STATE OF THE MARKET

Q3 | 2020

The impacts of an on-going global pandemic and a record-breaking number of natural catastrophes, on top of an already hard market, can be felt throughout the insurance marketplace. With the market firming expected to continue into next year, AmWINS remains committed to bringing our clients the latest intelligence across the Property, Casualty and Professional Lines sectors through our State of the Market report. Our goal is to support you as you prepare and solve your clients' needs during these unprecedented times.

ON YOUR TEAM.

AmWINS Group, Inc.

STATE OF THE MARKET

Q3 2020

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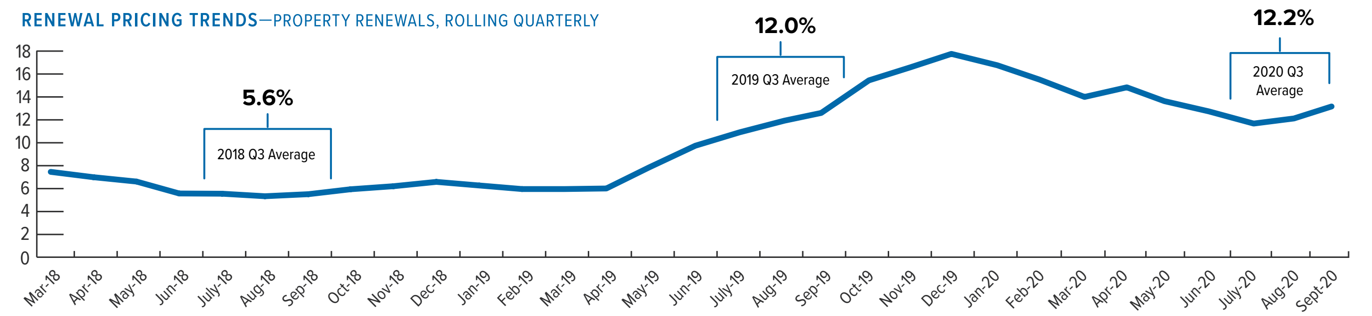
PROPERTY

Despite a strong capital position, most of the property market continues to harden at an increasing rate.



Source: AmWINS property lines account data

The news in property is not that the market continues to harden, but that the forces in place today would normally be producing the opposite result.

"This is not what we would consider a traditional hard market, where demand exceeds supply," says Harry Tucker, AmWINS National Property Practice Leader. "The market is very well capitalized, yet we are still seeing pricing increases year over year."

Although there are some areas of exception as noted later in this article, overall market capitalization is robust, having reached a 20-year high of $694.3B (up 0.5%) according to the Council of Insurance Agents and Brokers. However, pricing increases continue to accelerate – up 13.3% in Q2 compared to 12% last year.

"We expect to see steeper price increases on the E&S side of the house than in standard lines, and we anticipate that trend will continue for the next 12 to 18 months," Tucker says.

> *"The market is very well capitalized, yet we are still seeing **pricing increases year over year.**"*
>
> *– Harry Tucker, AmWINS National Property Practice Leader*

2020 MARKET DRIVERS

In 2020, several new or heightened factors are affecting the market in addition to the usual drivers.

COVID-19

In an industry built on actuarial science, COVID-19 has introduced unwelcome uncertainty around claims, lawsuits and the potential for new legislation. According to some estimates, carriers are already facing between $40B and $80B in ultimate insured losses from COVID-19. The pandemic has also accelerated P&C trends that were already underway, including pricing pressures from a multi-year soft market, capacity pullbacks, rising loss costs / social inflation, and historically low interest rates.

Research by Standard and Poor's indicated that the impact of COVID-19 (both investment and insured losses) has eroded the top 20 reinsurers' aggregate catastrophe budget and earnings buffer for a severe catastrophe from around $32B to $14B. AM Best noted that the market hardening will have to extend at least two years to have a meaningful impact on the segment and offset prior year losses and the potential negative impact of COVID-19.

STORMS AND WILDFIRES

U.S. catastrophe losses are trending well above normal levels in 2020. The Atlantic hurricane season has been so active that the National Hurricane Center has run out of alphabetical names and is already into the Greek alphabet for only the second time in history. With the exception of this year's major hurricanes, most storm events have been small to medium size events, meaning that most losses will be retained by primary carriers rather than reinsurers, negatively impacting combined ratios.

Wildfires are likely to cost the insurance industry up to $8B, according to RMS. However, right now there are more questions for the insurance industry than answers regarding long-term impact. "This is one area of property experiencing a capacity constriction, particularly for high-end, wildfire-exposed homes in excess of $20 million," Tucker shared. "Any negative impact will likely be felt significantly by those buyers and brokers who serve them.

