says. However, it will take time for the impact of this infusion to be fully felt in the marketplace, and several segments still face a capacity crunch, particularly in high excess layers.

With many accounts entering their second renewal cycle of large pricing increases, the expectation is that rates, while still climbing, will slow their steep ascent. “I believe most of our carriers are now comfortable with their current attachment point and limit deployment on individual risks. However, there may be some movement in the certain classes, especially auto-exposed risks,” says Dillon.

With many accounts entering their second renewal cycle of large pricing increases, the expectation is that rates, while still climbing, will slow their steep ascent.

Segment Snapshot

Construction

Throughout 2020, the casualty market for construction saw tightened capacity as well as higher rates and deductibles. Certain classes have been hit harder than others, such as construction defect, as well as some venues, including New York, Louisiana, South Carolina, Colorado, New Jersey, Georgia and Washington. Although these conditions have continued into 2021, gradual rate softening is expected. Some markets are also providing tiered rates and offering creative pricing structures to assist with the increases.

There will be a few new entrants into this marketplace for primary coverage in the first half of 2021, which may provide some relief. However, excess capacity is still tight, particularly in the lead $10 million. Accounts with large auto fleets, residential/habitational construction, and street/road construction are finding the lead $5 million extremely difficult to place.

“We are having to involve a larger number of carriers to fill out excess towers. This is also driving the increase in pricing,” says Jennifer Mier, Executive Vice President and National Construction Practice Co-Leader, Amwins Brokerage in Dallas, TX.

There still is robust competition for renewable practice programs, although this is an area where potential firming is expected this year. Primary wrap-ups for frame apartments, which had been flat to soft for years, started seeing significant firming last year, which has continued in 2021.

“Frame residential projects on the west coast as well as Florida are particularly challenging, with an average of 20-40% rate increases over primary in other areas,” says Jett Abramson, Executive Vice President and National Construction Practice Co-Leader, Amwins Brokerage in Manhattan Beach, CA. Driving that trend is the relatively small number of carriers writing a large volume of these accounts that started reallocating their capacity.

In general, carriers are not pushing for restrictive terms, with the exception of blanket communicable disease exclusions. This exclusion is most problematic for contractors looking to enter the sanitization space. “We have been successful placing a few of these risks in the environmental market,” says Mier.

To succeed in this segment of casualty, retailers should get to market early and focus on submission quality to gain the attention of time-strapped underwriters. “Underwriting requirements are up, so complete submissions are a must,” says Scott Jensen, Executive Vice President and National Construction Practice Co-Leader, Amwins Brokerage in Satellite Beach, FL.

Energy

The energy sector is hardening with general liability rates increasing and more significant changes occurring on excess liability coverage.

“For mid to large-sized accounts with good loss history, we’re seeing moderate, single-digit rate increases on general liability,” says Mier. “Some markets have increased minimum premiums, which makes small accounts difficult to place.” Smaller placements can expect significant premium increases on both general liability and excess placements.

Excess liability is seeing much higher price increases and capacity reduction, especially on accounts with large auto fleets and auto losses. More carriers are needed to build towers, with excess rates up 15-30% depending on class and on top of previous cycle increases. “Excess carriers are looking for higher attachment points,” says Heath Cunningham, Executive Vice President, Amwins Brokerage in Atlanta, GA. “This will put pressure on primary carriers to fill the void, if not the buffer markets.”

“Capacity in the lead $25 million of excess is becoming very difficult,” says Ben Abernathy, Assistant Vice President and National Energy Practice Leader, Amwins Brokerage in Atlanta, GA. “Additionally, refineries and pipelines are faced with higher rate increases than other segments of the energy sector, with only a handful of markets willing to look at lead on those classes.”

For the next 12-18 months, look for rates to continue to rise. “It’s more important than ever for retailers to not only prepare their clients for these increases, but also provide quality submissions with a narrative on the insured’s risk management practices,” says Katie Wood, Vice President, Amwins Brokerage in Dallas, TX. “Working with a wholesale broker who specializes in energy placements and has strong market relationships is to key to success in this changing marketplace.”

