STATE OF THE MARKET

Q1 | 2020

2019 was unlike any other and this market shift has affected carrier appetites, attachment and limits in a broad fashion. The start of 2020 is no different; these market dynamics could stay with us for the foreseeable future. In this Q1 State of the Market, our experts address the latest challenges to face the property and casualty space and trends that may impact your business.

ON YOUR TEAM.

AmWINS® Group, Inc.

PROPERTY

A push for *underwriting profitability* is driving continued hardening of the property market.

Our Q4 2019 market update projected that property would continue to harden, and that has come to pass. Early 2020 rate increases have been in the 10%-20% range for non-CAT exposed accounts. Accounts with CAT exposure and poor loss experience are realizing 20%-plus increases, and tougher classes are experiencing even greater increases.

"As we head into 2020, the same market factors from 2019 are still in play, with the ultimate objective to return the book to profitability," says Harry Tucker, Executive Vice President and National Property Practice Leader for AmWINS. Until profitability improves, the market will continue to see pricing, terms and conditions that benefit carriers.

While rates continue to climb, premium continues to flow into the E&S space. Data collected by the Surplus Lines Stamping office of Texas shows that 2019 E&S premiums for 15 state stamping offices, representing 64% of the U.S. E&S market, were up 19% YOY. All 15 states experienced growth, with 12 of the 15 reporting double-digit increases. "Interestingly, AmWINS' book mirrors a very similar premium growth trajectory, in those same states," says Tucker.

> ***"As we head into 2020, the same market factors from 2019 are still in play, with the ultimate objective to return the book to profitability," says Harry Tucker, EVP & National Property Practice Leader for AmWINS.***

Additionally, the market is being influenced by three key trends:

CONSERVATIVE LIMIT DEPLOYMENT

Through Q3 2019, U.S. property/casualty surplus reached a new record of $802B, which indicates capital is stable and the "transitioning" market is not what has been considered a "hard" market in the past. Indeed, the property market does not lack available capacity; rather, carriers' conservative limit deployment and a de-risking strategy largely contribute to current tight conditions.

Capacity in tougher classes has decreased as well, with loss severity and frequency the principal culprits behind this trend. Multi-family residential, hospitality, food processing, wood/lumber accounts and recyclers have seen the greatest loss of capacity as carriers look to de-risk their portfolios.

INCREASE IN REINSURANCE PRICING

Reinsurers are looking for minimum increases of 5%-10% for 2020 renewals. "We had some 1/1 renewals where the carrier was looking for flat pricing and the markets refused to quote without an increase," says Rich DiClemente, President of THB Intermediaries. "Another issue will be the retro market as the cost of reinsurer protection is up some 15%-20%, which will drive reinsurance costs higher."

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INCREASE IN REINSURANCE PRICING *(CONTINUED)*

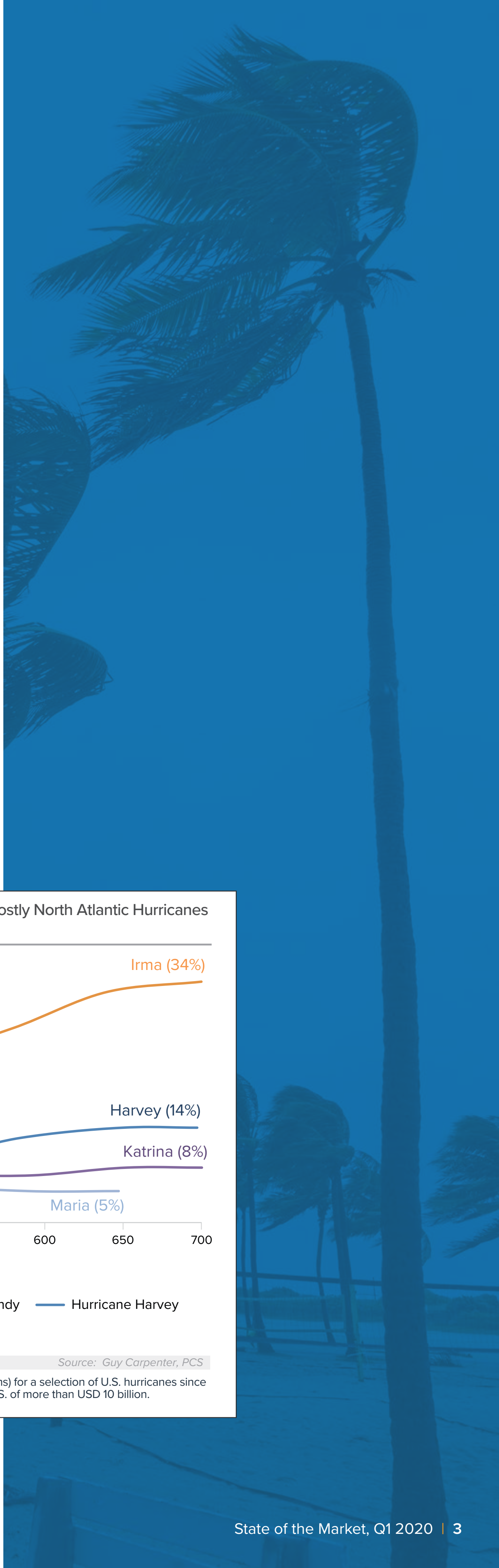
Expect to see a continued increase in reinsurance rates and a reduction in line size this coming CAT season and for direct carriers to pass this cost along to buyers. The extent of rate increases will be better assessed after the larger domestic CAT treaties renew at 4/1 and 7/1.