SOCIAL UNREST

The unanticipated and sustained riots and subsequent damage in several major metro areas is causing carriers to take a closer look at their property books. "For businesses with a higher exposure, we're seeing increased deductibles and changes in terms. Any kind of franchise business that has a large storefront is particularly susceptible and is seeing notable drawdown in capacity," Tucker says.

PROPERTY *(CONTINUED)*

Underwriting scrutiny is at its peak as carriers strive to deliver profitable results to their investors.

SEGMENT SNAPSHOT

BUILDERS' RISK

$150M or more in capacity is available to frame projects by utilizing numerous markets on a quota-share basis with an agreed-upon single form and assigned claims adjustment firm. Buyers can expect frame rates starting at $0.30 and deductibles from $10,000 to $25,000, with potentially higher deductible amounts required for water damage claims. Underwriters have also tightened guidelines around theft and vandalism claims.

“Particularly in today’s environment, some carriers are requiring at least surveillance cameras in order to offer coverage,” says Frank Catalano, Executive Vice President, AmWINS Brokerage in Chicago, IL. “Some are requiring on-site security during off hours.”

On renovation projects, some markets do not want to cover the existing structure due to water damage claims and will only cover the renovation work. “Retailers should avoid splitting up coverage if at all possible,” says Tom Ear, Vice President, AmWINS Brokerage in Chicago, IL. “We suggest that the same market covers the existing structure and renovation work, as this makes claims easier to adjust.”

Overall, budgets are being stressed to keep up with the quickly changing market.

ENERGY

Overall, budgets are being stressed to keep up with the quickly changing market. This is forcing buyers to be more thoughtful about the way they spend their premium dollars.

“Underwriters not only want rate and deductible increases combined with changes to terms, they also require a robust safety and loss control philosophy to entertain risk,” says Rob Battenfield, Senior Vice President, AmWINS Brokerage in Houston, TX. “We also expect that underwriters will soon hit their targets for the rest of the year if they haven’t already, allowing them to be even more selective in the risks they will write. Understanding how to communicate and work with underwriters is key to a successful renewal.”

Property markets for downstream energy and power continue to drive premium, terms and conditions, with reduced capacity available. The property markets for the power and utility sector have moved a bit slower in that direction due to its insulation by the industry mutuals. The solar market continues to create massive issues for the entire development complex. Lenders, EPC contractors, developers and consultants must work with their agents and brokers to best understand what is available for natural catastrophe cover and structure contractual obligations accordingly.

“Understanding the market and strategically approaching participants to optimize their capacity is key,” Battenfield says. “The days of one or two markets successfully completing a program are gone.”

REAL ESTATE AND HABITATIONAL

Key carriers in this space anticipate a continued push for meaningful rate and/or deductible increases throughout the remainder of 2020 and well into 2021. That said, the magnitude of required rate increases is likely to be more controlled than has been experienced over the past 12 months. In general, and while understanding every account will be underwritten based on its own merits, expect 10 to 17.5% rate increases for clean accounts. The number of primary and buffer layer markets initially engaged, and then interested in the specific opportunity, will impact the end result. Distressed accounts with loss frequency or severity are likely to experience more meaningful upward rate adjustments.

From a deductible perspective, and for accounts that haven’t already experienced upward deductible adjustments over the past year or so, increased AOP, hail and/or named storm deductibles may be in play in select instances. “Underwriting scrutiny is at its peak as carriers strive to deliver profitable results to their investors,” says Bob Black, Executive Vice President, AmWINS Brokerage in Atlanta, GA and National Real Estate Practice Leader.

“Nearly every carrier continues to closely examine the valuations which are reported by insureds. Undervaluation is either being adjusted on the front end via a requirement to increase values, or on the back end by carriers grossing up the values for calculating premium,” Black adds. “Scheduled limits and margin clauses are more commonly being applied to accounts that won’t agree to maintain adequate insurance-to-value as defined by the carrier.”

The magnitude of known COVID-related claims – either where coverage was positively granted within manuscript forms or where loss was not excluded in underlying policy forms – will continue to grow. Outside of these two scenarios, and much more commonly than not, COVID-19 claim denials are actively being issued by carriers within the real estate and multifamily spaces.

Communicable Disease exclusions are now commonplace on both new business and renewals, as well as clear language that time element coverage will only apply as the result of direct physical damage from a covered cause of loss. “There is ongoing and substantial scrutiny of proposed manuscript forms and endorsement language,” Black adds. “Non-concurrency within complex layered and shared property programs is on the rise as a result.”