Public Entity

Placements in the public entity sector are growing increasingly difficult. Escalating loss costs and severity trends, qualified immunity erosion and legislative uncertainties, increased payout patterns on liability claims, heightened adverse media scrutiny upon law enforcement, joint and several liability, and modified views of social responsibility are all factors contributing to an unrelenting reduction in existing capacity. At the same time, there is a lack of meaningful start-up capital flowing into the segment.

“This market is at an inflection point of challenge, where all stakeholders involved need to approach renewals collectively with a solution-oriented mindset, coupled with regular, creative and candid communication throughout,” says Brian Frost, Executive Vice President and National Public Entity Practice Leader, Amwins Brokerage in Woodland Hills, CA.

“Advanced strategic renewal planning, awareness of shifting market positions and their corresponding treaty expiration dates and outcomes, and consideration of non-traditional capacity solutions, sources, and structures are all essential in order to effectively combat the market challenges that lie ahead through the 2021 renewal cycle,” Frost adds.

Real Estate

In the real estate segment, 2020 was the year of dramatic rate increases on excess, especially for accounts that moved outside of programs or from standard markets that non-renewed business in the lead. Although rate increases in 2021 may not be as dramatic, carriers are still not letting up. Capacity remains tight, with difficulty obtaining more than $5 million of excess in the first $10 million from any one carrier. Quota sharing is now occurring within the first $25 million and lead excess buffers of $1 million to $2 million are more commonplace.

Although rate increases in 2021 may not be as dramatic, carriers are still not letting up.

“We continue to search for alternative risk solutions as a way to avoid the continued deterioration of pricing and capacity,” says Corey Alison, Executive Vice President and National Real Estate Practice Leader, Amwins Brokerage in Atlanta, GA.

Carriers have been adding communicable disease exclusions and pushing Assault & Battery sublimits where incidents have occurred. Habitability exclusions, previously found only on California business, are now being added by some carriers in other states as well.

It is also becoming more challenging to split up schedules. “More carriers are taking a hard ‘no’ stance on this strategy because they don’t want to be adversely selected with more challenging locations while the more favorable ones go elsewhere,” Alison says.

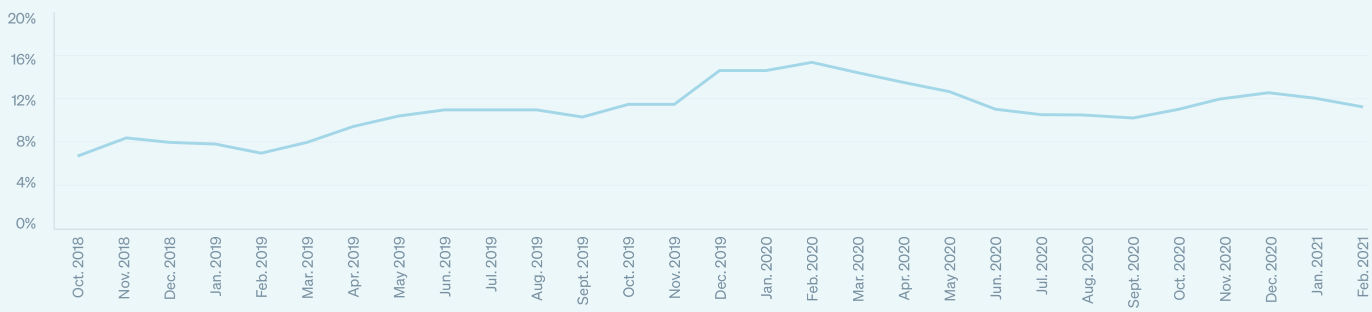
Underwriting scrutiny has also increased. “Carriers are asking for more years of loss runs, extensive security information and more detailed supplementals, to name a few,” says Alison. “They have such a flow of new business that they don’t need to entertain submissions that lack the more detailed information.”