LOSS DEVELOPMENT

Traditionally, property insurance did not have a “tail”—a carrier could reliably establish property loss reserves and settle claims shortly after an event. Today, loss development, or “loss creep,” is a growing concern for the market. This trend is demonstrated in the graph depicting the loss development of major natural catastrophe events post-landfall. Add to this trend the claims from wildfires over the past two years, and the problem for carriers compounds.

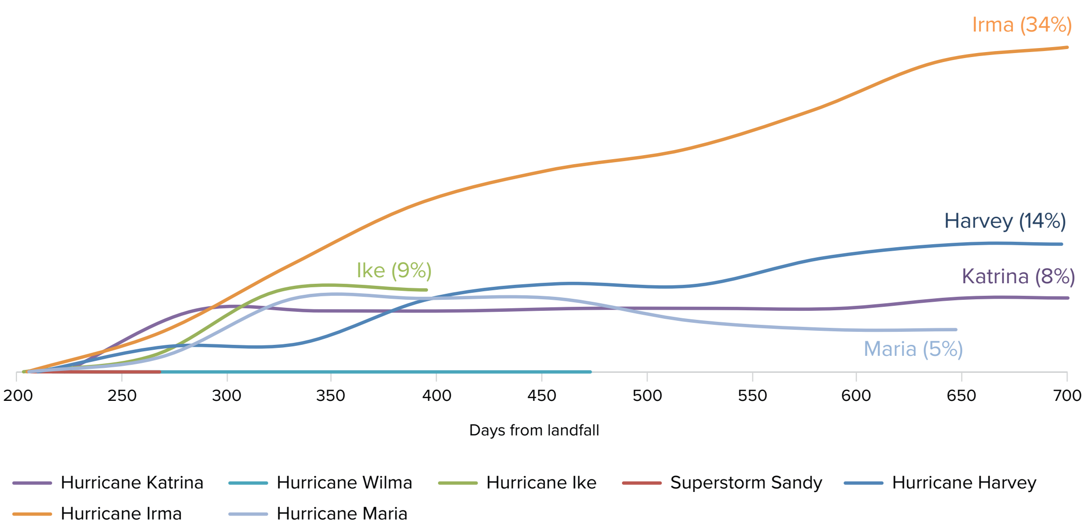
Other industry sources have also indicated that the magnitude of loss creep for virtually every major peak peril loss sustained in the last two years has surprised the market, and losses continue to develop adversely. This is changing how markets view property risk. No longer is it just the “magnitude” of losses that are considered: underwriting assumptions around perils that had traditionally been viewed as attritional, rather than catastrophic, are changing.

Taken as a whole, the property market will continue to see rate increase, discretionary limit deployment and tougher terms and conditions through 2020 and into 2021.



LOSS DEVELOPMENT

Exhibit 7: Claims Development for Costly North Atlantic Hurricanes 2000 to 2017[3]



Source: Guy Carpenter, PCS

3. This graphic uses data from Property Claim Services (PCS) to show the development of claims (in percentage terms) for a selection of U.S. hurricanes since 2000, starting at 200 days post-landfall and leading up to 700 days. All incurred an ultimate insured cost in the U.S. of more than USD 10 billion.

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PROPERTY *(CONTINUED)*

SEGMENT SNAPSHOT—Within the property market, some classes that have seen notable challenges or changes include energy, cargo, hospitality, food and beverage manufacturing and auto physical damage.

ENERGY

For the fourth straight year in 2019, the energy market was unprofitable and, as a result, hardening has continued to accelerate. A number of carriers have restricted capacity and tightened underwriting, especially on smaller accounts. Upstream and midstream will remain volatile this year, with up to 20% rate increases expected for CAT-exposed accounts. Downstream accounts will be even harder hit.

"Conditions will get worse as the year goes on because of the unprofitability underwriters faced in 2019," says Alistair Barnes, Executive Vice President—Energy Practice for AmWINS. "In this market, it can be a struggle for retailers to put submissions together with the amount of information required to obtain a quote. They need to be making use of a knowledgeable wholesaler as early in the application process as possible."

