# STATE OF THE MARKET

Q3 | 2019

*Through the second quarter of 2019, we continued to see significant hardening across the excess and surplus landscape. The pace of change is even greater than anticipated, and brokers continue to make adjustments as markets analyze data and adapt their appetites. Our Q3 State of the Market addresses the latest issues in the property and casualty space and provides timely insight into the dynamic E&S marketplace.*

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AmWINS® Group, Inc.

# PROPERTY

**The pace of *market hardening* has quickened in property, presenting both challenges and opportunities for retailers.**

The property market continues to harden overall, with changes in pricing, deductibles, coverage, and/or capacity noticeable from quarter to quarter.

"This market change was anticipated and inevitable based on poor attritional loss experience, back-to-back years of heavy storm activity, and a prolonged soft rating environment," says Harry Tucker, AmWINS National Property Practice Leader. "It has been exacerbated by restructuring at AIG and FM, resulting in a change that has come more quickly and is more severe than we anticipated early in the first quarter of 2019. We've seen market change on an almost weekly basis."

As discussed in previous AmWINS State of the Market property reports and detailed later in this update, certain classes are particularly troubled. While some "rogue" facilities and standard-lines carriers occasionally buck the trend, the vast majority of markets are tightening significantly or reducing their exposure to a number of classes of business. Carriers are charged with returning their property books to profitability, which requires increasing rates and deductibles, reducing limits, restricting terms and/or even exiting certain classes of business altogether.

Even if this year's CAT season is benign, the market is expected to continue to firm in the near term, although perhaps at a slower pace if the season's results are favorable. The June CAT Treaty renewals saw increases in the range of 15 to 20 percent, according to market analysts.

"The combined effects of adverse loss development from the past two years of CAT events and a decrease in ILS capacity as investors wait for trapped capital to be released, along with fundamental changes at Lloyd's, AIG and FM, will continue to drive the market," says Tucker. "CAT perils aside, the market has experience increased frequency and severity of attritional losses, resulting in multiple years of non-profitable books."

## Areas of the property market that are particularly challenging include:

- **California Wildfire:** The severity and frequency of recent events, combined with California's legal environment, are causing carriers to change underwriting guidelines and/or avoid the exposure altogether.
- **Convective Storm:** Severity and frequency increases over the past few years are resulting in changes to underwriting positions and pricing.
- **Flood:** Claims from the recent flooding in the Midwest are starting to materialize, and the long-term effects are yet to be seen.

Overall, the E&S market is retrenching and, in some cases, withdrawing from classes of business. Additionally, an increase is being seen in the amount of time needed to process submissions, and responses from carriers are delayed. In this current environment, it is critical to provide complete exposure data in a clear and concise format and to choose a wholesale broker that has the experience, resources and creativity to provide a more favorable quote.

"While it's challenging, capacity can still be found in the marketplace, and our brokers are working incredibly hard to optimize each placement," Tucker says. "Some markets have pulled out, while others have already reached or are approaching premium caps set by reinsurers. This is happening much earlier in the year than anticipated, and unless markets can replenish that reinsurance, there will be a further constriction of the market."

Despite the turbulence in the marketplace, AmWINS has been able to successfully add additional capacity to its in-house MGA (SRU), which is only accessible through an AmWINS broker.

"Several Lloyd's syndicates have refiled their 2019 business plans to allow additional premium writings," says Tucker. "Although we anticipate that a number of these syndicates may have more capacity in the third and fourth quarters, pricing for that capacity will be at a premium."

## BUILDER'S RISK

Builder's risk is a tale of two very different markets. Wood-frame construction reflects the difficult conditions in the overall property sector, while CAT-exposed construction is still a buyers' market.

"In CAT property, we are still enjoying a comparatively soft market, with favorable capacity and policy terms, at least domestically," says Grant Chiles, Executive Vice President at AmWINS Brokerage of Georgia. These counter-market conditions are attributed to the fact that most of the builder's risk space has reinsurance agreements not tied to the overall property book.

"CAT builder's risk has also performed substantially better than CAT property due to better building codes and simply the nature of construction," Chiles says. "If a hurricane were to hit Miami and a carrier had multiple projects insured, those projects may be in different stages of construction—some of which may not be affected significantly by wind."

