STATE OF THE MARKET

Q2 | 2020

In an industry that values stability and predictability, the COVID-19 pandemic has introduced uncertainty that makes it more important—but more challenging—for retailers to understand market conditions. Against this backdrop, this State of the Market departs from its traditional forward-looking format to instead provide a consolidated, moment-in-time report to help our retailers gain the knowledge they need to retain accounts, write new business, overcome challenges and capitalize on opportunities that do exist as the second quarter of 2020 nears its close.

ON YOUR TEAM.

AmWINS Group, Inc.

STATE OF THE MARKET Q2 2020

TABLE OF CONTENTS

OVERALL MARKET TRENDS

TRENDS BY RISK AND INDUSTRY

OVERALL MARKET TRENDS

THIS SECTION EXPLORES ISSUES IMPACTING OUR INDUSTRY AT LARGE AS WELL AS AN OVERALL UPDATE AND PRICING TRENDS FOR THE PROPERTY, CASUALTY & PROFESSIONAL SECTORS.

OVERALL MARKET TRENDS

As the pandemic continues to run its course, one thing is becoming crystal clear: the loss impact on the market will be profound. In May, Lloyd's reported it will pay at least $3B and as much as $4.3B as a result of the far-reaching impacts of COVID-19. In comparison, this amount is approximately equal to 9/11, or the combined impact of hurricanes Harvey, Irma and Maria. The estimated amount our industry as a whole will pay in covered claims varies widely, with projections ranging from $40B to $100B; however, losses could rise further if the various phases of the lockdown continues into another quarter. In addition to impending losses, the overall state of the U.S. economy, possible resurgence of COVID-19 in the fall and winter, property damage from riots, and predictions of a higher than average hurricane season (with reduced time to prepare as a result of the pandemic) will continue to impact market conditions. Finally, a significant market shift is being seen in reinsurance treaty renewals. June 1 renewals, a key date for Florida-focused Property and CAT Property business, saw an average increase in excess of 25%.

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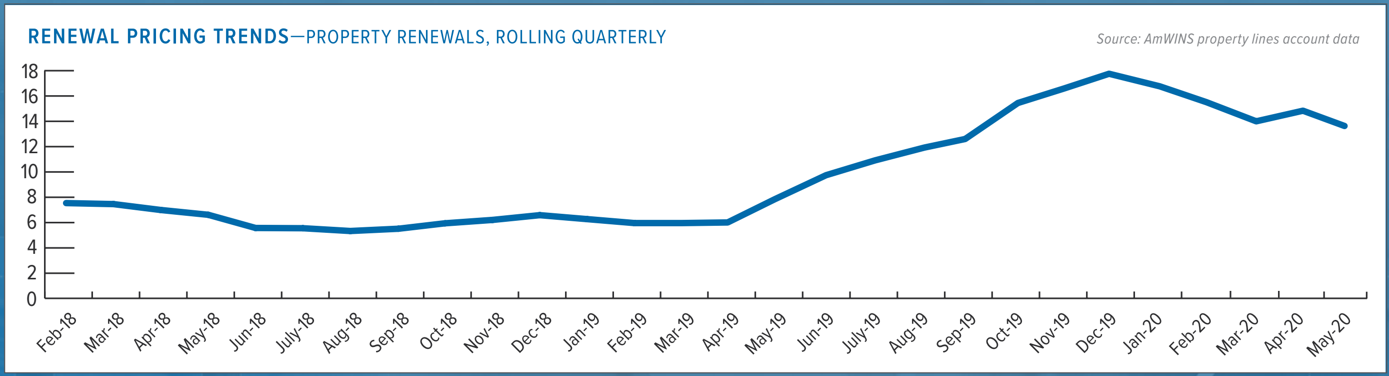
Insurers are also concerned about the long-term impact of the pandemic on claim activity that was not accounted for in their rate development or policy wording. Though communicable disease exclusions and other policy form modifications are being added to policies in almost every segment, there are lawsuits and legislative measures proposed that provide coverage to anyone who purchased business income insurance regardless of policy language. "If successful, this would have a devastating impact on our industry," says Harry Tucker, AmWINS' National Property Practice Leader. "Our industry's leaders are actively working both individually and through association groups to educate regulators on the issues this would cause, including potential bankruptcy for our industry." State regulatory bodies are also looking to enhance eligibility for workers' compensation, especially for frontline employees. These enhancements include requirements to cover COVID-19 testing and, if and when available, immunization. We feel confident that the carriers will prevail, but this will be a distraction and likely entail legal battles in a number of states.