"Conditions will get worse as the year goes on because of the unprofitability underwriters faced in 2019," says Alistair Barnes, Executive Vice President—Energy Practice for AmWINS.

CARGO

The cargo market, and more specifically, the Stock Throughput line, underwent a massive correction in 2019. Many Lloyd's underwriters ceased writing accounts in the fourth quarter as they reached their income limits.

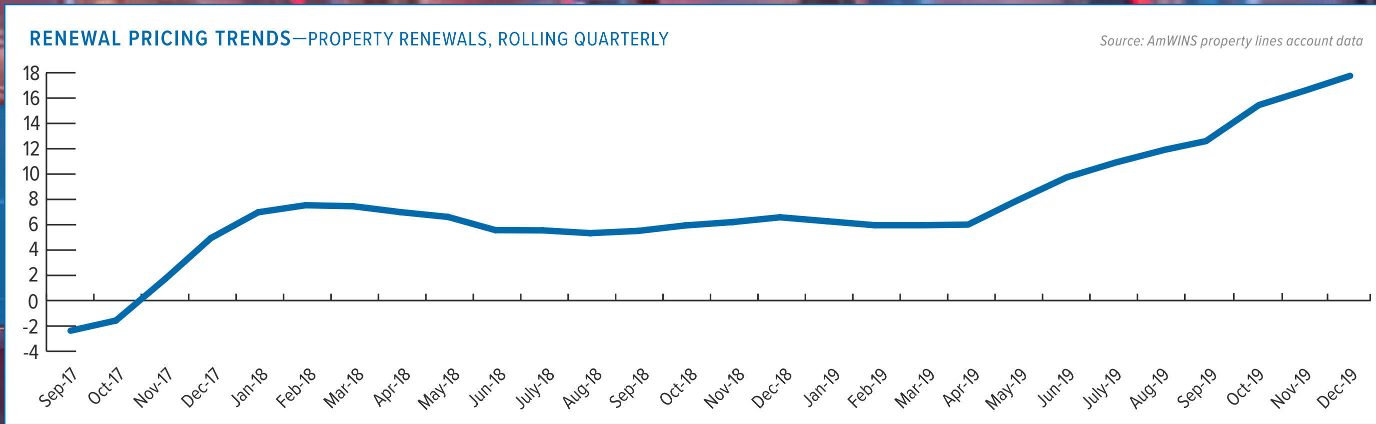
"In 2020, new business will be written, but underwriters are already being much more selective so they don't find themselves in the same situation as 2019, where they had exhausted their premium income limits toward the end of the year," says Toby Kayll, Managing Director of the Marine and Energy division at THB Group. Underwriters are asking for far more information than in previous years, and the most complete submissions will be looked upon significantly more favorably than those which are not. Good COPE information is essential and non-sprinklered warehouses will be faced with significant deductible increases.

THB, AmWINS' London broker, is continually searching for new non-Lloyd's capacity, which is unencumbered by some of the Lloyd's constraints.

HOSPITALITY

Although hospitality risks nationwide can expect renewal rate hikes, conditions in in the sector vary significantly by account geography and loss history. Whereas Midwestern accounts may see a 5%-10% rate increase and perhaps a higher hail deductible, risks in California, Florida and the Gulf Coast, and those with loss history, are seeing significantly greater premium jumps. Additionally, capacity pullbacks mean that accounts formerly written with a single carrier now require towers to complete.

"Retailers need to prepare their clients for the fact that, when you go from a single-market risk to multiple markets, it's likely more expensive to build the same limits," says Tom Cesare, Executive Vice President, AmWINS Brokerage.



FOOD AND BEVERAGE MANUFACTURING

Standard markets in the Food and Beverage Manufacturing space have significantly de-risked their capacity on renewals due to both hurricane and attritional losses, causing more accounts to enter the E&S market. “Rates have risen in the multiples, generally well over 20%,” says Theresa Lally, Executive Vice President, AmWINS Brokerage of New York. “This constricted capacity requires additional restructuring of accounts and introducing new carriers with many additional layers/quota shares to reach the necessary limits.” Many of the losses in the class were a result of heavy business interruption as well as local regulatory issues when operations went back on-line.

While the entire segment is challenging, there are a few areas that are faring worse than others. Liquor accounts are particularly difficult, due in part to the Jim Beam factory fire in July 2019 that destroyed 45,000 barrels of bourbon and contributed to a $50 million loss. A common strategy has been to place stock in the stand-alone Stock Throughput market in Lloyd’s at low rates and flat deductibles. This class has been experiencing even higher rate increases than other coverage lines. The significant market change can make Stock Throughput less economically viable then in previous years. This has forced the cover back onto the property placement, where we are observing rate increases of up to 2x and 3x expiring.

On accounts with foreign exposure, incumbent markets have cut back on these risks and they are being turned away by domestic markets, resulting in heavy reinsurance on some placements.