In contrast, wood-frame construction continues a correction driven by large fire losses. "We are at $600 to $700 million in severity losses over the past three years or so," says Chiles. "Everybody sees the fires on the news, which tends to drive a bit of fear."

The market has spiked upwards of 30 percent from earlier lows, although it has leveled out slightly over the past six to eight months. "Additionally, we are seeing a few underwriters looking to push water damage deductibles rather than increased rate on frame, since roughly 20 percent of builder's risk losses involve water damage," says Chiles.

An interesting scenario exists where these two markets intersect: CAT-exposed frame risks. Running counter to expectations, this business is being underwritten and priced relatively aggressively. "A lot of markets appear to be comfortable using CAT premium to subsidize the fire risk on the frame," says Chiles.

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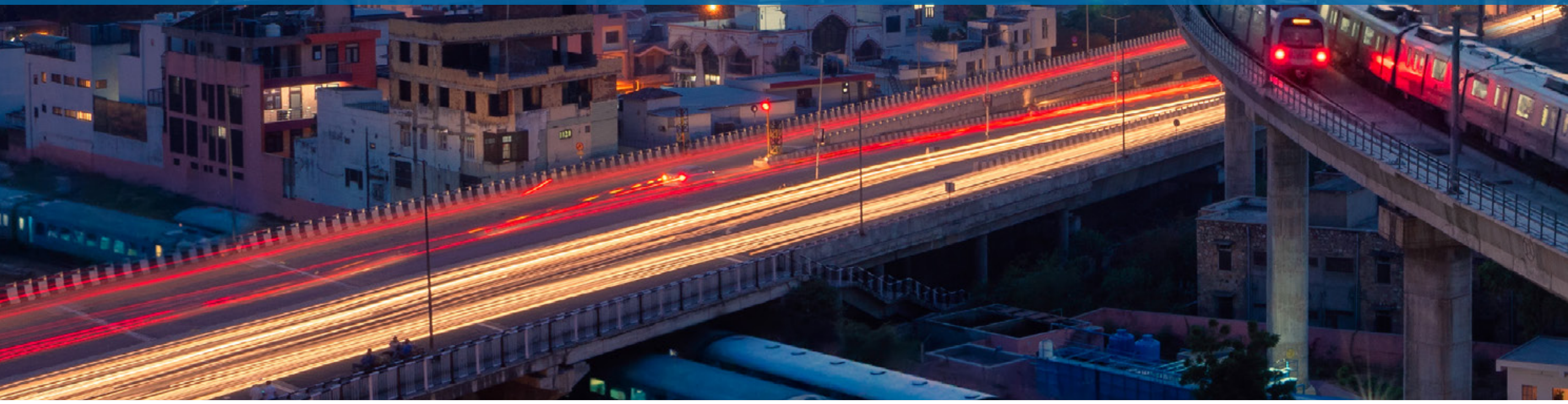
# PROPERTY *(CONTINUED)*



## REAL ESTATE

The overall real estate market has been hardening in response to general conditions in the property marketplace, as well as the loss or risk appetite adjustment of numerous Lloyd's syndicates, Swiss Re E&S' recent exit from the multifamily space until 1/1/20, and the loss of numerous buffer layer markets.

"Conditions in the real estate sector have only become more challenging since earlier this year," says Bob Black, Executive Vice President—Property at AmWINS Brokerage of Georgia. "Particularly for larger and complex real estate and multifamily placements ($500M - $1B+ TIV), there may be a challenge with filling the first, second or third buffer layers. It's a supply and demand phenomenon that we haven't seen since late 2005 or early 2006. Over the last 12 to 18 months, seven or eight buffer layer markets have permanently or temporarily closed, while very little new capacity and capital has entered the space. Placements are generally filling in the end, although often right before the effective date."

At the same time that capacity has decreased, demand has increased, driven by continued multifamily construction, which saw eight percent growth in 2018 and is on track for five percent growth this year.

"The marketplace as a whole struggled with the massive account volume contained in the second quarter. With 7/1 in the rear-view mirror, and the third quarter much slower than the second, we anticipate carrier responsiveness to improve dramatically for the remainder of Q3", says Black.