The meaningful rate and deductible increases over the last 12 to 24 months have attracted the interest of select domestic markets and London syndicates which had exited these classes of business in the past due to the perception of insufficient rate and/or deductibles. “The first and second buffer layer within the largest and most complex of these placements is now the most challenging to optimize. This is a shift from the days where primary layer capacity was severely limited and buffer layer capacity was plentiful,” says Black. “The importance of brokers providing full market access as well as partnering with underwriters who are wellversed in this space can't be underestimated in this marketplace."

E&S submission volume for real estate and habitational accounts is near or at an all-time high and may grow further as building vacancies increase as a result of COVID-related closures. This is resulting in certain placements being finalized much closer to the effective date than had been commonplace during softer market conditions. Submission quality is as crucial as ever to obtain the best results from time-strapped underwriters.

"We would strongly encourage insureds and retailers to develop complete underwriting information on their statement of values including construction, occupancy, protection and exposure information by location in order for us to obtain the lowest price," says Tom Tio, Executive Vice President, AmWINS Brokerage in Atlanta, GA. "Insureds who have had claims in the past should also spend some time articulating what they are doing to prevent those claims from recurring to establish themselves as better in class.

PARAMETRIC INSURANCE

In recent years, both insureds and retailers have taken an increased interest in parametric structures as those structures have become more sophisticated in addressing key risks. Additionally, the recognition of gaps in traditional insurance coverages has grown, with COVID-19 putting a spotlight on these gaps by showing the economic impact of uninsured risk or excluded causes of loss.

Large reinsurers were the first to step into this space, which has grown dramatically over the last 10 years in product sophistication, capacity and participants. There is strong interest in developing parametric products further due to the diversifying nature of these structures, the reduced administrative underwriting and claims processes, and the "cleanness" of the risk, which is attractive to alternative capital markets by avoiding "trapped collateral" and lengthy loss developments.

Additionally, both MGAs and startup tech firms have been successful at digesting large amounts of data to underwrite parametric insurance successfully. For instance, the Pandemic Emergency Facility (PEF) was the first pandemic parametric structure to bring private capital in support of international public health crises, which proved invaluable in the early days of COVID-19.

As underwriting and modeling of parametric structures becomes more standardized, competition is expected to increase. "We see more markets entering this space, more diversity in offerings, and faster product development," says Alex Kaplan, Executive Vice President of AmWINS' Alternative Risk team. "In a hardening property market, these structures begin to look more appealing from a coverage and pricing perspective."

As the parametric market looks toward 2021, development speed and product accessibility will both increase and costs will decline. "I anticipate that new pools of capital will choose to enter this space," Kaplan says. "The dramatic losses in the property industry over the last five years from wildfires and severe convective storms and the general need for new insurance solutions will drive demand. We are only scratching the surface of what is possible as new technologies are developed, the computational power of the industry increases, and the broad scale of data digitization continues. This will allow us to underwrite risks and offer solutions that were previously not possible."

SUMMARY

In this hardening climate, the E&S property marketplace continues to expand. The market share held by surplus lines insurers has more than doubled in size over the last 20 years, from 3.6% of total P&C direct written premiums in 2000 to 7.8% at the end of 2019 – and a new premium record of $55.5 billion.

However, it remains important for retailers to begin the renewal process well in advance and communicate with insureds early and often. This is especially critical in industries with complex and unique exposures such as manufacturing. For these accounts, third-party engineering reports on large locations are necessary to fill capacity with as few carriers are possible. "When we're forced to syndicate small portions of capacity, that's when the cost goes up dramatically," says Tio. Engineering reports should be conducted six months before renewal, with results in hand 90 days beforehand to allow for remediation.

"AmWINS is in a unique position to help retailers through the collaborative way we join forces," Tucker says. "We give retailers the resources to capitalize on opportunities in the market." These range from CAT modeling to claims advocacy, as well as continuously growing solutions including exclusive Property capacity, a suite of parametric products, and a new partnership with an ILS fund to provide additional capacity through reinsurance to AmWINS' property facilities.

CASUALTY

With capacity continuing to constrict, the casualty market presents many challenges to buyers and brokers.

Several factors will likely keep the casualty market challenging for the next 18 months or more. Most industry analysts agree that aggregate loss reserve redundancy is gone for all lines of business, except possibly workers compensation. This puts pressure on current accident year results. Additionally, the rise of social inflation and impact on jury verdicts, along with the potential third-party losses associated with COVID-19, continue to force carriers to push rates upward.