“In terms of limited capacity and rate increases, we expect 2020 to be more of the same and to possibly see additional constrictions in capacity,” Lally added.

AUTOMOBILE PHYSICAL DAMAGE

For retailers, the good news is that there are new markets willing to write monoline physical damage coverage, which has typically been a more challenging placement. The bad news for buyers is that pricing overall is going up significantly, due to a combination of rate increases and climbing vehicle values.

“The price of large trucks and heavy equipment has more than doubled over the last decade,” says Judd O’Neal, Executive Vice President, AmWINS Group. “Markets are also a bit behind the eight ball in terms of getting enough premium to cover losses.” In addition to pushing for rate increases, underwriters are attempting to gain coverage concessions, including changing from a per-occurrence to a per-unit deductible and pulling back on towing limits.

The Property segment continues to evolve, and if capacity and new market entrants remain scarce, rates will continue to harden.

SUMMARY

The Property segment continues to evolve, and if capacity and new market entrants remain scarce, rates will continue to harden. Not many in the industry could not have imagined the change that has taken place over the last 12 months, but there are still opportunities to leverage wholesale partnerships and address even the most challenging client needs.

CASUALTY

There are *few exceptions* to the hardening market faced by casualty buyers, and conditions are expected to last throughout the first half of 2020 & potentially beyond.

The hardening of the Casualty market accelerated in Q4 2019 and continues into the first quarter of 2020. Capacity is constricted and rates on primary layers continue to increase, especially in segments of transportation, wildfire-exposed accounts, and accounts with greater sexual abuse or molestation risk. The rare exception is the products liability space, which remains largely competitive.

“Carriers’ fourth-quarter results do show some improvement over the same quarter prior year, but I don’t think we’re anywhere near the market turning in another direction,” says Tom Dillon, Executive Vice President and National Casualty Practice Leader for AmWINS Group. “However, there is a school of thought that some rate temperance could occur as we get through this first renewal cycle in mid-2020.”

The Excess casualty markets continue to be more challenging than the primary due to shrinking capacity. In most cases, rates on excess layers are exceeding those of primary layers. This has led to some buyers choosing to reduce limits and retain more risk in the face of rising premiums.

Market conditions are being driven both by insurers’ actual claims experience as well as fears over trends pushing claim payments skyward, with social inflation and “nuclear verdicts” being the major drivers. Although social inflation is not a new phenomenon, its impact on the insurance industry has become much more pronounced in recent years. Social inflation includes increased legal advertising, expansion of the litigation finance sector, expanded determination of liability, plaintiff-friendly juries and larger jury awards. Examples of this include a $70 million 2019 verdict awarded in the Kroger parking lot robbery and shooting and the agreement of MGM Resorts to pay up to $800 million in the Mandalay Bay incident.

In this hard market, submission flow has spiked as brokers struggle to replace lost capacity, build limit towers and move some risks from admitted to non-admitted markets. “We are increasingly seeing delays in quotes because underwriters are completely inundated with submissions. Brokers need to get applications in early, particularly with high limits or excess layers,” says Gary Grindle, Executive Vice President, AmWINS Brokerage of New England.

“We’ve also noticed that the number of accounts being sent to underwriting management has increased, which is slowing the quote process,” says Corey Alison, Executive Vice President, AmWINS Brokerage of Georgia. “Additionally, for real estate in particular, there is much more attention being paid to the percentage this class is of their overall portfolio, which has made the carriers more selective on what they quote.”

Looking ahead, the length of this hard market will be better ascertained later in the year, when carriers have completed at least one full renewal cycle of rate increases. “The challenging market, combined with year over year losses trending in a negative direction, point to this hard market not ending any time soon,” Alison says.

SEGMENT SNAPSHOT—The most challenging classes in casualty include commercial auto, wildfire liability, and nonprofits and public entity risks. "Habitational markets, in particular, remain in turmoil. We're seeing large premium increases, greater use of assault and battery exclusions, and fewer risk purchasing groups," says Grindle.

EDUCATIONAL INSTITUTIONS AND PUBLIC ENTITY

Public entities and educational institutions are seeing great difficulty placing excess casualty as carriers cut back on limits, particularly for entities that have elevated sexual misconduct risk, as well as accounts that have concussion (chronic traumatic encephalopathy) exposure.

"Loss experience is simply outpacing premiums in this space," says Brian Frost, Executive Vice President, AmWINS Insurance Brokerage of California. "In years past, you may have been looking at $300,000 awards to individual claimants. Now, it's going up to $3 million or $5 million. Additionally, new legislation, including survivor statutes, is being enacted by states. Carriers are simply wary because of all the uncertainty."

Public entities and educational institutions are seeing great difficulty placing excess casualty as carriers cut back on limits, particularly for entities that have elevated sexual misconduct risk, as well as accounts that have concussion (chronic traumatic encephalopathy) exposure.

