State of the Property Market

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There remains sufficient capacity in the property market, with availability dependent on risk perception and rate.

Currently, E&S carriers have become more willing to entertain flat to 10% rate increases in more desirable classes of business. However, less desirable classes are still seeing hard market conditions. We are also seeing strong competition in the standard market, with more carriers being afforded opportunities to re-engineer and "de-risk" their books of business, allowing the market to seek out selective growth opportunities. Carriers are driven to improve profitability and loss ratio (thus being more aggressive on desirable classes) and the need to write premium to get there.

The remaining four months of 2021 will be a bellwether for CAT-exposed business. This year has already been very active in climate-driven claims. We saw the unprecedented and unanticipated impact winter storm Uri had on the state of Texas and the Southeast. Additionally, 21 named storms are predicted for 2021 – a more than 30% increase over average, along with western wildfires anticipated to burn an unprecedented number of acres – a 140% increase over the 10-year average.

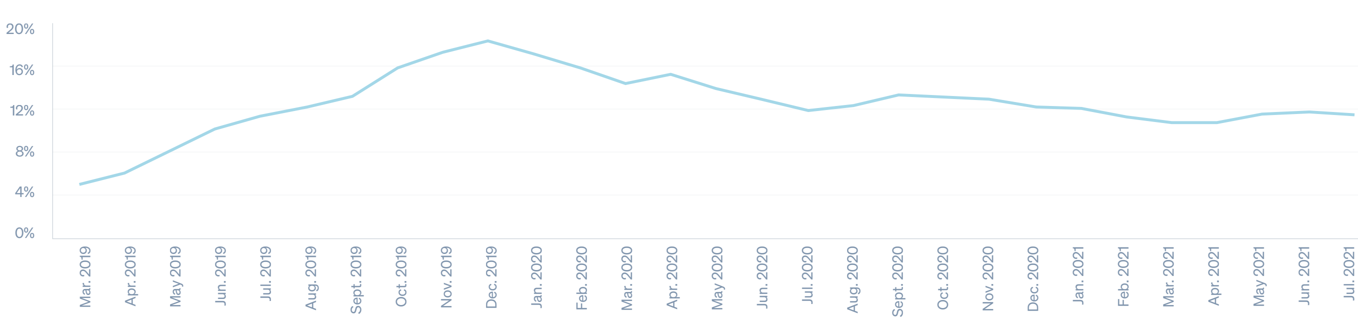
Despite these and other forces, such as low interest rates and a litigious legal environment in Florida and other states, the E&S market remains responsive – with the E&S Stamping Office reporting a 22% YTD growth in the top E&S states of California and Texas.

Additionally, we are seeing the ongoing perception of undervaluation in the property market continue to be exacerbated by the nationwide shortage of building materials and labor. In turn, this is driving up the cost of construction and creating a potential "gap" between what is reported as replacement value and actual costs.

We can't give a market update without mentioning COVID-19, whose impacts continue to linger. Many businesses have not fully recovered economically from government-mandated shutdowns. This impact is being seen on business interruption values as well as the coverage insureds can afford to purchase. For example, with less revenue municipalities are facing challenges in funding their typical insurance policy.

In this State of the Market report, our property specialists dive deeper into these trends within specific industry segments, including Florida condos, cannabis, lumber, public entity and marine.

Renewal Pricing Trends – Property Renewals, Rolling Quarterly



Property Segment Snapshot

- Cannabis
- Habitational / Real Estate
- Inland Marine
- Ocean Cargo
- Lumber
- Public Entity

Cannabis

Overall Segment Trends

Due to the continually changing nature of this industry, it does not appear likely that mainline admitted insurers will begin writing cannabis businesses anytime soon. Despite the hurdles, we are seeing some carriers eyeing the sector, with many planning for how they will respond in the event federal laws change. Currently, new capacity is only entering the space by existing carriers and programs looking to expand their offerings.

Inflation for the cannabis industry is most likely to impact costs of labor, fleets of vehicles for distribution or delivery, and repair and restoration in insurance claims. However, the fact that legal cannabis is always grown, processed, tested and sold within the same state somewhat eases inflationary pressures.

Hemp and CBD are not immune to the hard market conditions in the E&S property market, but there are insurers willing and prepared to step up and provide coverage using standard applications and normal underwriting methodologies.