Capacity continues to diminish, especially in the higher excess layers. "In the past, you could secure coverage through a handful of carriers. However now, towers are being built with numerous carriers, and at times in $5M increments," says Tom Dillon, AmWINS National Casualty Practice Leader.

While this reality creates more new business opportunities for carriers, it can be a challenge to find enough carriers to fill out large towers. And unfortunately for buyers, the pricing of these towers is costly.

"In many classes, we're finding the largest rate disparity in the higher excess layers of umbrella towers," Dillon says. "Also, the biggest change over the last six months is the 'rate relativity' to the prior layer. Each excess layer used to be priced from 45-55% of the previous layer; today it's 85-95%."

Claims are often to blame for the capacity crunch and price spike. "It's the nuclear verdicts, particularly in transportation," Dillon says. "The historical excess pricing models simply weren't designed to handle the size of judgments and settlements that have occurred over the past three years."

SEGMENT SNAPSHOT – *continued*

CONSTRUCTION

A dramatic tightening has taken place in excess residential and commercial construction, particularly for larger controlled insurance programs (CIPs), residential tract homebuilders or any accounts with problematic loss experience. Market conditions are tightening even in non-construction defect states. "It has become very challenging to find capacity on some tougher renewals, as well as capacity within the first $10M on larger frame CIPs," says Jett Abramson, Executive Vice President, AmWINS Brokerage in Manhattan Beach, CA. Additionally, the majority of E&S carriers are limiting capacity to $10M or less on residential contractors and developers.

"Rates and premiums are escalating at a double-digit pace," says Douglas Garfinkel, Executive Vice President, AmWINS Brokerage in Chicago, IL. "Large residential homebuilders in particular are seeing a surge. We have also seen deductibles or self-insured retentions increase either by the carrier's desire or the insured wanting to mitigate premium increases."

Although COVID-19 impacted the construction industry, most construction was deemed "essential" and continued, so carriers have been less willing to provide exposure relief than in other segments.

Additionally, communicable disease exclusions, or in some cases COVID-specific exclusions, can be expected on virtually all accounts as well as increased underwriting scrutiny. "To consider removing the exclusion, underwriters want confirmation that contractors are in compliance with local or CDC requirements for social distancing and sanitation," says Ryan Moore, Executive Vice President, AmWINS Brokerage in San Francisco, CA.

Getting to market early with a comprehensive submission is important in this climate. "The more time and better information we have, the better the results will be," Abramson says. Underwriters are overwhelmed with submission activity. "It is imperative to present a complete description of the opportunity," Garfinkel adds. "Submissions lacking critical information will likely not be reviewed."

Getting to market early with a comprehensive submission is important in this climate.

PUBLIC ENTITY

In the public entity market, the current convergence of social, economic and industrywide variables has created significant headwinds for all stakeholders in the liability placement chain. Throughout Q3, the underwriting community has expressed concerns and imposed material term changes at expirations, including:

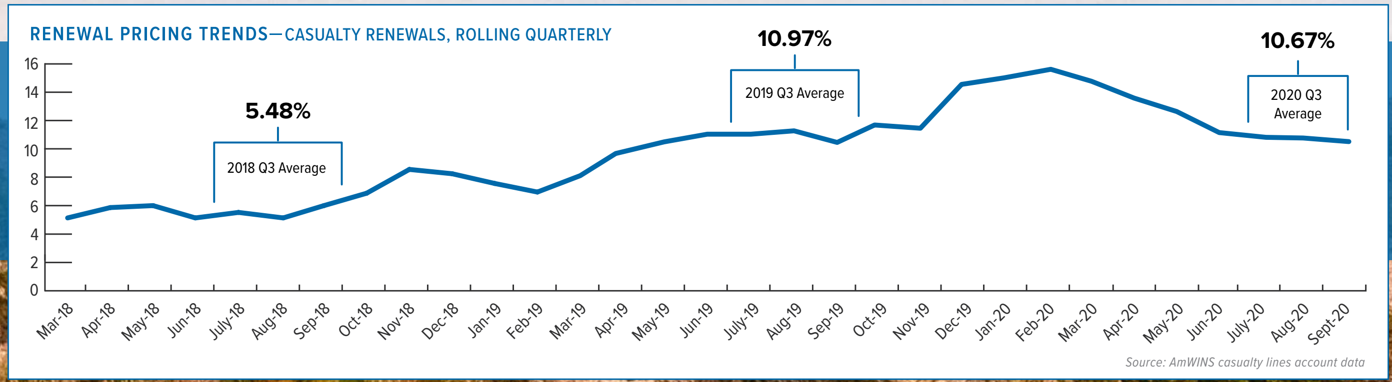
- Aggregation of limits across historically dedicated lines of coverage for both individual risk and pooling structures
- Distinct communicable disease/organic pathogen exclusions
- Pressure for affirmative sexual abuse language to be written into memorandums of coverage and/or policy forms
- Increased retained amounts and minimum excess attachment points

"Capacity constriction is resulting in lower limits purchased by public entities as well as increased quota share layers, mid-layer corridors, ventilated participations and non-concurrent coverage implications through the full breadth of the tower," says Brian Frost, Executive Vice President, AmWINS Brokerage in Woodland Hills, CA.