According to the Council of Insurance Agents and Brokers (CIAB), Q1 2020 marked the 10th consecutive quarter of increased premium pricing by account size. As we near the end of Q2, the market hardening seen over the past 18 months has not slowed and carriers are taking ongoing and additional steps to improve profitability. Across all segments, expect to see a continuation of less capacity, tighter rates and more markets needed to fill out placements. The following are highlights of changes in the Property, Casualty and Professional Lines sectors.

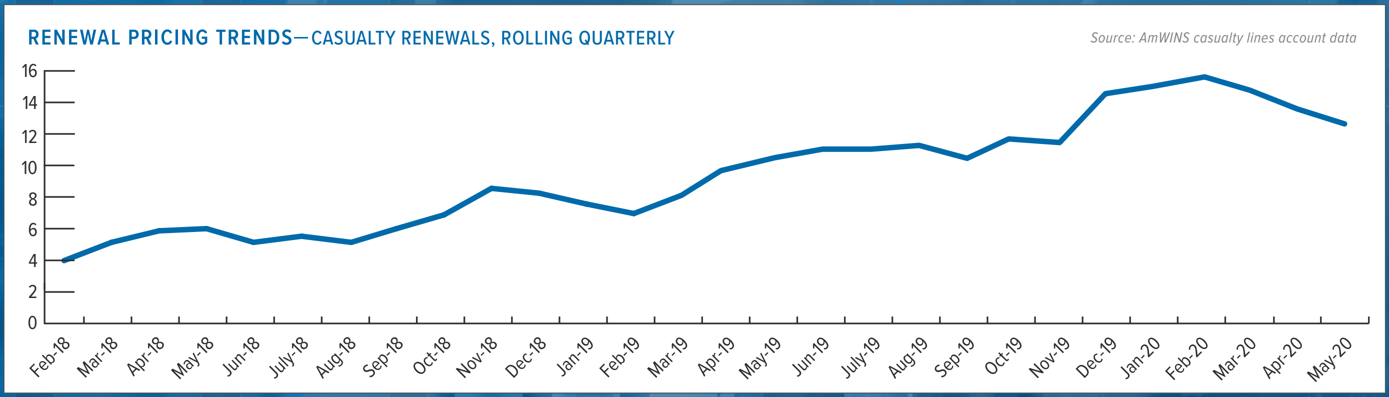
PROPERTY

We anticipate that Commercial Property rates will continue to increase between 10% and 25% year over year, depending on the level of CAT-exposure, and 30% or more if the account is CAT-exposed with losses. “Insureds can find some consolation in that rates may level out toward Q4 2020 as the businesses that took the brunt of rate increases at the beginning of the cycle come up for renewal,” Tucker added.



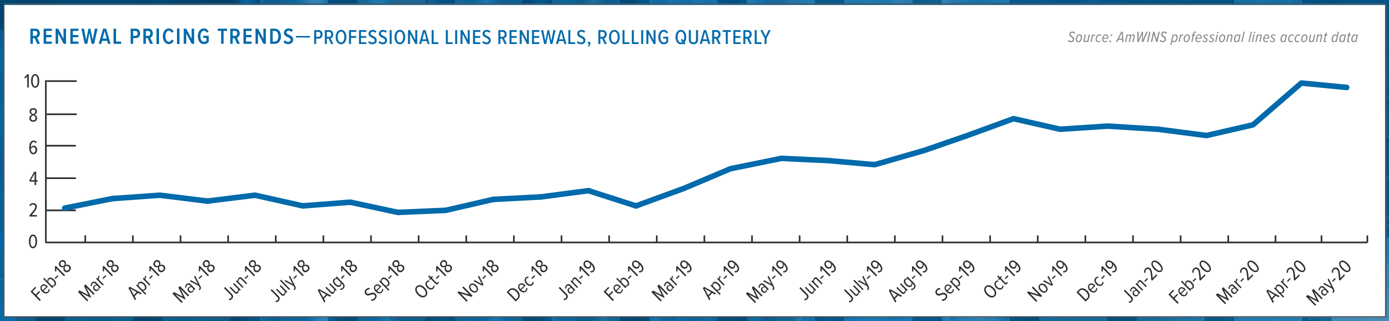
CASUALTY

“In the Casualty space, capacity restrictions within the Excess sector are the most prominent,” said Tom Dillon, AmWINS’ National Casualty Practice Leader. “The trend of reduced capacity and increased rate started prior to the COVID-19 outbreak, but effects of the pandemic have added additional pressure to not only rate, but the terms carriers are willing to offer.”



PROFESSIONAL LINES

Regardless of whether the account is impacted by COVID-19, underwriters are tightening the reins across most lines of coverage in the Professional Lines sector as losses are expected. Insureds are seeing substantial rate increases with minimal ability to negotiate terms. “Underwriters are asking many questions about how the insured is handling their business and workforce during the pandemic and reopening phases,” says David Lewison, AmWINS’ National Professional Lines Practice Leader.