As part of the farming industry, hemp and CBD operators now have the option of obtaining crop insurance through the USDA, provided they meet certain requirements. This coverage can be bought on an agribusiness policy from admitted farm insurance companies. Currently, we are seeing products that include CBD or hemp ingredients (and are being sold at mainline box stores) securing coverage on a stock throughput policy, including coverage for raw materials.

Capacity and Pricing

Capacity among the established players in the cannabis space has increased. Fierce competition for clean accounts in favorable locations is keeping rates flat or even slightly down for best-in-class risks. However, to avoid rate increases, it’s critical to partner with a wholesale broker that can remarket renewals to ensure favorable terms. On the other hand, insureds with loss history or undesirable risk profiles are seeing substantial rate increases, lower capacity and additional exclusions.

Markets for excess property remain extremely limited, so traditional primary/excess layering placements can be challenging. Horizontal layering provides a viable alternative structure, by allowing multiple carriers to participate on a ground-up basis for their designated coverages. Business income limits can be split up among multiple policies and different terms and conditions on each policy can create issues, but the approach can still offer a better overall solution than carrying only partial limits.

There is demand in the cannabis industry to purchase higher limits for Named Storm, particularly in Florida but also in the coastal areas of New Jersey, New York and Massachusetts. However, much of the critical CAT capacity that other industries rely on comes from London and Bermuda. Lloyd's took the position in 2015 that syndicates cannot write U.S. cannabis due to the conflicting federal and state law, with Bermuda subject to the same restriction

There is demand in the cannabis industry to purchase higher limits for Named Storm.

Exposure Changes

Wildfire-exposed areas represent a significant challenge for cannabis businesses, with carriers paying close attention to distance to fire stations and other protective measures. Businesses can make themselves a more desirable risk by creating a defensible space around their structure, adding a back-up water supply, installing fire sprinklers, upgrading to fire-resistant exterior cladding, etc.

Renewal terms may have more limited coverage, even for even clean risks. Some programs have started adding exclusions for smoke resulting from wildfires or other perils that have driven historical losses.

Careful attention must be paid to protective safeguard warranties which may exclude or significantly limit coverage. Agents should review all terms and conditions and ensure that their clients are in compliance with all requirements in order for claims to be covered. Safeguard warranties should be negotiated or removed whenever the client may not be in full compliance.

Insight provided by:

– John Deneen, VP with Amwins Brokerage in Denver, CO
– Justin Lehtonen, SVP with Amwins Brokerage in Los Angeles, CA

Habitational / Real Estate

Florida Condo Market – Overall Trends

Carriers are tightening terms and/or reducing capacity in the Florida condominium space as renewals are re-underwritten and new business is contemplated. Examples include:

– Possibility of line size reduction
– Shift from a Hurricane Calendar Year deductible to a Named Windstorm deductible
– Increase in the percentage Named Windstorm deductible
– Increase in the AOP deductible for ex-wind and DIC placements
– Increase or new implementation of a water damage deductible

The valuations reported for condominium/HOA portfolios (and commercial real estate to a lesser extent) are under increased scrutiny, as carriers push back on the valuations submitted by insureds and updated appraisals are compared to previously reported replacement costs.

Exterior insulation finish systems (EIFS) cladding/construction continues to be a challenge, as select carriers that previously considered coverage with limited terms are now declining these opportunities altogether. Select carriers have exited the condominium marketplace for accounts with construction age of 25 years or more.

Most condominium carriers participating in the wind-only space are now requiring a five-year loss history.

Post the Champlain Towers tragedy, most Florida condominium markets have begun to require a 40-year recertification for all Miami-Dade/Broward County condominium accounts.

Florida Condo Market – Pricing and Capacity

Due to severe storms, other loss events and continued loss creep from prior hurricanes, the Florida condominium marketplace continues to harden and adjust, with rate increases generally ranging from 15-30% as a best-case scenario. When the expiring carrier has exited the condominium space and a replacement carrier or entirely new layered/shared program is required, we continue to see rate increases fall in the 50-100%+ range.

The rate increase ranges we are seeing are market-adjustment focused. Currently, they don't consider the incremental/additional renewal cost impact that associations are likely to experience with building valuation increases required by the market, or because of updated appraisals that are required every three years via Florida Statute. We anticipate this will impact the condominium marketplace for years to come.