Pricing continues to increase, most notably in excess layers, due to increased loss costs, shorter payout periods, social inflation, litigation funding, increased auto severity and more. "The pricing methodology associated with current Public Entity liability market behavior is guided by a realignment of layer penetration assumptions in the excess," Frost says. "Markets contend that the odds of limit losses have been insufficiently accounted for in previous rating models."

Underwriters in this space also continue to grapple with an assortment of adverse exposure trends, including climate change and increased severity of weather events, COVID-19, venue changes, social unrest and media scrutiny on law enforcement activity.

CASUALTY *(CONTINUED)*



To mitigate pricing and capacity issues, many public entities and pools are proactively engaged in strategies to petition for tort cap considerations, joint and several liability reform, and statutory standards for common pattern injuries. Simultaneously, buyers are considering financial levers such as adverse development covers and loss portfolio transfers to stabilize balance sheet uncertainties, as well as litigation buyout strategies for post loss / pre-trial concerns.

“Non-traditional capacity sources, such as parametric insurance, can be new vehicles for liability cover,” Frost added. “These sources bring additional market participation to the benefit of the retail, risk management and underwriting community.”

In light of this environment, Public Entity excess liability buyers should start early in the renewal cycle and evaluate creative solutions to mitigate the overall market trend, as not all risks are experiencing the same level of loss development. It will be important for buyers and their retail brokers to differentiate and reinforce the better risks to the underwriting community.

ENERGY

The excess casualty marketplace continues to present challenges for energy accounts. “Prices are up, capacity is down, and carriers are continuing to cut limits being offered,” says Ben Abernathy, Assistant Vice President, AmWINS Brokerage in Atlanta, GA. This is occurring despite decreased exposure, as energy accounts have cut back operations.

“The midstream market segment is more challenging, with carriers pulling back or exiting the class of business,” says Heath Cunningham, Executive Vice President, AmWINS Brokerage in Atlanta, GA. “We are not seeing much new capacity from domestic carriers, although we are seeing some through the London marketplace. As a result, more insureds are utilizing their captive programs to help complete excess liability towers.”

The huge jury awards plaguing commercial transportation insurers are further constricting pricing and options.

TRANSPORTATION

As mentioned, nuclear verdicts are plaguing the trucking industry. “With respect to primary auto in the New York/New Jersey metro areas, south Florida, and Louisiana, verdicts and awards strongly favor plaintiffs,” says Bryan Touchstone, Senior Vice President, AmWINS Brokerage in Springfield, MO. “As losses develop in those jurisdictions, markets are seeing claims settle for two to three times the reserve amount.” Additionally, public auto and oil and gas operations continue to experience fewer market options due to poor loss ratios, industry decline and uncertainty.

Primary layer issues carry over to excess as well. “Excess transportation in particular is problematic. The huge jury awards plaguing commercial insurers are further constricting pricing and options,” says Andrea Dickinson, Executive Vice President, AmWINS Brokerage in Franklin, TN. “Many excess policies in the lead are now going to an auditable basis from flat.”

Along with capacity restriction, excess coverage is seeing double digit rate increases across the board as well as higher rate relativity in large excess towers. As a result, motor carriers that previously carried large insurance towers are cutting back limits purchased – as much as 40% – simply due to cost.

Pricing and terms have also changed for medical transportation. Learn more about these changes in the State of the Professional Lines Market.

CANNABIS AND LIFE SCIENCES

The cannabis and CBD spaces are seeing further tightening on terms and conditions in conjunction with more robust underwriting requirements. This is mostly driven by the FDA’s response to CBD and uncertainty around future legislation or regulation. Additionally, due to loss development in the e-cigarette and vaping industry, there has been a mass exodus of carriers willing to provide coverage for devices, batteries and accessories related to anything vaping.

“Given that one of the preferred consumption methods of CBD and cannabis is vaping, this has caused quite a bit of distress in the space,” says TJ Collins, Senior Vice President, AmWINS Brokerage in Kansas City, MO. “Some coverage is available; however, it will be limited by exclusionary wording and will be considerably more expensive than in years past.”