Transportation

In the transportation sector, best-in-class risks are seeing single-digit to 15% rate increases, while distressed risks continue to face significant premium jumps and tough market scrutiny. The good news for buyers is that capacity does continue to expand as more entrants come into this space, with primary auto carriers increasingly willing to offer more than just $1 million combined single limit.

Favorable underwriting consideration is given to those companies truly investing in their safety programs and truck technology.

Renewal Pricing Trends – Casualty Renewals, Rolling Quarterly



"Favorable underwriting consideration is given to those companies truly investing in their safety programs and truck technology," says Andrea Dickinson, Executive Vice President, Amwins Brokerage in Franklin, TN.

The primary space has seen significant changes in underwriting appetite. "Many markets have turned away from regions deemed a litigious nightmare – including the Northeast, Southeast and Gulf – placing moratoriums on new business in those regions," says Chris Loggie, Executive Vice President, Amwins Brokerage in Chicago, IL. Since a large percentage of the primary auto space is comprised of risks that are distressed – often due to loss history, alarming growth, poor driver pools, unsatisfactory CABs, etc. – markets are relying more heavily on their loss control arm and utilization of telematics to dictate whether to partner with a potential insured.

"Navigating the transportation sector can be very difficult, so it's important to partner with a true wholesale specialist that not only has market access and clout but can steer you in the right direction to secure you and your client the right coverage," says Loggie.

In excess, capacity is still tight, but shocking rate increases have somewhat relented. "The best performing risks, which are doing well from a loss perspective, are now seeing less than 20% rate increases on lead excess layers," says Dickinson. "Risks with significant loss development and other negative risk factors will see rate increases of 20% or greater. Additionally, capacity for very large towers can still be hard to find."

With new market capacity in excess transportation as of Q1 2021, Amwins transportation brokers are well-equipped to build the protection insureds need.

Bermuda Update

While no longer a purely high excess market for Fortune 1000 insureds, the Bermuda market has contributed to the recent increase in capacity in casualty, which is available from lead umbrella through the tower. Additionally, Bermuda continues to lead the way as a center for alternative solutions, with multiple new registrations bringing the number of captive insurers to 680.

"Bermuda is responding to larger risks in tougher classes," says Alan Waring, Non-Executive Director, Amwins Bermuda. "The healthcare, energy and transportation sectors are all centers of expertise."

Despite the increase in overall capacity, most carriers have reduced their maximum available limits, typically offering $10 million rather than the previous $25 to $50 million. However, limits of over $100 million can still be found. Minimum rates per million have moved up from the $2,000-5,000 range to $7,000-10,000.

Summary

Hard market conditions in the casualty marketplace are expected to continue for at least several quarters, although at a diminished level compared to last year.

"Eventually, capacity coming into the sector will likely provide some rate relief, but the forces driving the price increases haven't let up," says Dillon. "Unless there is some meaningful tort reform, or until carriers gain more of a comfort level in certain segments and are able to avoid large verdicts and settlements, we will see a continuation of these challenging conditions."

In this difficult space, access to a diverse market roster through a wholesale broker with experience and established relationships is essential to connect to available capacity.