TRANSPORTATION

Social inflation has hit the transportation industry hard. "Nuclear" verdicts against trucking firms in the tens of millions have rattled the market. In 2019, one such verdict was a $280 million award by a Georgia jury to the family of a Louisiana woman killed by a truck carrying steel, far above the insured's casualty tower limit.

"We are seeing double-digit rate increases across the board, although perhaps not quite the volatility we had seen last year," says Dan Litterio, Vice President, AmWINS Brokerage of the Midwest.

Passenger transport and public auto are extremely difficult to place. Retail agents are also dealing with a new climate in which larger accounts are not necessarily more desirable to underwriters.

The transportation casualty market also differentiates sharply between clean and distressed accounts. "There is much more competition for preferred business—well managed trucking companies with good drivers, low driver turnover and positive loss ratios," says Bryan Touchstone, Senior Vice President, AmWINS Brokerage of the Midwest. "There have been some new entrants into the primary auto space as well, so we are seeing rates on preferred business that are more competitive than in the past."

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CASUALTY *(CONTINUED)*

CONSTRUCTION

Hardening continues in construction, with underwriters holding firm on guidelines and being selective regarding risks they will consider. Pricing maintains its upward trend, although the levels of increase vary widely. “On the low end, renewable primary programs for middle-market contractors are up only slightly, perhaps 5%-10%. On the high end, excess towers on contractors with heavy auto fleets, even those that aren’t loss challenged, we’ve seen numerous increases in the 300 to 400 percent range,” says Jett Abramson, Executive Vice President, AmWINS Insurance Brokerage of California.

In excess liability, carriers are increasingly unwilling to extend current programs or want a punitive additional premium for it. “The days of $25 million leads are all but gone. Pricing has also increased dramatically, with rates of 125% of primary being seen,” says Donald Marshall, Executive Vice President, Casualty, AmWINS Brokerage of Georgia. Large commercial and industrial accounts are the exception and are still desirable for both primary and excess.

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On non-wrap project-specifics (such as smaller apartments or mid-range custom homes) there is still a very competitive marketplace. On wrap-ups, the commercial space has firmed, especially on excess and particularly lead excess. On the residential side, rates are trending up even more, especially in the higher construction defect states, including California, Arizona, Nevada, Hawaii, Florida and Washington. Renewable/practice programs are still competitive within the primary space, but excess is firming and limits are being compressed.

“Retailers need to get started marketing early,” Abramson says. “Ask your wholesaler about what market realities are like today and manage your clients’ expectations early and well. Loyalty is also paramount in a hard market, so give your brokers the time and capacity they need to do their job.”

PRODUCT RECALL

The number of product contamination and recall incidents continues to rise each year, and 2019 was no exception. According to the Food and Drug Administration (FDA), the number of recalled units increased 319% in the food and beverage space.

"With the 2018 Arizona and California romaine lettuce advisories still looming, this is an alarming trend," says Matt Carpenter, Executive Vice President, AmWINS Brokerage of the Midwest. Consumer products have seen an above average increase in recall frequency, with 261 taking place between Q4 2018 and Q3 2019. The automotive industry also continues to experience a high frequency of recalls, ranging from 180 to 220 per quarter since 2014.

Several factors have contributed to the increasing number of recalls, including improved technology. Enhanced testing and traceability enable the public to more accurately and quickly determine the cause and source of foodborne outbreaks.

"In addition to the constantly evolving regulatory environment, advocacy organizations are more vocal than ever," Carpenter added. "In their mission to protect consumers, they can easily turn a small incident into a wide-spread campaign."

Another contributing factor to the increase in recalls is improved technology. Enhanced testing and traceability enable the public to more accurately and quickly determine the cause and source of foodborne outbreaks.

SUMMARY

In a challenging casualty market overall, partnering with a wholesaler is essential. "Retailers need to work with someone who is experienced in navigating the market," says Dillon. "They need someone who understands how to put a compelling submission together with the information and detail that today's time-strapped underwriters need."

PROFESSIONAL LINES

Across professional lines, there is *quiet acceptance* of challenging marketing conditions, with 2020 poised for continued hardening.

Overall, the conditions of the professional lines market mirror that of other liability lines, with buyers facing higher rates and restrictive terms in certain segments. The exception to this is cyber, which remains competitive. Buyers appear to have come to terms with this reality.

"As we wrapped up 2019, we entered the phase where people are accepting the reality of this market. Retailers had an easier time selling rate increases in the second half of the year," says David Lewison, Senior Vice President and National Professional Lines Practice Leader for AmWINS Group.

D&O

In the public D&O space, carriers are demanding rate and getting it. Last year began with a significant price increase for IPOs, biotechs and technology businesses. By September, markets were pushing even greater rate increases, and no letup is seen in this trend in 2020. In excess public D&O, pricing is not dropping as rapidly as you move up the tower.