TRENDS BY RISK & INDUSTRY

THIS SECTION PRESENTS A HOLISTIC VIEW OF HIGHLY IMPACTED RISK AND INDUSTRY SEGMENTS.

CONSTRUCTION

OVERALL SEGMENT TRENDS

The leading concern for insureds in the Construction sector, particularly for Builder's Risk, revolves around mandatory stoppage or idling by governmental entities. Without ongoing work at these construction sites, carriers are faced with increased exposure. A project's exposure is being driven by size, construction type, what they are building, terms and conditions. Wood frame projects continue to be the most challenging class of business due to continued attritional and industry shock losses from previous years and the first two quarters of 2020.

CAPACITY AND PRICING

- **Builder's Risk**—While there is much uncertainty surrounding the COVID-19 pandemic, there are no signs of long-term change to capacity, rates or carrier appetite in the Builder's Risk insurance marketplace. "The North American builder's risk market continues to exhibit moderate signs of firming, though not to the degree seen in the fixed/operational property marketplace," said Grant Chiles, Executive Vice President with AmWINS Brokerage in Atlanta, GA. "Ample domestic capacity continues to drive competitive terms for desirable project risks." Deductibles continue to increase across all project risks with the most severe pressure on water damage. However, carriers may be looking to amend deductibles and pricing—regardless of project losses—due to underwriting guideline changes or facultative terms on projects seeking extensions that fall outside of pre-agreed policy provisions.

- **Casualty**—Although the shrinking of Excess capacity is evident across all industries, construction is one of the most affected due to the prior limited number of carriers in the residential project space. Now those markets have reduced capacity, require higher attachment points or have exited the space entirely. "We are also seeing short limits and most carriers wanting to move up in the tower," says Terrence Villar, Executive Vice President with AmWINS Brokerage in Los Angeles, CA. "There are very few carriers playing in the lead $10 million layer. In the E&S marketplace, it can take three to four markets to fill out the lead $25 million at three, four or even 10 times the expiring rate."

  Additionally, carriers don't have a good grasp on the work contractors have performed that would still fall under each state's statute of repose. "They are hesitant to take on completed projects that are deemed residential in the marketplace and not be able to price the exposure properly," says Scott Jensen, Executive Vice President with AmWINS Brokerage in Satellite Beach, FL.

- **Architects & Engineers**—In contrast to other lines, capacity in the Architects and Engineers professional space remains more than adequate with many carriers writing on admitted paper. "However, underwriters have become more discerning regarding the disciplines and project types to which they offer terms," says Brett Fowler, Program Manager of AmWINS Program Underwriter's A&E Program. "A significant number of carriers are looking for rate increases of 5% to 10% at the next renewal."

EXCLUSIONS

Following the general trend, many carriers are pushing to add a communicable disease exclusion, which is problematic for a general contractor.

PURCHASING BEHAVIOR

Carriers have not been as willing to amend policy sales estimates mid-term, leaving insureds to wait until after premium audit to obtain an adjustment. To offset increased renewal costs, which can jump from 1.5% of the total project cost to 3% for the same limit, some insureds are buying lower limits or exploring higher deductibles and self-insured retentions. "Buyers are also struggling to obtain policy extensions, as prior delays—whether COVID-related or not—have caused some carriers to max out their policy length," said Tina LaRocca, Executive Vice President with AmWINS Brokerage in Irvine, CA. "It is important to submit extension requests with robust details on job status as soon as possible."

***CLICK HERE** for an in-depth look at the top COVID-19 issues impacting the Builders Risk marketplace.*

DIRECTORS & OFFICERS

OVERALL SEGMENT TRENDS

Regardless of whether an account is impacted by COVID-19, D&O underwriters have been tightening the reins and asking additional required questions on all Management Liability renewals. “Insurers have been stung from increased claims cost and frequency for a number of years. COVID-19 is just adding to the challenge,” says David Lewison, AmWINS’ National Professional Lines Practice Leader. “Many insurers have already received COVID-related claims. There are claims arising from layoffs, alleged securities violations, bankruptcies, breaches of contract and more. Most carriers are anticipating an increase in losses.”

Regardless of whether an account is impacted by COVID-19, D&O underwriters have been tightening the reins and asking additional required questions on all Management Liability renewals.

EXPOSURE CHANGES

The Cyan Decision, which allows specific types of securities claims to be brought in state courts, is the main driver for the underwriting changes in Public D&O and IPOs in particular. This contributed to D&O coverage for IPOs being expensive and restrictive before the pandemic, and that hasn’t changed. However, the pandemic slowed the timetable for IPOs going to market. As a result, IPO driven D&O purchasing activity has slowed noticeably as well.