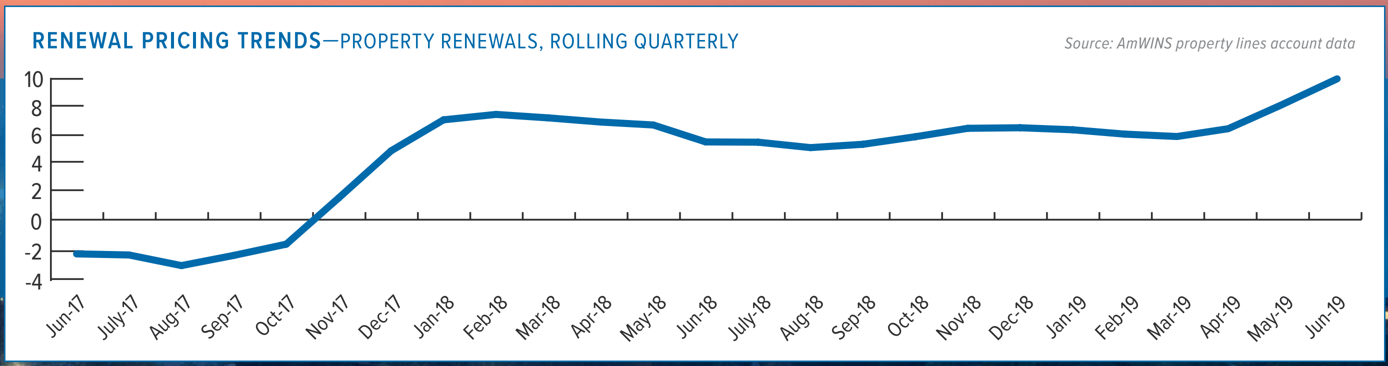
*"Conditions in the real estate sector have only become more challenging since earlier this year," says Bob Black, Executive Vice President—Property at AmWINS Brokerage of Georgia.*

## RAILROAD

The market constriction in the railroad space mirrors that of the overall property sector, with diminishing capacity and hardening conditions. The added complication is that railroad is a much more limited marketplace.

"Not every market can write rail—some may lack the reinsurance coverage, while others simply don't have an understanding of it. With less capacity to start with, any pullback has a more noticeable impact," says Darron S. Johnston, Vice President at AmWINS Brokerage of Georgia. With 15 years of experience in the rail space, AmWINS writes five of the seven Class 1 railroads, as well as hundreds of smaller companies and railroad-related businesses.

In addition to being impacted by the overall property market, the railroad sector has been affected by loss severity, including two large floods that will likely reach policy limits due to business income payments.




*"Retailers who are not closely managing their insureds' expectations during this time of market change are the most susceptible to losing clients," says Black.*

"These losses brought new scrutiny to a coverage that some companies thought they understood," says Johnston. "It showed that the larger concern in property for railroad is the business income loss, which is a much more difficult coverage to evaluate in terms of limit and exposure than buildings and trains themselves."

As a result, property rates are increasing 20 to 30 percent on clean accounts, and capacity is substantially reduced. Markets that had been willing to quote $10 million of capacity are often dropping to $2.5 million of capacity. Troubled accounts are having an extremely difficult time and are forced to purchase reduced program limits. "It's becoming worse by the week," says Johnston.

Despite difficult market conditions, AmWINS has found additional and new capacity in this space and is continuing to seek alternative markets. "We have been able to successfully offset capacity that's leaving and deliver solutions to brokers and clients," Johnston says. "It's important to work with a wholesaler that can do this, because the railroad market is not going to improve any time soon."

## SUMMARY

With market conditions continuing to harden across property as a whole, it is essential that retail brokers partner with a wholesaler that has full market access in order to optimize insureds' placements and effectively predict and manage rate increases in a dynamic and challenging marketplace.

"Retailers who are not closely managing their insureds' expectations during this time of market change are the most susceptible to losing clients," says Black. "AmWINS brokers have tremendous insight into current market conditions as a result of the magnitude of renewal and new business accounts which have been bound so far this year. This knowledge, combined with our breadth of expertise and depth of specialization, enables us to deliver innovative solutions to the challenges that retailers are facing in this market."