"Markets had been trying to outrun public D&O losses by writing premium, but they've been losing too much ground. Ultimately it took a couple of big moves by AIG and others, and landmark cases such as Cyan to move the market," Lewison says. In Cyan Inc. v. Beaver County Employees Retirement Fund, the U.S. Supreme Court reaffirmed that state courts have concurrent jurisdiction with federal courts to adjudicate securities class actions, meaning that public companies face the risk of a war on two fronts, having to defend themselves simultaneously in state and federal court.

The private D&O market has traditionally been much more competitive than public; however, even the private market has been pushing for rate increases in light of public market hardening. "We are seeing carriers routinely presenting 12%-14% rate increases, although we are having success pushing back against that," says Kevin Dorse, Executive Vice President, AmWINS Brokerage.

One mitigating factor in selling a price increase to buyers is that it can be correlated directly to increases in revenue being attained in today's strong economy. "Where it gets more difficult is when carriers are also trying to pull back on coverage, such as adding sub-limits and/or defense only for regulatory actions, and/or requiring an entity anti-trust/anti-competitive practices exclusion," Dorse says.

CYBER

The cyber liability segment is saturated with capacity, keeping pricing competitive and coverage broad despite growing concerns with losses.

"When you go to any cyber conference, you hear that ransomware is hitting every sector. Major breaches affect more than just records—they affect access and heighten business interruption risk. Based on this, you would assume the cyber market would harden, but there is just so much capacity and companies are fighting for market share," says Dorse.

The market also appears to be unconcerned with new regulations around data privacy and security. "We just don't see the impact of the regulatory climate on cyber that we do in other sectors," says Megan North, Vice President, AmWINS Group. "The General Data Protection Regulation (GDPR) made headlines briefly, then fell from the news. Now we're watching the California Consumer Privacy Act (CCPA), along with some other states poised to follow suit, but we don't expect any market response until at least next year."

Strong underwriting appetite in cyber is forecast for the foreseeable future. "The market is far from seeing buyer saturation. We don't anticipate a change in the direction of rates because carriers are making money via growth in market share," North says.

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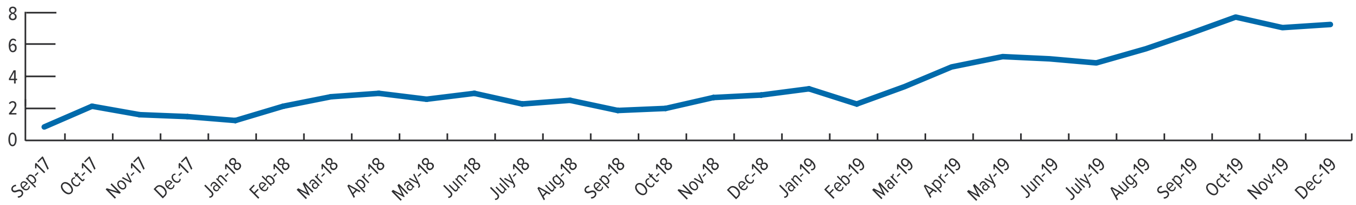
RENEWAL PRICING TRENDS—PROFESSIONAL LINES RENEWALS, ROLLING QUARTERLY

Source: AmWINS professional lines account data



MEDICAL PROFESSIONAL

Medical professional liability is arguably among the most challenging for retailers as capacity continues to exit the space across every sub-sector. In long-term care, a half dozen major carriers have pulled out in just over a year.

"Even accounts of good quality are seeing 30% rate increases. Accounts with claims are seeing 40%-50%," says Don Tejeski, Senior Vice President, AmWINS Healthcare. Faced with unaffordable pricing, some facilities are choosing to self-insure or participate in a risk retention group.

Skilled nursing and assisted living are seeing a similar pricing trend. "A few years ago, it was easy to obtain 10 or more quotes on a facility. Today you're lucky if you can get two. It's a tough sell to accounts that had become accustomed to much more competition for their business," Tejeski says.

Correctional health care, besieged by high claims frequency, remains extremely tough. Additionally, this sub-sector presents limited opportunity for retailers to write new business. "There are only about two dozen major correctional health care businesses, with the remainder being smaller staffing facilities that serve many different industries. When those smaller facilities discover that professional liability insurance premiums for performing work at correctional facilities are almost as much as the value of the contract, they simply aren't pursing those jobs," explains Tejeski.

"Even accounts of good quality are seeing 30% rate increases. Accounts with claims are seeing 40%-50%," says Don Tejeski, Senior Vice President, AmWINS Healthcare.

Miscellaneous healthcare, including home healthcare and medi-spas, has likewise seen capacity constriction, particularly in problem venues such as New York. Accounts are also being challenged to obtain occurrence forms, presenting a significant coverage gap if nonrenewed policies are replaced with claims made forms.