CAPACITY AND PRICING

“Accounts that were straightforward and could essentially name their own terms a year ago are now proving to be very tough, with numerous markets declining even to quote,” says Matt Shanks, Executive Vice President with AmWINS Brokerage in Atlanta, GA. “Go-to writers of difficult risks have started to pull out of the space entirely.” It’s more important now than ever for agents to work with brokers who have strong market relationships and leverage, as response time and underwriting attention is a requirement on every deal.

When a quote is provided, insureds are looking at a 25% to 50% rate increase, with little to no room for negotiating terms and conditions. “Pricing increases have caused many insureds to buy less limits,” says Bill Dixon, Executive Vice President with AmWINS Brokerage in Edison, NJ. “Some carriers are willing to return premium if limits are lowered mid-term.”

EXCLUSIONS

To date, only a few D&O carriers have added communicable disease exclusions, primarily on Private and Healthcare D&O policies. However, another coverage limitation to be mindful of is the bodily injury exclusion. “If a carrier does change to absolute wording on the renewal, carveouts to the exclusion should be sought to mitigate its impact,” Dixon added. “Or the purchase of the Extended Reporting Period may be recommended to address the potential future claims that arise from past acts.”

***CLICK HERE** for an in-depth look at how COVID-19 is impacting the Professional Lines sector.*

ENERGY

OVERALL SEGMENT TRENDS

Overall, the Energy marketplace remains challenging with carriers paying close attention to engineering reports. “An average or below-average rating will make an account very difficult to place as carriers are looking to improve their bottom line,” says Alistair Barnes, Executive Vice President with AmWINS Brokerage in Houston, TX. “Retailers and brokers need to work closely with the insured to help improve risk quality by completing as many recommendations as possible and publicizing this fact to the insurance market as part of the submission.

Additionally, to determine how viable the business is and how maintenance is being handled, many questions are being asked on Energy accounts in industries impacted by the economic situation.

CHALLENGING CLASSES

In Q1 2020, premiums were increasing while the price of oil and lack of oil production impacted revenues in the Energy space. “We have seen some improvement in the price of oil as of late May and early June,” said Heath Cunningham, Executive Vice President with AmWINS Brokerage in Atlanta, GA. “This will hopefully lead to more drilling and fracking activity for oil companies through the rest of 2020, helping to stimulate Energy services contractors and businesses that were so heavily impacted in Q1.”

The market for mining and coal-fired power is continuing to harden and capacity is becoming scarcer. Many European underwriters signed the Paris Agreement and won’t support either thermal coal mining or coal power plants. “For the mining space, the combination of green initiatives, natural gas price, international losses and less demand due to the economic slow-down of COVID-19 has created the perfect storm for operators that were battling regulation and low margins already,” says Matt Brott, Executive Vice President with AmWINS Brokerage in Atlanta, GA.

A $60M western Texas hail event plus several smaller notable events have led to a significant reduction in natural catastrophe Property capacity for wind and solar accounts. In addition to rate increases, there has been an imposition of sublimits for wind, hail, thunderstorms, tornadoes and wildfire. “These changes often breach loan covenants, so agents have been scrambling to find cover in the recently developed ‘Excess hail’ marketplace,” says Barnes.

“Saltwater Disposal facilities also continue to be challenging to place with limited market options due to loss history,” said Bill Chadwick, Executive Vice President with AmWINS Brokerage in Dallas, TX. “The remaining markets require significant detail regarding lightning protection to consider offering terms with increased lightning deductibles.”

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ENERGY *(CONTINUED)*

CAPACITY AND PRICING

- **Property**—"For midstream and downstream power generation accounts, carriers are exiting the Energy space entirely or cutting their capacity, causing coverage to be prohibitively expensive," Barnes added. "Facultative reinsurance is also not available like it used to be, and only one market is maintaining its current capacity." On smaller upstream and energy servicing accounts, much of the business is moving from London facilities back to the domestic markets due to London underwriters implementing new minimum premiums and deductibles across their book.
- **Casualty**—The Excess Liability market remains the most challenging. "We are seeing 20% or more rate increases and many carriers cutting capacity," Cunningham added. "With carriers exiting this space, it is becoming increasingly harder to place midstream accounts."

EXCLUSIONS

In recent weeks, insureds have begun to file COVID-19 claims. Each claim adds additional expense for the insurer before a settlement amount is even determined. In response, carriers are imposing COVID-19 exclusions on renewals, tightening up their virus and infectious disease wordings, and reducing limits.

"Carriers are taking a tougher stance on the Business Interruption margin clause, partly in reaction to the way margins can change quickly and dramatically in this economic environment," Barnes added. "This is prevalent for refining and power generation clients."