# CASUALTY

**In a tough market where underwriters are overwhelmed with submission volume, *quality applications produce the best results.***

Hardening conditions in casualty seen in the second quarter have continued to deepen as we move into the third. “It’s getting more and more difficult to place accounts. Capacity continues to dry up in all areas of casualty, particularly in the tougher areas of transportation and habitational,” says Tom Dillon, Executive Vice President, AmWINS Group.

This holds true in both primary and excess lines. “Insureds are understandably looking at numerous options, whether higher retentions, SIRs vs. deductibles, lower umbrella limit; whatever they can do to help mitigate some of the cost increase on their insurance,” says Corey Alison, Executive Vice President, AmWINS Brokerage of Georgia.

At the same time brokers are working harder to place individual accounts, they are also trying to remarket a greater number of accounts. “Almost every account is being marketed because brokers know they need to cover all the bases,” says Dillon. “There’s no automatic renewal anymore either—every policy is being re-underwritten as well.”

The dramatic increase in submission volume coupled with no increase in staffing levels means that everyone is working harder and turnaround times are getting longer. “Underwriters are swamped. They’ve gone from 100 or 150 submissions a month to over 300 in some cases. Renewal quotes are coming back just a few days out from the expiration date. It’s causing a lot of stress in the industry,” says Matt Jarrett, Director, U.S. Casualty at THB, AmWINS' London broker.

Although it is more difficult to get underwriters to budge, companies still do need to write business and deals can be made. In this market, submission quality is of paramount importance to get a favorable result in an acceptable timeframe.

“The best information produces the best results and helps move a file to the top of the stack,” Dillon says. “A 90 percent complete submission gets indicated; a 95 percent complete submission gets quoted immediately.”

“We do still get involved in a number of last-minute deals. They can be done, but you need a really high quality submission. Prepare your retailers, prepare your insureds and, above all, don’t waste your underwriters’ time,” Jarrett says.

Despite trouble spots, new opportunities continue to emerge, including risks in the sharing economy. “Markets are finally beginning to get their arms around this growing industry segment,” says Gary Grindle, Executive Vice President at AmWINS Brokerage of New England. “Retailers need to partner with wholesale brokers who understand not only the industry, but also carrier appetites and capabilities.”

**SEGMENT SNAPSHOT—**Going into the third quarter, this is what retailers can expect to see in different casualty market segments:

## REAL ESTATE

What hasn't changed from earlier this year is that real estate is one of the toughest casualty segments. What has changed is that, faced with a tighter market, more owners are looking to obtain insurance themselves rather than be included within a property management company's portfolio.

"The best properties are looking to extract themselves from property management company policies in order to obtain better pricing," Alison says. "That creates a problem for the management company in that not only do they lose some leverage based on the size of their account, but the properties left in the portfolio are ones that have a poorer loss history."

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In addition, the lack of markets is continuing to worsen. "Every quarter, every month, another casualty market seems to step away from this space, and unlike in previous years, a new carrier is not stepping in. Additionally, on many accounts, rate is no longer relevant, and carriers are only concerned about the premium they need to account for expected losses," says Alison.

Additionally, the number of excess RPG programs has diminished. "Customers accustomed to purchasing $50M and $100M in limits at very low premiums are increasingly being forced into the open brokerage excess markets where premiums are much higher, forcing them to purchase lower limits due to the much higher costs", says Grindle.

## AUTOMOBILE LIABILITY

Automobile liability has been a hard market for some time, a condition to which brokers and buyers alike have become accustomed.

*A continued trend that we are seeing in the excess space is carriers putting up very short lines and trying to move away from the working layers.*

"By now, risks that have poor loss history and don't have proper controls in place know they are going to be paying a high rate," Dillon says. "We are seeing additional restriction in capacity in the marketplace due to losses as well as some new instability in the excess marketplace."

A continued trend that we are seeing in the excess space is carriers putting up very short lines and trying to move away from the working layers. Accounts that carried $25 million in excess limits with one or two carriers in the past are finding that they need four or five carriers to fill out this capacity. At the same time, we are seeing pricing increases in the 70 percent to 100 percent range due to the instability and capacity restriction.

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# CASUALTY *(CONTINUED)*

## UTILITIES AND WILDFIRE-EXPOSED

Utility contractors, tree trimmers, and all companies that work on or around power lines face a capacity crunch.