Communicable disease exclusions are being added in this segment, as in many others, and carriers’ willingness to offer rate relief has been mixed. “Cannabis sales have held steady or even increased in many markets during the pandemic, so requests to reduce exposures are not as common as other industries,” says John Deneen, Vice President, AmWINS Brokerage in Denver, CO.

The life sciences market is tightening to varying degrees depending on the products involved. “Most non-nutraceutical products are seeing minor rate increases and limitation of capacity, while nutra remains competitive,” says Bob Wright, Executive Vice President, AmWINS Brokerage in San Francisco, CA. “Across all products, underwriters are paying close attention to exclusions for communicable diseases and opioids, although coverage can still be found either without limitation or with fairly broad wording that is in the insured’s favor.” Hand sanitizer manufacturers are a problematic area, with more and more carriers excluding coverage due to claims.

Success strategies for retailers include packaging property and casualty coverages and communicating early and often with underwriters. “Be thorough and complete with your submissions – it’s time-honored advice for working through a hard market,” Wright says. “That’s an area where we can really help retailers.”

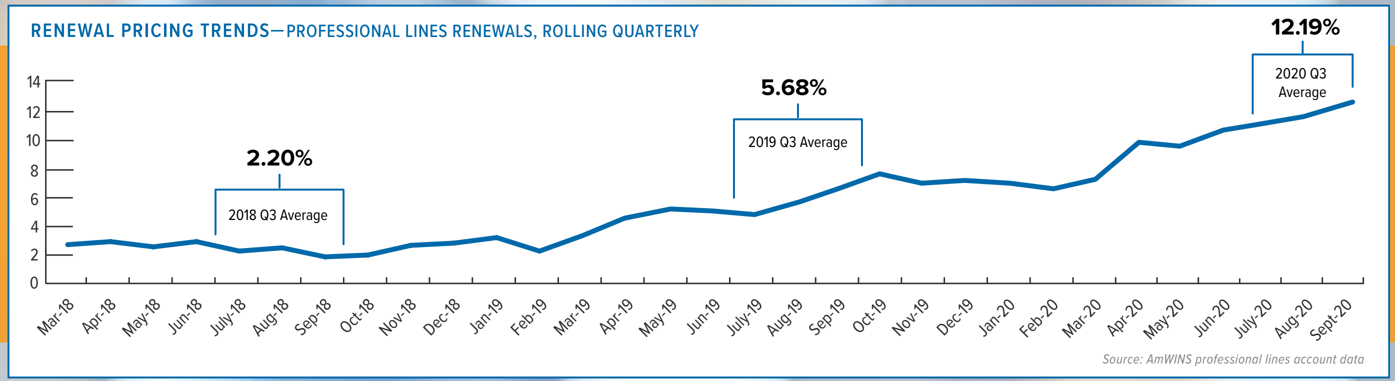
SUMMARY

No market cycle lasts forever and, ultimately, pricing will level off to where carriers feel they can sustain long-term profits. However, since this marketplace is expected to continue for at least 18 months, retailers should partner with wholesalers who have the experience and established relationships to connect to available capacity.

To help our clients overcome the challenging market conditions, AmWINS is working to develop proprietary products and capacity in classes with significant need due to carriers exiting or reducing limits.

PROFESSIONAL LINES

Difficult conditions exist across most areas of professional lines, as carriers struggle to adapt to new challenges and brokers work to replace lost capacity



Professional lines has always been a diverse market, varying widely in capacity, pricing and underwriting appetite among different segments. This report examines trends in several of those segments to help retailers write and retain business.

DIRECTORS AND OFFICERS

Public D&O is tighter than ever, with significant restrictions in capacity and very few markets willing to be part of the first $20M of cover. "There is new capacity coming in, but it's 'smart capacity.' Only a few markets are willing to step up and be the first dollar paid on a loss, and those that do are writing the business on their terms and pricing. Nobody wants to buy business and undercut the market," says David Lewison, AmWINS Professional Lines Practice Leader.

Moving up the tower, more holes are appearing in middle and even upper layers, driving more business to wholesale markets. Retentions on public D&O have skyrocketed – whereas a few years ago, $1M was considered a high retention, today $25M or even $50M is not uncommon. The main driver of this trend is the cost of defense, with primary carriers frequently needing to tender entire policy limits on claims.

Even greater public-market volatility exists in the IPO space. "IPOs have always been slightly higher risk than regular public D&O. If new ventures don't live up to projections or their stock craters, investors sue," Lewison says. "Although IPO activity had slowed down due to COVID, it's starting to come back now, and the difficulty of getting coverage for those companies is definitely there."