Conditions in long-term care are not expected to change any time soon. "The bottom line is we are down to a handful of markets, whereas a few years ago there were over a dozen. There are few new carriers that enter this space. Lloyd's has its own performance management issues, so their current capacity and appetite for problem accounts means that buyers are looking at expensive premiums and high deductibles," Tejeski says.

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PROFESSIONAL LINES *(CONTINUED)*

ABUSE AND MOLESTATION COVERAGE

A key trend in the abuse and molestation market is that nontraditional buyers of this coverage, such as building contractors, are pursuing it, either as a standalone policy or as an inclusion on other liability forms. Driving this trend is that municipalities, schools and other entities with higher abuse and molestation risk are requiring the coverage from their contractors and vendors via contract.

“We are definitely quoting it more, but the market is still in the early stage in terms of buying,” North says. “Many inquiries are coming from smaller insureds who haven’t had to deal with the coverage, and they are finding the premiums are not cheap—$5,000-$7,000 at a minimum. The market has no desire to come down on those rates due to losses and heightened concern around risk in today’s social climate.”

> ***...The premiums are not cheap—$5,000-$7,000 at a minimum. The market has no desire to come down on those rates due to losses and heightened concern around risk in today’s social climate.***

EPL

Employment Practices Liability (EPL) continues to firm in problem jurisdictions such as California, where very few carriers will write wage and hour coverage, as well as in Florida, Illinois and New York. Across the industry, carriers are reluctant to offer wage and hour in difficult classes of restaurants and hospitality. However, outside those problem areas, the segment is competitive and expected to remain so.

“Certain carriers are quite aggressive on EPL coverage,” Dorse says. “It often comes down to the relationship between the broker and underwriter, which is why it’s important for retailers to choose a wholesale partner that has focused on building those relationships.”

SUMMARY

For retailers, partnering with a wholesaler that has built strong relationships with underwriters is important not just to gaining greater market access, but in obtaining manuscript or bespoke solutions to complex professional lines risk management challenges.

“Standard markets simply don’t have the flexibility needed to address some of the challenges businesses face,” Lewison says. “There’s more creativity available in the E&S market through a wholesaler.”

PROGRAM BUSINESS

Partnerships with program administrators are essential for retailers looking to tap into the *fast growing* program business market.

Program business is one of the fastest growing sectors of the insurance marketplace. According to a recent study from the Target Markets Program Administrators Association (TMPAA), from 2016-2018, the industry saw a 12% increase in premium administered, with 2018 ending at $40.5 billion in written premium. During that timeframe, 25% of program administrators (PAs) recorded at least 20% growth in premium.*

For retailers looking to capitalize on this growth, success requires combining a wide range of knowledge about various classes of business with a high level of specialization, which program administrators are uniquely positioned to provide. Retailers should also look for PAs with proven underwriting skills, profitable return on investment, actuarial expertise, and effective supporting technology that can scale with increases in business.

PAs also serve as valuable front-line underwriting for time-strapped and profit-focused carrier partners. “There is a real focus on underwriting profitability now, and the whole program space has become very data-driven as a result,” says Bob Petrilli, President, AmWINS Underwriting. “When you look to start new programs, it’s essential you have valid loss history to be able to model several years of data. That’s quite different than in the past, when it had been more about getting premium in the door.”

Carriers, especially those with limited knowledge on niche industries, also look to PAs for their vertical expertise. “In the past, carriers didn’t want to give up the pen—they wanted to go after business themselves,” says Ben Francavilla, President, AmWINS Program Underwriters. “Today, they’ve realized that a better way is to utilize PAs that are knowledgeable in the space, underwrite efficiently, and do so profitably,”

PRICING TRENDS

Across nearly every sector of program business, pricing conditions mirror those of the property-casualty sector overall. Increases are being seen across all lines with the exception of workers’ compensation. Auto, marine and aviation, property lines, and excess liability are seeing the most significant rate hikes. Firming is also notable in the growing healthcare space, particularly long-term care.

In a hardening market, quality of underwriting has become more important. “If you’re a successful program manager, and especially if you’re thriving in a market like senior care or auto-heavy programs, you’ve done a good job of underwriting risk. Nevertheless, you still need to prepare your clients for significant rate increases because the market has firmed,” says Francavilla.

Increased new and renewal rates combined with strong growth in the number of accounts written through programs has driven top-line revenue in the sector. In 2018, three-quarters of PAs reported increases in gross revenue, compared to 68% in 2016. In addition to growth seen in program business overall, the insurtech boom presents opportunity for retailers to write business more efficiently than in the past. The percentage of PAs reporting involvement with insurtech increased from 58% in 2016 to 80% in 2018.*

Against this backdrop of strong growth, one area of pullback is in Lloyd's-backed programs. “If you have a program backed by London capacity, it is tough—there’s a lot of pressure on the distribution cost. Lloyd's used a very broad brush when it painted what lines of business were favorable, and now underwriters are being challenged to maintain their capacity,” Petrilli says.