Professional Lines

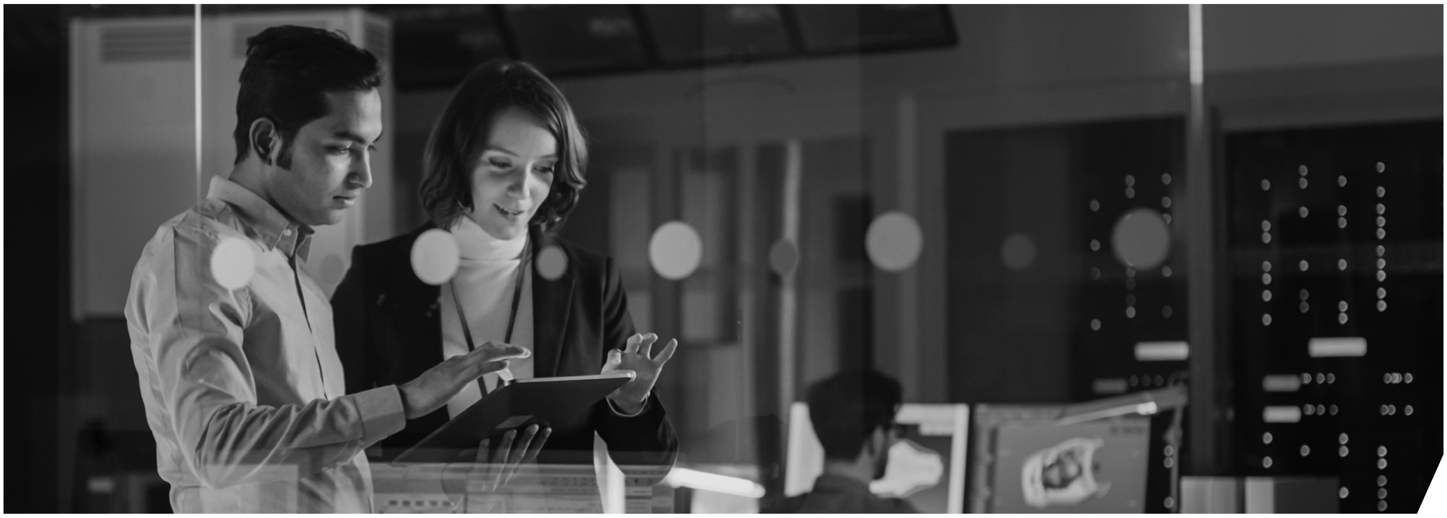
The hard conditions of the professional lines market mirror that of other liability lines, with buyers facing a continuation of higher rates and restrictive terms in 2021.

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 Snapshot

- Cyber / Tech E&O
- Public D&O
- Private D&O / EPL
- Healthcare
- Miscellaneous Classes
  - Cryptocurrency
  - Cannabis
  - Lawyers
  - Architects and Engineers (A&E)
  - Fiduciary
- Summary

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.

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.”

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

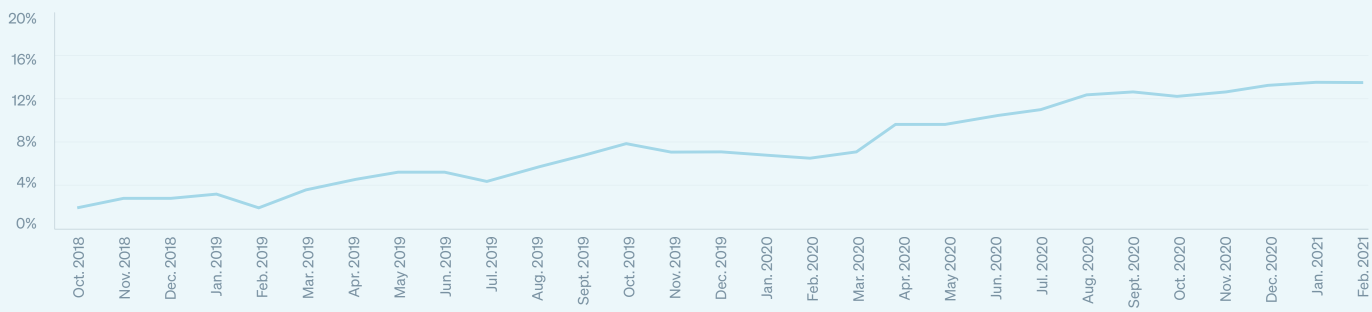
Private D&O has not been dealing with the level of rate spikes experienced on the public side, but a pullback is being seen in some soft-market coverage items where historically we had leverage to name our terms and conditions. Underwriters are also concerned about a rise in bankruptcies, particularly 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 health-care 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.