An emerging challenge in the public D&O space involves foreign-domiciled companies that trade on the U.S. exchange and may or may not have legitimate operations in the United States. "What's happening is the Lloyds' market is starting to pull back from those risks, and many U.S. markets tend to decline covering them simply because there's a foreign exposure," says Bill Dixon, Executive Vice President with AmWINS Brokerage in Edison, NJ.

As a rule of thumb, if a company has a U.S. address and its executives live in the U.S., coverage can be found in domestic markets. However, risks with officers domiciled elsewhere will experience a more difficult placement as insurers avoid the uncertainty of foreign legal jurisdictions.

Market conditions in public D&O are expected to continue for the foreseeable future. "Placing accounts takes work in this market. If you ask for straight follow-form and can't get it, you need to find other ways to use capacity. You need to partner with a wholesaler who can be creative," Lewison says.

Private D&O is not seeing the increases experienced on the public side, but it is dealing with much greater underwriting scrutiny around companies' financial health in the era of COVID-19.

"We are getting more questions from underwriters about pandemic plans," says Lewison. "COVID-19 has had a huge impact on businesses and the economy, and they want to see how the company is responding. They are also concerned about the second-guessing of decisions made by leadership teams."

HEALTHCARE

The healthcare market has been very inconsistent in the third quarter. Although several carriers have exited the healthcare professional liability space, the markets did see some new capacity, including in the problematic long-term care segment. "On the horizon, there also appears to be new players entering the medical professional liability space in the fourth quarter of 2020 and first quarter of 2021," says Philip Chester, Senior Vice President, AmWINS Brokerage in Farmington, CT.

Overall, carriers are being more restrictive on any residential or inpatient healthcare facilities. The market has also become more challenging for drug and alcohol rehab and behavioral health facilities with inpatient exposure as well as home healthcare agencies, which had been a targeted class just a few years ago.

The excess space for healthcare continues to harden as markets cut capacity, fewer are willing to write standalone, and minimum premiums rise. "We have also seen a large surge of new business submissions for social service agency accounts due to disruptions in the standard marketplace," says Chester.

In the senior care market, expect continued tightening of coverage and increasing rates. "Underwriting is getting even more selective so that insureds with any type of blemish are being declined or quoted with extremely conservative terms," says Matt Wasta, Program Manager of AmWINS Program Underwriter's Senior Care Program. "We are seeing this across all venues now, not just the traditionally difficult ones."

Most carriers are attaching COVID-19 exclusions on all senior care business (new and renewal), although some will offer renewal terms without the exclusion for significant additional premium.

MEDICAL TRANSPORTATION

While capacity has stayed relatively level in the primary market, pricing and terms have changed for medical transportation. "Rates are up, and carriers are being very cautious about the business they are putting on their books," says Jesse Lindemulder, Assistant Vice President, AmWINS Brokerage in Chicago, IL. "We're also seeing very few carriers in the umbrella market, which is in desperate need of capacity."

Whereas $0 retentions could be had on smaller accounts in the past, $5K minimums are the rule today. Minimum premiums have doubled on claims-made policies, and clean middle market and large accounts are seeing on average 10 to 15% increases. Senior care accounts are faced with even steeper jumps.

Most carriers are adding a Communicable Disease exclusion that is extremely limiting and not specific to COVID-19. The exclusion also applies to AIDS, HIV, SARS, MERS, BSE and even strains of influenza. "Retailers should try to push back on these exclusions as much as possible," Lindemulder added. "When you think about EMTs going into a patient's home and being in close proximity to others, it's an inevitable issue – especially in today's litigious climate."

Troubles plagued this class even before COVID-19 hit, with carriers shying away from primary coverage on non-emergency transportation companies due to losses. Excess coverage is even more challenging, with carriers

PROFESSIONAL LINES *(CONTINUED)*

often asking for a $2M primary on the auto. Although pricing has jumped, middle market to large insureds are still seeking higher limits due to their increased risk. On the other hand, smaller accounts are having a tough time affording excess coverage, with more choosing to not purchase unless required by contract.

“In terms of exposure basis relief, we are seeing some carriers willing to bring down an insured’s premium if their patient transport volume is down, especially in the non-emergency space,” Lindemulder explained. “Elderly patients who were taking transports to get medicine or go to doctor appointments are not doing that right now.”

ARCHITECTS AND ENGINEERS

In A&E, carriers are continuing to manage capacity and push rate where possible. However, there still is a healthy amount of competition in the marketplace. Also, unlike some professional lines, carriers are generally not adding COVID exclusions in this sector.