"Wildfire-exposed is one of the toughest classes to write," Dillon says. "We have underwriters who will do it, but it is very expensive with rates 25 to 50 percent of limit, so a $10 million limit goes to $2.5 to $5 million or more in premium."

*Public Entity accounts are showing ever increasing loss severity patterns—both in verdict and settlement outcomes, particularly in non-tort protected venues where both economic, social and medical cost inflation is occurring.*

## PUBLIC ENTITY

Public Entity accounts are showing ever increasing loss severity patterns—both in verdict and settlement outcomes, particularly in non-tort protected venues where both economic, social and medical cost inflation is occurring. "We are seeing noticeable underwriting concern around loss progression and portfolio performances, resulting in increased retentions, significant reductions in capacity deployments in both lead and excess participations, and aggregation in previously unaggregated coverage areas," says Brian Frost, Executive Vice President, AmWINS Brokerage of California. "Additionally, some markets have instituted moratoriums on new business in certain states—while other periphery players have elected to vacate the space entirely. The recently concluded July 1 renewal season saw more absolute non-renewal decisions by underwriters than we have historically witnessed, where both lead and excess incumbents were unwilling to offer terms, irrespective of structural changes."

In the Public Entity market, other observations include a continued underwriting concern over aging infrastructure; electrical distribution (wildfire); and sexual abuse and molestation predominantly in the K-12 space, leading to discussions of claims-made and/or affirmative coverage parameters, and in certain instances absolute exclusions. Entities that offer organized sporting activities are facing stringent underwriting of procedures and protocols around CTE/neurodegenerative injury exposure(s), while Student Accident policies are tending to sublimit CTE coverage at $100,000 or less. However, with public interest in youth sports still strong, expect the market to offer a solution if need be, albeit at a cost.  A final note, automobile liability loss costs, in both revenue (transit related) and non-revenue (fleets) continue to escalate and are translating to meaningful rate pressures at renewal, often driven by treaty reinsurance participants.  Careful attention will be paid to the upcoming treaty renewal outcomes for the niche public entity markets, with ramifications into subsequent renewal positions likely.

> ***"There is plenty of opportunity for those positioned to capitalize on it," Jarrett says. "This market is the time for brokers to know their submissions and earn their commissions."***

## MARKET PREPAREDNESS

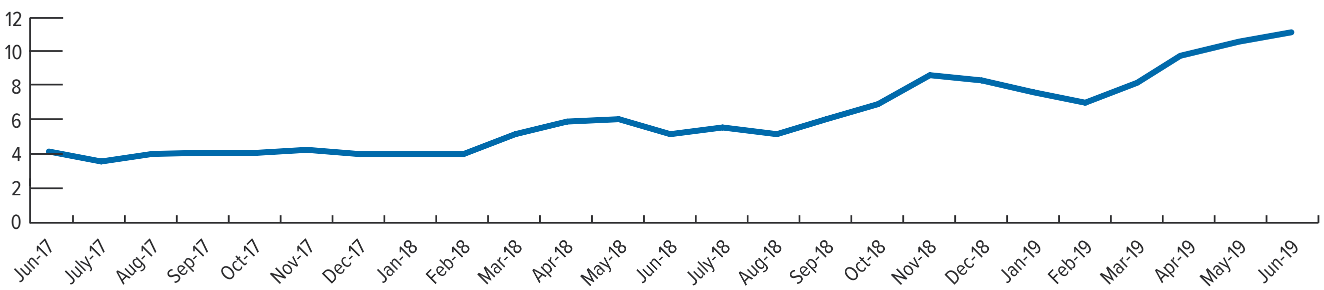
Despite continued market hardening and segment-level challenges, carriers still need to write business. Wholesalers and retailers that specialize and collaborate are best positioned to succeed in this challenging marketplace.

"We have built relationships in the marketplace so that we can help retailers create solutions for their clients," Dillon says. "We also recognize the importance of a quality application and work with brokers to put the best submission in front of underwriters."

"There is plenty of opportunity for those positioned to capitalize on it," Jarrett says. "This market is the time for brokers to know their submissions and earn their commissions."