Access to exclusive condominium capacity has never been more important in the Florida condo space. In addition to our full arsenal of property carrier partners, our brokers continue to deploy exclusive Florida condo capacity from Amwins Special Risk Underwriters.

Texas Market – Overall Trends

We are seeing more Texas business flow to shared and layered E&S placements as standard markets realize they still need to right size their Texas portfolios – a need that is much more dramatic following winter storm Uri and substantial hail convective storms in Texas. These losses, coupled with treaty markets penalizing carriers with too much accumulation, are causing carriers to limit line sizes in certain areas.

Insight provided by:

- Bob Black, EVP with Amwins Brokerage in Atlanta, GA and National Real Estate Property Practice Leader
- Johnny Tolland, EVP with Amwins Brokerage in Satellite Beach, FL
- Patrick Tolland, EVP with Amwins Brokerage in Satellite Beach, FL
- Scott Wolf, EVP with Amwins Brokerage in Dallas, TX

Inland Marine

Today, there are new entrants in the inland marine market, with a few more on the horizon – including insurtechs offering quick-turnaround on quotes for mid-size fleets. However, we are not seeing capacity increasing in any one class, which poses limit issues for builders' risk projects or large warehouse schedules.

Rate increases have been more common in the builders' risk sector, especially with the current price and demand for lumber. However, the rest of the inland marine marketplace hasn't seen as drastic an increase.

Wildfire remains a growing problem area, particularly for builders' risk projects or mobile equipment in any of these areas. Carriers are running wildfire scores on most risks in brush zones and adjusting their rates, or declining risks altogether. Some carriers are instituting higher wildfire deductibles if needed.

In motor truck cargo, broader coverages and better forms are being released, along with coverage extensions for things such as food safety and employee coverage.

Insight provided by:

- Andy Simkins, VP with Amwins Brokerage in Chicago, IL
- Zach Bowling, SVP with Amwins Brokerage in Chicago, IL

Ocean Cargo

To manage loss volatility, cargo/STP underwriters continue to apply tighter conditions and/or deductibles to prevalent loss perils, as well as to CAT-exposed insureds. And while this isn't new, it's far from the practices of the past decade. Most marine insurers have also implemented cyber and communicable disease exclusions to policy wording.

Tightening of capacity continues in standard U.S. markets and in the UK; however, due to a positive rate environment, there are new entrants to the space. Rate increases and the reduction of coverage isn't as drastic today as this time last year. Insurers have loosened the reins on desired risk classes, while continuing to put rate pressure on volatile classes.

Several standard markets and syndicates are exiting non-traditional marine risks placed in the cargo/STP arena where soft market conditions exist, such as vineyards, distilleries and open-lot storage of autos. The overarching theme today is achieving rate adequacy to properly fund for attrition, large losses and CAT-loss potential.

Insight provided by:

– Samuel Chung, VP and head of cargo underwriting with Amwins Specialty Logistics Underwriters

Lumber

Overall Segment Trends

This class continues to experience losses, with several large industry losses in 2021 resulting from inadequacy of hot work protocols.

The 2020 wildfire season in the Pacific Northwest caused civil authority outages for mill owners. In some cases, minor damages to the actual operations resulted in significant claims due to civil authority actions. The winter storm freezes in Texas created power outages and, in some cases, significant downtime or interruption for mill owners. These losses highlighted an inadequate valuation on buildings and equipment replacement costs, as well as reported business.

The downturn in the global economy created significant supply chain issues, increasing the cost of materials and delaying the replacement of specialized equipment. Currently, we are seeing an increase of home renovations and housing shortages, with the price of lumber skyrocketing to historically high levels of nearly 400%. The expectation is that this trend will continue for the remainder of this year. Check out our lumber market timeline to get the full picture.

Capacity and Pricing

Capacity continues to be an issue with more carriers exiting the marketplace because of deteriorating loss results. Rates are projected to continue to rise throughout 2021 and into 2022, as this class experiences large loss events. However, as rates continue to rise, we expect to see more markets re-enter the class.

Insurers remain concerned about valuation, as some of the insurance-to-value tools have yet to catch up. This has put pressure on rate increases to ensure premium adequacy due to the demand surge. Moving forward, mill owners need to examine their business income levels and allow time to secure equipment/building materials following a loss, as costs will be higher and lead times longer.