Among clients seeking A&E coverage, oil and gas companies are finding a tougher time securing coverage. “With the price of oil dropping, underwriters are concerned with their financial outlook and potential lost business,” says Kevin Healey, Senior Vice President, AmWINS Brokerage in Atlanta, GA. “Accounts with residential, structural or geotech exposure continue to be difficult. California continues to be a tough venue and uncertainty surrounding COVID-19 has put some projects on hold. Retailers should work their wholesaler early in the renewal process to prepare and strategize.”

One of the biggest challenges in cyber is the constant evolution of risk.

CYBER

The story in cyber is ransomware, with numerous studies showing significant increases in the number of ransomware attacks and the amount of damage caused by events. The pandemic has exacerbated this problem, as cybercriminals are preying on people’s heightened anxiety and tricking them into sharing information. Additionally, work-from-home setups may have weaker security than corporate networks. As a result, more carriers are requiring ransomware control information before quoting coverage.

Overall, the cyber market – which has long been one of the most competitive in professional lines – is showing signs of firming, even with ample capacity. “A lot of the larger carriers that have been in the space for many years are experiencing claims. However, there are still new market entrants that will price aggressively to go after business,” Healey says. Clients should be prepared to articulate cyber security controls in detail prior to renewal and make use of the valued-added services that are part of cyber policies to help manage risk.

One of the of biggest challenges in cyber is the constant evolution of risk. The latest phenomenon is this space is the threat of a silent cyber incidents. “Property insurance, as with many lines, functions the same way today as it did over a hundred years ago. However, in cyber, there’s a new threat every few months,” Lewison explained. “What we’re seeing now is the potential for bodily injury, death or property damage arising from a cyber-attack. But in that scenario, what coverage line picks up the claim?” That is the fundamental question in silent cyber.

In recent years, unintended cyber coverage has bled into other lines of insurance, prompting carriers to add cyber exclusions to non-cyber policies. This often leads to confusion and coverage gaps when a cyber-attack causes an otherwise covered loss. As with other emerging threats – such as ransomware and social engineering – the industry has responded by developing the market’s first modern cyber umbrella policy designed to protect insureds from silent cyber coverage gaps, with AmWINS playing a key role in the product’s creation.

CANNABIS

The cannabis industry presents unique challenges for insurers because of the legal questions surrounding the industry. Although many states have legalized cannabis, it remains illegal at the federal level, which raises concerns about providing D&O coverage to cannabis operations.

“In some cases, markets will write D&O for cannabis operations but then have absolute cannabis exclusions, which voids a good bit of the coverage. You can find a policy that does not add a regulatory exclusion, but the self-insured retention will generally match the limit,” says Aileen Spiker Berry, Senior Vice President, AmWINS Brokerage in West Palm Beach, FL.

There are a few more carriers that will write CBD companies since their product is federally legal, but they share many of the same risks as cannabis operations. These include regulatory issues common to all businesses, including federal securities violations, false and misleading advertising under the Federal Lanham Act, or state-level violations, including unfair and deceptive trade practices violations or personal injury claims. “In fact, CBD is potentially riskier, given the health claims being made about CBD products without clinical proof,” says Berry.

The rate for both private and public D&O in this space is roughly 20-45% of the limit – meaning that a $1M limit will cost anywhere from $200,000 to $450,000. “Given this high cost, businesses are finding full coverage cost prohibitive or exploring Side A-only policies,” Berry adds.

OTHER LINES

- **EPLI:** In the wake of furloughs and layoffs, this line is under increased scrutiny. Underwriters are asking companies how they determined who to let go and who to bring back due to heightened concerns around diversity. Some carriers have instituted moratoriums on classes of business, such as hospitality and entertainment.
- **Public Entities:** With their tax revenues down but spending sustained or even increased, public entities are a cause of concern for underwriters. Police professional has become even more difficult to place. And, with the proliferation of virtual learning due to the pandemic, School Board and Educators Legal Liability carriers are keeping a watchful eye on “failure to educate” claims.
- **Representations and Warranties:** This sector represents a growth opportunity for retailers, as businesses struggling in the pandemic become more interested in being acquired and healthy companies look for acquisition opportunity. In the complex reps and warranties space, a wholesaler’s expertise is essential.

SUMMARY

The bottom line for retailers is that there are both challenges and opportunities in the professional lines insurance sector. Success starts with partnering with a wholesaler that understands this and has the underwriter relationships and solutions to write and retain business. To help our clients overcome the challenging market conditions, AmWINS is working to develop proprietary products and capacity in classes with significant need due to carriers exiting or reducing limits, including excess commercial D&O.

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