CONTINUED OPPORTUNITY

There are a few potential threats to program business growth, including continued consolidation through mergers and acquisition, as well as alternative capital and non-traditional insurance companies entering the space. However, despite these factors, expectations are that program business overall should continue to gain momentum and attract a larger share of the commercial insurance market. In fact, 84% of PAs and 92% of carriers plan to introduce new programs over the next few years.*

SUMMARY

For retailers, the program marketplace offers versatility through its business model of providing tailored coverages and bringing new products online faster and more efficiently. To capitalize on this opportunity, retailers should partner with a PA that has a proven track record in the program marketplace.

“There’s a real benefit in choosing a program administrator that has expertise and has shown profitability over time to their carrier partners,” Francavilla says. “For retailers, aligning with PAs is a very efficient, effective way to find insurance solutions for high-hazard risks in niche industries.”

**The TMPAA State of Program Business Study 2019.*

PERSONAL LINES

A one-two punch **of catastrophic weather and Lloyds' retrenchment has knocked out a significant amount of capacity in personal lines, and the ramifications will be felt through 2020 and beyond.**

The personal lines market has been battered by a perfect storm of events, both literally and figuratively. Underwriters' books have been blasted by hurricanes on one coast and burned by wildfires on the other, while a significant shift by Lloyd's is having a far-reaching impact on available capacity.

"Last year was a significant challenge for the entire personal lines market," says Scott Sauter, AmWINS Senior Vice President and Personal Lines Practice Leader. "At the beginning of 2019, there was a lot of uncertainty around market conditions. By late February into April, the impact of the changing market was becoming more evident, and those MGAs who had contract renewals within the Lloyd's market after February were met with greater headwinds."

By the end of 2019, personal lines accounts were seeing both new and renewal rates about 20% higher on average than the prior year, along with increased deductibles. Rate increases and capacity restriction is more pronounced in CAT-affected regions, primarily wind tier 1 areas. For inland risks, and in areas of the U.S. less prone to wind events such as the upper Midwest, the change is less significant.

Underwriters' books have been blasted by hurricanes on one coast and burned by wildfires on the other, while a significant shift by Lloyd's is having a far-reaching impact on available capacity.

Beyond the overall trends, certain markets are seeing additional difficulty. "Florida and the Carolinas are very challenging at the moment, and we're starting to see more tightening in Texas. California wildfires have sent that state into a full-on hard market. With the exception of a few opportunistic firms, very few carriers in London or domestically are willing to entertain California business" says Sauter.

"Lloyds' focus in personal lines is to get back to what they are really all about, which is coastal state business from the Carolinas through Texas, and underwriting that business carefully and well. Going forward, you will likely continue to see a retraction toward those lines and those states," says Jimmy Gevaux, Broker, THB Group.

LOSSES AND LLOYD'S

Storm losses have had their own one-two punch. First, carriers experienced losses directly related to damages caused by weather. Then, they coped with loss development from previous years' storms.

"We've seen significant loss creep across all carriers and markets. In particular, the loss creep on Hurricane Irma has been significant, and driven in part by assignment of benefits [AOB] lawsuits," Sauter says.

As we move toward the 2nd quarter, all indications are that 2020 will see a continuation of the rate increases, higher deductibles, and reduced capacity that began the new year.

LOSSES AND LLOYD'S *(CONTINUED)*

Data from the Insurance Information Institute shows that the number of AOB lawsuits rose by more than 70% in a five-year period from 2013-2018, as attorneys took advantage of what was seen as a loophole in “disputed amount” claim scenarios. Fortunately for insurers, the state’s AOB Reform Bill, which went into effect July 1, 2019, should help close that loophole.

Lloyds’ market activity is being driven both by its overall performance management process as well as poor performance within personal lines books in particular. “Personal lines has been 15 to 20 points worse than commercial, so we are seeing a notable shift away from personal lines and retrenchment from Personal Lines underwriters,” says Jason Osman, Senior Broker, THB.

As Lloyd's takes a harder stance, domestic markets have been inundated by business inflow. “We are seeing many carriers in the domestic market take a harder stance simply because of the increased submission volume, particularly in the more challenging territories” Sauter says.

SUMMARY

As we move toward the second quarter, all indications are that 2020 will see a continuation of the rate increases, higher deductibles, and reduced capacity that began the new year. Even large agencies that have historically been able to lean on underwriters to accommodate business are often struggling to meet their clients' needs. Against that backdrop, the challenge for retailers is how to place personal lines accounts that need a home in the E&S market.

“The markets are still there, but you need relationships to gain access to them,” Sauter says. “You need to partner with wholesalers that have broad market access in order to address placement challenges faced in the current climate. That’s more critical now than ever.”

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