With fewer carriers in the market, coverage gaps in programs are commonplace, particularly for accounts with loss or poor engineer reports, leaving them with no other option than self-insurance.

PURCHASING BEHAVIOR

With fewer carriers in the market, coverage gaps in programs are commonplace, particularly for accounts with loss or poor engineer reports, leaving them with no other option than self-insurance. "To mitigate rate increases in mining, we are seeing many insureds take on higher deductibles," Brott added.

"On the Casualty side, we are seeing insureds purchase less limit due to price increases and less limits available in the marketplace," says Cunningham.

HEALTHCARE

OVERALL SEGMENT TRENDS

"The potential of future litigation in the healthcare sector due to COVID-19 has many carriers taking a wait-and-see approach to Healthcare accounts," says Don Tejeski, Senior Vice President with AmWINS Brokerage in Newtown, PA. For nursing home accounts, most carriers have developed and are requiring the completion of an infection-control protocol application.

EXPOSURE CHANGES

"There have been numerous emerging or changing exposures resulting from the pandemic. These include reductions in staff levels, reinstating retired or inactive staff and increasing the number of volunteers," says Matt Wasta, Program Manager of AmWINS Program Underwriter's Senior Care Program. At the same time, a reduction in non-emergent office visits and procedures, and a continued reluctance by some to seek care for non-pandemic illness during the crisis, has had a significant negative revenue impact on many facilities.

CAPACITY AND PRICING

Pricing in the healthcare segment, in general, continues to rise. However, this is driven by losses and market conditions prior to COVID-19. "Markets have become more restrictive on classes such as home healthcare, hospice, physicians and hospitals," Phil Chester, Senior Vice President with AmWINS Brokerage in Farmington, CT. "Excess capacity continues to firm up, with markets cutting limits at renewal for many classes."

The long-term care (LTC) market continues to be the hardest hit sector of healthcare. "There are only a handful of markets that are currently writing and looking at new business," says Chester. "The market overall is very conservative with expensive pricing and very restrictive terms and conditions. Some LTC markets have begun to convert all occurrence-based professional liability accounts to claims-made coverage."

EXCLUSIONS

In the early stages of the pandemic in the U.S., most carriers' forms did not have a communicable disease exclusion. "Today, most markets have added pandemic-related or communicable disease exclusions, especially on new business," Wasta updated.

***CLICK HERE** for an in-depth look at emerging exposures and how to get the best results for your Healthcare and Senior Care clients during the pandemic.*

HOSPITALITY

OVERALL SEGMENT TRENDS

Due to losses and overall performance issues, the Hospitality sector was stressed prior to COVID-19. Now, in the wake of the pandemic, client revenues have been driven to zero or close to it. “Insureds face the one-two punch of insurance pricing increases and no revenue coming in,” says John Lotti, Executive Vice President with AmWINS Brokerage in Edison, NJ. “Carriers have also tightened policy wording to ensure there is no ambiguity of coverage exclusions related to pandemics moving forward.”

EXPOSURE CHANGES

With most hotels having sat empty during the quarantine months, carriers want to know that properties have been properly maintained. “Even new, luxury hotels have experienced several large water damage claims, causing this class to be viewed skeptically by the market.” says Jason Williams, Executive Vice President with AmWINS Brokerage in Atlanta, GA. “If the account has performed well and maintains roughly the same risk profile as expiring, incumbents generally offer better terms than new capacity.” There is also much uncertainty about how the ongoing pandemic will affect occupancy percentages. In cases where insured hotels have transitioned into homeless shelters, markets now view the account as a habitational exposure.

CAPACITY AND PRICING

- **Casualty**—Although ample capacity can be found, pricing has increased substantially, especially on Excess Casualty. “Carriers are hesitant to offer quotes as they are not sure the insured is going to be able to pay the premium,” says Jack Reid, Senior Vice President with AmWINS Brokerage in Los Angeles, CA. “Some carriers are now being even more conservative than they would be otherwise.”
- **Property**—In past years, Excess capacity was cheap and relatively easy to obtain, but this is no longer the case. Notable markets have pulled out of the class entirely. “We are seeing higher attachments as Excess carriers tighten capacity and increase premium, even more than Primary carriers, with rate increases ranging from 15% to 40%,” added Lotti.

EXCLUSIONS

Communicable disease exclusions are now mandatory with most carriers. Most carriers also sublimit or exclude assault and battery as well as abuse and molestation. Additionally, in Property, any Special Perils Business Income language is being removed for infectious disease, and guest relocation expenses are being excluded. Ingress/Egress and Civil and Military Authority are being reduced to 30 days in lieu of 60 days, with a dollar limitation. In many manuscript forms, wording such as “loss, damage or destruction” is being replaced with “physical loss, damage and destruction.”