Some of the most aggressive markets in the SPAC space in 2020 have announced more conservative underwriting for 2021.

Renewal Pricing Trends – Professional Lines Renewals, Rolling Quarterly



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.

Long-term care and assisted living facilities are particularly difficult to place in the era of COVID-19.

“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.

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."

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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.

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.

Insurance-Linked Securities

Growth and evolution of alterative capital provides market opportunity

The insurance-linked securities or "ILS" space emerged in the 1990s as a way for (re) insurers to tap into larger pools of global capital. Similar to how asset classes like consumer debt or corporate loans have evolved, broad-based securitization allows participants to access global investors such as pension funds, sovereign wealth funds and university endowments.

Importantly for institutional investors, the values of ILS assets are linked not to the financial markets, but to insurance loss events, primarily natural catastrophes and weather events. In the insurance marketplace, ILS has become an important source of capital with a broader appetite than many traditional (re)insurers. Because they are tapping into a deeper pool of capital, ILS funds are often able to accept some increased concentration risk as long as expected returns are adequate, making them an especially important source of capital in traditional "hot spots" like south Florida.

Market Growth

The amount of ILS in the global reinsurance industry is approximately $95 billion, which represents approximately 20% of total available reinsurance capacity.[1]

"ILS made up a fairly small percentage of the market until 2012. The period from 2012-2018 was one of substantial growth, as ILS became a mainstream source of CAT capacity. Following the storms of 2017-2018, we've seen the market enter a 'maturation' stage, where

In the insurance marketplace, ILS has become an important source of capital with a broader appetite than many traditional (re)insurers.

some funds either exited the space or faced a reduction in assets under management," says Ben Sloop, Amwins' Chief Operating Officer.

In addition to overall expansion of capacity over the past decade, the way ILS is deployed has evolved. "Initially, ILS would only be deployed in the reinsurance or retro markets in instruments such as collateralized reinsurance, sidecars, aggregate retro products and catastrophe bonds. Today we are starting to see ILS capital moving up in the value chain and playing more directly in the insurance market," says Mark Bernacki, President of Amwins Special Risk Underwriters and Amwins' Alternative Risk Practice Leader.

"ILS has become a mainstream part of property catastrophe cover because of the analytics and modeling capabilities deployed around property loss. However, we are starting to see the exploration of applications of ILS in the casualty space as well," says Holland Walls, Executive Vice President of Alternative Risk, Amwins.

Continued Growth

ILS is poised for continued growth. "Although there has been some maturation in the market, stronger players have continued to grow and thrive, and there are new entrants in the space," Sloop says. "The ILS market feels well-positioned to begin growing again in 2021 and beyond."

For retailers, the evolution of ILS means that establishing partnerships with experienced wholesalers is more important than ever. Amwins has continued to build proprietary products utilizing alternative capital, including a recently launched partnership with Bermuda-based Integral ILS Ltd. The program will see Integral assume U.S. catastrophe risk originated from Amwins' MGAs and will include small commercial, personal lines, middle market and large shared and layered accounts.

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"This latest development is another example of how we build new products to support our market partners and bring more product to our retail clients," Sloop says. "In this rapidly changing market, retailers need a wholesaler that understands the global capital markets, particularly as ILS funds continue to expand their appetite beyond traditional reinsurance. And for our market partners, ILS funds like Integral provide a capital-efficient way for them to expand their underwriting appetite while mitigating their critical cat exposure."

[1] From various sources – ILS had grown to about $95B YE 2018 but had "stagnated" in 2019. See: https://www.fitchratings.com/research/insurance/insurance-linked-securities-stagnated-capacity-29-09-2020. Guy Carpenter does not yet have a YE 2020 capacity figure, but the expectation is only "slightly" higher: https://www.artemis.bm/news/ils-resilience-reinsurance-capital-grows-renewals-guy-carpenter. The total reinsurance capital in the market is just under $500B - $395B or so traditional and $95-100B ILS.

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