**RENEWAL PRICING TRENDS—CASUALTY RENEWALS, ROLLING QUARTERLY**

*Source: AmWINS casualty lines account data*




# PROFESSIONAL LINES

***Conditions vary widely*** **across a diverse professional liability insurance sector, heightening the importance of partnering with a wholesaler that understands the marketplace.**

## DIRECTORS AND OFFICERS

The message for retailers in private D&O is that there has been a lot of movement into the E&S marketplace.

“Many deals have been shopped that haven’t been in the past. Standard lines insurers have been beaten up writing large companies and have either pulled out of the market or found underwriting discipline. As a result, we are seeing and writing more opportunities because we have wholesale markets that want to write them,” says David Lewison, National Professional Lines Practice Leader at AmWINS Group, Inc.

Public D&O can be done, but with greater difficulty than private. The challenge is greatest in IPOs, particularly in tech or biotech. “Brokers are getting a lot of rejections and having to go to different companies and new markets to place coverage. We are seeing programs made up of many more layers offered by lesser-known insurance companies,” says Lewison.

*Public D&O can be done, but with greater difficulty than private.*

## REPRESENTATIONS AND WARRANTIES

Despite increased merger and acquisition activity in recent years, representations and warranties (R&W) insurance is a competitive marketplace thanks to an increase in capacity. “There are more than 20 companies competing for business today, whereas there were fewer than eight only a few years ago,” says Kevin Dorse, Executive Vice President at AmWINS Brokerage of Georgia.

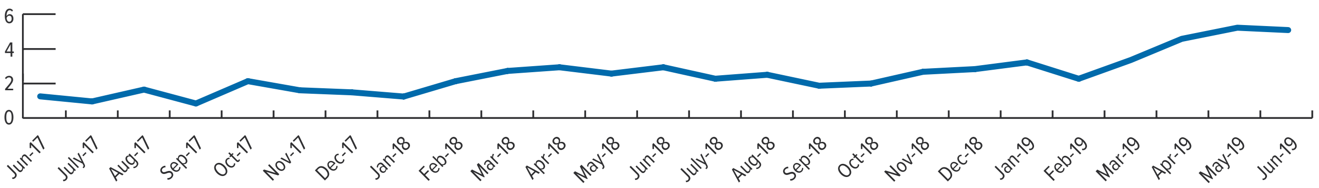
Rates have decreased over the last few years, with pricing quoted at 2% to 3% of the deal or even less for larger acquisitions. For merger deals of $50M to $500M, the retention is generally around 1%; for over $500M, it can be found for .75%.

“It is worth noting that less than half of M&A deals use R&W insurance, which means there is good opportunity for market growth,” says Dorse. “We are also seeing more interest in smaller deals from the market. Deals pricing from around $125,000 and up will be considered, which may provide an opportunity for retail agents that may not have handled R&W insurance in the past.

In a competitive market, there is also greater opportunity to obtain “clean” quotes without risk-appropriate exclusions for product liability and cyber liability. Additionally, brokers are having success obtaining additional coverage extensions, including but not limited to interim breach coverage (claims that come in before final close), erosion of retention coverage for uncovered claims, and “synthetic” pre-closing tax indemnity, in cases where the purchase agreement does not contain such an indemnity.

**RENEWAL PRICING TRENDS—PROFESSIONAL LINES RENEWALS, ROLLING QUARTERLY**

*Source: AmWINS professional lines account data*




## MEDICAL PROFESSIONAL

The medical professional liability market is noticeably hardening in 2019. “We are seeing material firming in classes such as correctional healthcare, senior care, and drug and alcohol treatment facilities. The 2019 long-term care pricing increase projections of 5% to 35% appear to be conservative estimates in challenging venues,” says Kevin Ryan, Senior Vice President—Healthcare at AmWINS Brokerage of Pennsylvania.

In long-term care, markets are increasing pricing and deductibles or withdrawing altogether, and carriers are taking a more conservative stance on drug and alcohol rehabilitation facilities.

“Underwriting overall has gotten more disciplined. No one is undercutting the market,” says Don Tejeski, Senior Vice President at AmWINS Brokerage of Pennsylvania.

Coverage enhancements obtained by buyers during the soft market are slowly being removed, and carriers are adding exclusions to policies in response to the opioid crisis. Markets are also looking more closely at underwriting sexual misconduct exposure, asking more questions, and being more judicious on limits, with carriers that were offering up to $15M in the umbrella now often cutting limits to $5M and lower.