PURCHASING BEHAVIOR

“Due to their change in revenue, many insureds have lowered the total amount of limit traditionally purchased, and some have let their coverage lapse while they wait out the pandemic,” said Jett Abramson, Executive Vice President with AmWINS Brokerage in Manhattan Beach, CA. Many accounts can obtain lower minimums and deposits, lower their estimated sales (with an increase in rate) or transition to a quarterly or semi-annual reporting basis with their insurer.

REAL ESTATE / HABITATIONAL

OVERALL SEGMENT TRENDS

Multi-family accounts are currently among the most challenging to place in the Property sector, with the impacts of COVID-19 further complicating such placements. We therefore anticipate firm market conditions extending into 2021. “Throughout 2019, we experienced carriers requiring a combination of rate and deductible improvements in an effort to achieve underwriting profitability in the class,” says Bob Black, Executive Vice President and AmWINS’ National Real Estate Practice Leader. “So far in 2020, and particularly in March, April and May, we experienced upward rate movement in conjunction with greater scrutiny of manuscript policy forms and the coverage provided within a given program.”

Accounts which have avoided percentage wind/hail deductibles in convective storm states are likely to see this issue addressed by their primary layer carrier(s) at their upcoming renewal. “Additionally, proposed rate matrixes for mid-term additions and deletions are more heavily scrutinized by the carrier panel,” says Mike Wood, Executive Vice President with AmWINS Brokerage in Edison, NJ.

“Retailers can help position themselves to retain existing clients and win new ones by providing comprehensive and fully updated SOVs and loss summaries, appropriately setting rate/deductible/coverage expectations for their clients well in advance and partnering with true experts in the space who have full market access,” added Black.

EXPOSURE CHANGES

The chain reaction of stay-at-home orders, high unemployment rates and tenants unable to make rent payments has resulted in some insureds requesting mid-term return premium. However, a request for return premium may not be granted for several reasons. First, accounts are generally rated based on unit count, rather than revenue. Second, in an underwriter’s eyes, exposures may increase with many unemployed tenants at home. “There is the potential that having tenants idle in their apartments will lead to increased claim activity,” says Jack Reid, Senior Vice President with AmWINS Brokerage in Los Angeles. “Also, loss of revenue from tenants’ inability to pay rent could lead to the building owner or manager not maintaining the property appropriately."

“While strip shopping centers and malls, for instance, are generally simple and very desirable classes of business for our carriers, the recent riots and looting have resulted in increased underwriting scrutiny,” Black added.

CAPACITY AND PRICING

- **Property**—The primary and low buffer layers within large Multi-family placements ($250M to $500M+ TIVs) are now moderately to heavily syndicated. Smaller line sizes are being provided by certain carriers, resulting in more carriers needed to fill the particular layer. “The amount of syndication is many times directly proportional to the TIV size, with the largest of multifamily accounts requiring the most syndication,” added Black.

  While AOP deductibles ranging from $5K to $50K were commonplace in the Multi-family space years ago, much of the marketplace is now requiring $100K or larger AOP deductibles to meaningfully reduce the amount of attritional losses impacting a program. Aggregate deductible structures are commonly being utilized for larger programs, also to minimize loss activity within a program and for premium containment.

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REAL ESTATE / HABITATIONAL
(CONTINUED)

CAPACITY AND PRICING *(CONTINUED)*

- **Property (continued)**—"Unlike in years past where blanket limits were many times granted without pushback, each account is now being reviewed on its own merits," says Black. "Nearly every carrier is scrutinizing the valuations being utilized." Scheduled limits (applied via an Occurrence Limit of Liability endorsement) and margin clauses are making their way back into the equation for those insureds that are unwilling to increase their valuations to the point where the market is comfortable providing blanket limits.

  "For Multi-family accounts with a relatively clean loss history, appropriate valuation and a stable carrier panel, a rate increase between 15% and 22.5% is a common outcome currently," says Black. "To the extent an account has meaningful losses during the policy year, a string of problematic years of loss history, important incumbent markets exiting the program, and/or undervaluation, a rate increase between 25% to 40%+ is a common outcome currently."

- **Casualty**—On the Primary side, due to an increase in claims severity and frequency, admitted carriers and programs are no longer writing risks with losses or those in undesirable classes such as senior living, Section 8 or student housing. "These accounts, which two or three years ago would have been written guaranteed cost, are now in the E&S market having to take large SIRs," says Reid. "Retail agents should prepare their insureds that they may have to accept larger SIRs between $50K and $500K." On the Excess side, admitted direct markets and programs are losing their paper or drastically cutting back capacity. Historically, these accounts on a lead Umbrella/Excess basis were severely underpriced, making the new, more realistic pricing a difficult pill to swallow for insureds.