Faced with diminished underwriting appetite and increased submission flow, brokers need to work with underwriters early in the process for a successful outcome. “Underwriters are demanding more complete submissions and being more judicious about the brokers they are working with,” says Philip Chester, Senior Vice President at AmWINS Brokerage of New England.

“Agents should be getting out ahead months in advance on their renewals to educate their clients on the state of the marketplace and prepare them for changes at renewal. The conversations regarding expectations for renewal should be had early in the renewal process with the underwriter. The markets are taking rate increases and increasing deductibles in classes such as long-term care, correctional (Beazley has changed their minimum deductible from $50,000 to $150,000), and hospitals,” Chester says.

“Risk management has become increasingly more important as loss experience has a significant adverse effect on underwriting pricing,” Ryan adds. “Insureds who value risk management as a top priority often see a direct favorable correlation in their renewal offerings, thereby limiting disruption.”

Going forward, this difficult market will continue to harden in several areas. “We have seen claims severity occur in venues that historically had been fairly benign. Several underwriters are re-evaluating their territorial appetite based on recent large verdicts,” Chester says.

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# PROFESSIONAL LINES *(CONTINUED)*

## LAWYERS AND TITLE AGENTS

Small law firms (one to five partners) continue to be challenging to place. A notable change is that larger firms (100-plus) have become more difficult, as well.

"Large law firm writers are getting hit by significant losses. One market sold its book and the underwriters went to another carrier. However, there is still plenty of capacity for firms in the 15 to 75-partner range," says Lewison.

Title agents are currently enjoying favorable market conditions. Having dealt with a hard market after the real estate bubble burst a decade ago, this sector has returned to premium levels last seen in 2006. "There is a concern with cyber in particular with title agents, but the losses just haven't materialized yet," Lewison says.

## FINANCIAL INSTITUTIONS

Cyber is a key concern in the financial sector, as well. While electronic crime and social engineering are ever-present threats in the industry, regulatory bodies are also increasing cyber-related scrutiny of financial firms. Motivated to protect investors who may not be fully aware of cyber risks, the SEC's Office of Compliance Inspections and Examinations (OCIE) has emphasized cybersecurity as one of its priorities in 2019. Firms found to be non-compliant with standard best practices regarding information security may be at risk for increased fines, penalties and regulatory actions.

In professional lines overall, the financial sector has been a soft market for several years. There are, however, some signs of change.

"Some underwriters have seemed more reluctant to offer two-year terms or guaranteed renewals in the FI space—for banks, in particular—but they are still available. We are also seeing increased retentions and restriction of large-capacity plays. Underwriters seem to generally be employing a more cautious and careful approach in this space than we have seen in recent years," says Megan North, Assistant Vice President—Professional Lines at AmWINS Brokerage of Washington.

The rise of the use of digital currency is also affecting financial risks. Asset management firms that have portfolios of traditional investments and elect to add a cryptocurrency index fund (or similar alternative class) may encounter difficulty in procuring E&O from their traditional insurance partners.

"Many insurers are cautious when it comes to exposures relating to crypto or alternative currencies and are beholden to underwriting guidelines or reinsurance treaties that restrict their ability to participate in that space," says North.

In general, underwriters are most interested in writing crypto E&O coverage that correlates to well understood cyber risk around the protection of databases and networks.

"Coverage associated with errors in moving crypto currency around concerns underwriters," Lewison says. "You can find coverage, but it takes a great deal of outreach to do so."

## CONSTRUCTION PROFESSIONAL

In an industry dominated by property and bodily injury exposure, economic losses have not historically been of paramount concern. This attitude has changed, and we are seeing an uptick in requests for professional coverage within the construction space. Driven largely by contractual requirements—especially for firms working with municipalities and within the real estate sector—many contractors and construction professionals are seeking E&O coverage for their services.

*We are seeing an uptick in requests for professional coverage within the construction space.*

The exposures facing these insureds are also changing. Although contractors and design/engineering firms have traditionally held separate roles within construction projects, developers and other project owners are now placing more responsibility on contractors regarding construction management, design supervision and delegation, hiring of subcontractors, and other obligations. This change serves to blur the burden of responsibility—and ultimately, liability—when something goes wrong. It also heightens the need for unique and even manuscripted product solutions within the construction professional liability space.