On the Casualty side, increased pricing is causing many insureds to buy less limit.

  "At the previous rates, carriers would have needed to write accounts for 100 years claim-free in order to make up for one limit loss," Reid explains. While limit losses are rare in real estate, we have seen an uptick in major single bodily injury events such as drownings, shootings, assaults, fires and serious slip & falls. These have bled into the Excess, making these accounts unprofitable. "It's very rare to see anyone writing the full lead $25M anymore and it often takes three to six carriers to replace it," Reid adds. "This leads to a significant increase in layering, similar to what has been seen in Excess Auto, and rate increase at three to 10 times expiring. However, for the right broker with strong carrier partnerships, layering could be used as a strategic tactic to reduce costs and ensure towers remain filled."

EXCLUSIONS

"As a part of carrier renewal offers, many Property carriers are meaningfully reducing or eliminating coverage for anything that doesn't have a direct physical damage trigger associated with it," Black shared.

PURCHASING BEHAVIOR

On the Casualty side, increased pricing is causing many insureds to buy less limit. "Some are simply looking to buy limits that would cover litigation and settlement should a serious claim occur, such as a fire or death on-site," Reid added.

SMALL BUSINESS

OVERALL SEGMENT TRENDS

Although the current focus of retailers and carriers has changed, underlying small business market dynamics have not. Over the last 12 to 18 months, carriers have taken steps to improve profitability, and those steps will continue post-recovery even though insurers' loss ratios improved considerably during the first quarter of 2020. "Market dynamics continue to push rate increases and tightened underwriting guidelines," says Tony Gresham, President of AmWINS Access. "We are seeing significantly less competitive marketing on renewals as retailers adjust their priorities."

Over the last 12 to 18 months, carriers have taken steps to improve profitability, and those steps will continue post-recovery even though insurers' loss ratios improved considerably during the first quarter of 2020.

CAPACITY AND PRICING

Before the pandemic, carriers were already tightening underwriting on hotels, motels, restaurants and other hospitality businesses. Those restrictions have become even more pronounced. At the same time, the personal lines market is holding its breath as the impact of the pandemic on real estate plays out.

PURCHASING BEHAVIOR

During stay-at-home restrictions, retailers needed to quickly shift their sales model in order to market new business. Although states have now begun to lift those restrictions, customers may not yet be fully comfortable with in-person transactions and may be looking for more technological capability than some retailers can provide. "Retailers need to lean on a wholesale partner that has the resources they can trust and rely on them as the most efficient way to complete a new business transaction," Gresham says.

***CLICK HERE** for more details on how to navigate the Small Business sector during COVID-19.*

TRANSPORTATION

OVERALL SEGMENT TRENDS

A positive development arising out of stay-at-home orders is that less traffic has led to a significant reduction in accidents, deliveries being made on time or ahead of schedule, settlements on claims happening quicker than ever, and the amount of money needed to settle those claims trending downward. The biggest challenge facing the sector going forward is economic uncertainty. “Business impacts vary depending on the contracts insureds have in place and the commodities they haul, with some motor carriers busier than usual and other faring worse,” says Kevin Pollard, Executive Vice President with AmWINS Brokerage in Chicago, IL.

In the Cargo and Logistics space, trade disruptions have wreaked havoc on shipping volumes and timetables. “It will take time for volume and speed to recover, and losses stemming from shipping delays are unlikely to be insured,” says Alex Rosas, President of AmWINS Specialty Logistics Underwriters.

The biggest challenge facing the sector going forward is economic uncertainty.

EXPOSURE CHANGES

Motor carriers that have lost shipping contracts are faced with the difficult choice of parking part of their fleet or even selling it altogether. If retained tractors are no longer on the road and those units are being stored at terminals or yards, motor carriers may have increased exposure. Most Auto Physical Damage policies provide $1M per occurrence physical damage limits, which may not be adequate for fleets if multiple power units are parked at a single location. “A long-term concern is whether the driver shortage seen prior to the pandemic will actually worsen because training schools have been shut down, or whether experienced drivers who have been laid off will fill the gap elsewhere,” Pollard added.

Additionally, one of the hardest hit areas has been livery business. The reduction of bus, limo, and executive car fleets was dramatic and happened almost overnight as a result of the state and local quarantine requirements. “We look for many insureds to slowly return to work as travel requirements are lifted,” says Andrew Brown, President of AmWINS Transportation Underwriters. “However, the livery business is highly tied to both corporate travel and the entertainment industry, including concerts and sporting events, which may not fully return until a vaccine is discovered.”

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TRANSPORTATION *(CONTINUED)*

CAPACITY AND PRICING

- **Inland Marine**—Somewhat immune to the dramatic hardening of the market due to an abundance of Inland Marine markets, specialist underwriters are becoming more sophisticated in their approach to Transportation, leveraging both experience and technology to deliver profits. "However, Auto Physical Damage premiums have steadily increased due to higher values of units, low interest rates leading to more units purchased, and fewer qualified drivers," says Zach Bowling, Senior Vice President with AmWINS Brokerage in Chicago, IL. "Underwriters are on heightened alert regarding theft and temperature sensitive commodities, with some specialty carriers considering higher deductibles schemes for Fire and Vandalism due to a recent uptick in claims activity."

- **Excess Casualty**—The excess trucking market was hardening coming into the pandemic, thanks in large part to nuclear verdicts. In the first quarter of 2020, rates began to stabilize, and increases became more realistic and predictable at an average of 15% on lead $10M to $15M layers, compared to the 50%+ rate increases seen in Q4 2019. Layers above $15M are still seeing severe rate increases due to lack of capacity and market availability.

  "Capacity is still not easy to come by," Pollard says. "Insurers are reducing their exposure by offering a fraction of the limit they historically provided, which requires utilizing additional markets to complete or fill a layer that a single market would have offered in the past."

- **Cargo/Logistics**—Motor truck cargo is where the most extreme rate increases are being experienced due to the departure of key market players and remaining insurers seeing significant losses. "For the first time in many years, premiums for all lines of business covering loss to merchandise in transit, forwarders' legal responsibilities and warehousemen's liability premiums are on the rise," Rosas shared.

PURCHASING BEHAVIOR

Insureds are looking for premium savings by reducing excess limits or cancelling towers outright. Insurers are more willing to lower exposure estimates mid-term or move to adjustable base excess policies. Although these adjustable policies can benefit motor carriers experiencing significant revenue decline, if the economy shifts into overdrive, those carriers could be facing significant post-renewal audit bills. "To protect their bottom line, many insureds are also removing tractors from service," Bowling added. "This is aimed at reducing their Auto Liability premium, which is allocated on a per unit basis."

EXCLUSIONS

In addition to communicable disease exclusions, some excess carriers are developing required supplemental applications that must be completed prior to binding.

***CLICK HERE** for an in-depth look at the State of the Logistics Market and **HERE** for how COVID-19 is impacting logistics and cargo insurance.*

WORKERS COMPENSATION

OVERALL SEGMENT TRENDS

Insurers contend with a 50-state patchwork of regulatory requirements and guidance around costs for testing and treatment for COVID-19. "Typically, the burden fell on the employee to prove an illness was work-related. In certain states, it's now the burden of the carrier to prove COVID-19 wasn't contracted on the job, but there are varying definitions of what is compensable as well as the definition of 'frontline worker," says Tony Foley, Senior Vice President with AmWINS Brokerage in Atlanta, GA.

Additionally, some states or local jurisdictions have required paying furloughed employees during the pandemic, and some employers have voluntarily done so even without those requirements. In response, the NCCI has issued guidance around excluding wages paid to furloughed employees. There has also been discussion around whether COVID-related claims, as a unique event, could be excluded from experience modification calculations.

Insurers contend with a 50-state patchwork of regulatory requirements and guidance around costs for testing and treatment for COVID-19.

CAPACITY AND PRICING

"This is one of the few insurance segments that has not seen rate increases or issues with capacity," says Matt McCue, Program Manager with AmWINS Program Underwriter's AmeriComp program. According to the CIAB, workers compensation premiums declined 1.2% in Q1 2020. "Prices will likely continue to decrease for the foreseeable future," McCue added. "However, soft market conditions could change if carriers start paying COVID-19 claims."

PURCHASING BEHAVIOR

Because workers compensation coverage cost is driven by payroll, the classes that have been most impacted are those with a significant drop in revenue that led to furloughed or laid off employees. Classes such as tourism, hospitality and retail are most affected. "Reductions in payroll are leading to accounts renewing at lower premium levels, which will put pressure on the entire system over the long-term," McCue shared. "Markets are working with insureds in terms payroll reductions and return premiums when applicable."

SUMMARY

The hard market is here and likely not going anywhere for a while. However, just because the standard market is demanding large premium increases and cutting limits does not make it easier to move business to the E&S marketplace. With capacity restrictions creating placement challenges and causing the need for additional layers to obtain equivalent coverage, accounts must be marketed earlier, especially for larger placements.

To succeed in this environment, retailers need to partner with ***a wholesale broker who understands the market***, has established relationships with the right underwriter at each company, and can help provide the best, most comprehensive submission in order to achieve the most favorable result.

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