In response, the markets have developed the coverage and forms to respond more acutely to construction related E&O risks, and many are adding coverages such as rectification, natural resource damage, and others. Additionally, dedicated forms for artisan contractors and developers are emerging to provide options for clients who previously felt there was not an appropriate home for their needs.

As a result of the developing exposures, awareness of risk, and development of solutions for that risk, this market continues to grow.

## CANNABIS

With more states legalizing either medical or recreational marijuana, the cannabis professional liability marketplace is becoming an area of potential opportunity for brokers. Businesses in this market fall into many different categories, including agricultural operations, laboratories, distributors and retailers, and each will find different levels of appetite in the market.

"We have markets that are looking to write certain segments, such as the supporting businesses, but not the front-line risks," Lewison says. "Some markets are willing to write testing labs that evaluate potency, quality, and safety of products. Others focus on growers or agricultural consultants helping the growers. Then there are cyber markets that focus on the technology risk behind cannabis operations in general and the apps they offer to consumers. It's a very diverse market and, for brokers doing business in a state that has legalized cannabis, it's a very interesting and potentially lucrative market to specialize in."

# SMALL ACCOUNTS

Market conditions seen elsewhere in the E&S marketplace *are working their way* into the small account and personal lines sector as well.

The small account sector has not been immune from the hardening conditions seen elsewhere in the excess and surplus marketplace. Significant changes from this same time in 2018 include the tightening of underwriting rules, increasing rates, and reductions in available capacity.

“The pace of change in the small account space is lagging the market, only because it takes longer to affect change in this space,” says Tony Gresham, President of AmWINS Access Division. “However, the pace is accelerating. At the beginning of the year, we were seeing 1 to 2 percent price increases, whereas at mid-year it was 5 or 6 percent.”

Rate increases and capacity restriction are 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 or the Northeast, the change is less significant.

Changes in the small account sector are possibly the result of two separate but similar events. First, the Lloyd’s performance management process, which is expected to shrink its 2019 gross written premium by around five percent, has created dramatic changes in the North American property market. “Lloyd’s desire is to improve overall marketplace results, and the tool they are using is to manage capacity and require syndicates to show a better return before providing access to more capacity,” Gresham says.

Second, years of General Liability rate inadequacy drove carrier results to unacceptable levels, and carriers are finally able to re-capture some much needed rate.  While not quite the robust increases of the property market, GL rates have taken a positive turn for the first time in nearly a decade.

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Similar dynamics are also impacting personal lines. “Lloyd’s has traditionally made up anywhere from 40 to 50 percent of the E&S homeowners market, so any action they take has both a direct effect on those placements and a ripple effect on other E&S markets,” says David Lavins, Chief Operating Officer of AmWINS Access Division.

“Additionally, Lexington—historically the second largest player in E&S personal lines behind Lloyd’s—has also been trying to reduce concentrations, particularly in California and Florida. Ironshore, another large E&S homeowners market, is

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looking to exit the homeowners space. So, you have several of the most significant markets all moving in the same direction at the same time,” Lavins says.

Among the more challenging classes in the small account sector is habitational, including condos and apartments, followed by hotels, motels, and convenience stores. While other classes like restaurants, bars, and taverns, are seeing an increase in claim frequency and severity, resulting in significant changes to the liquor liability market.

These changing market conditions can be a particular struggle for retailers who have not experienced them before. They need to partner with wholesalers that have a broad market view and access to a variety of markets, in order to properly address placement challenges faced in the current climate.

“Retailers aren’t seeing a level of consistency from carriers that allows them to manage their expiration dates in a predictable way. They are having to do more work to find new and creative solutions, which is where having a wholesaler that has many options available to them pays dividends,” Gresham says. “Lean on your wholesalers as experts to find out about what’s going on in the market and prepare your clients for change.”

“If you’re a retail agent and your wholesaler is not coming to you proactively, you need to reach out to them,” Lavins adds. “And if they don’t know what renewals and terms are coming over the next few months, you need to consider if your current partners have what it takes to get the job done.”

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