Today, it's important for brokers to have discussions regarding valuations, business continuity plans, business income with extra expenses, and standard procedures around hot work programs with their lumber industry clients.

Exposure Changes

We are seeing some insurers adding wind and hail deductibles, along with more loss limit policies. For mills in wildfire exposed areas, we expect to see restrictions on civil authority and ingress/egress coverage grants.

Insight provided by:

– Scott Morrow, EVP with Amwins Brokerage in Atlanta, GA
– Jay Hanna, President of Woodus K. Humphrey
– Mark Bernacki, President of Amwins Special Risk Underwriters and Alternative Risk Practice Leader

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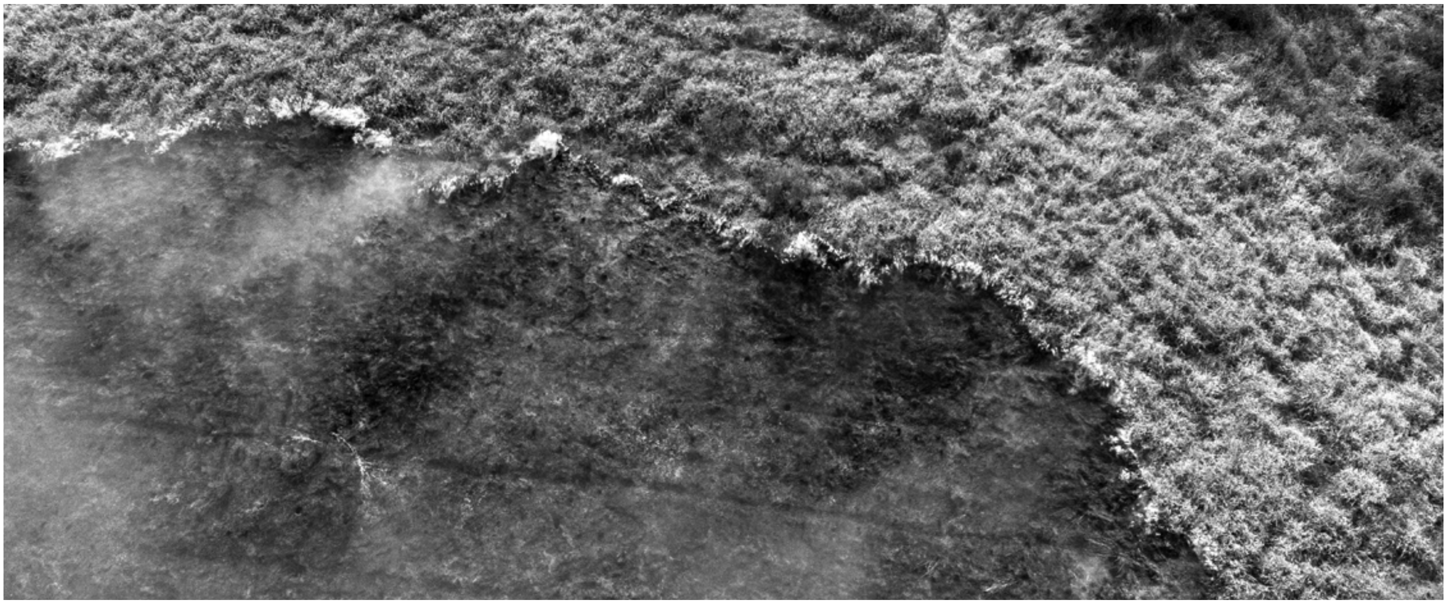

Public Entity

Overall Segment Trends

The public entity space is experiencing the lasting effects of COVID-19. With a large portion of budgets coming from tax revenues, public entities may have already budgeted for insurance costs with funds set aside from the previous year. As a result, public entity insureds are having to make tough cost-conscious decisions regarding limits and coverages.

We are seeing a trend in certain public entity markets that are willing to consider a rate guarantee, but with caveats and a defined timeline of 2-3 years. While not plausible for all insureds, this could be of interest in the public entity space when it comes to budgetary purposes – especially in the high excess layers.

Capacity and Pricing

In addition to scrutinizing terms, markets have adjusted their capacity over the last 18-24 months. While most are comfortable where they are currently, a few markets are electing to decrease capacity and others are willing to offer more, but with increased pricing. While there is no significant new capacity from the U.S. markets, we are seeing new carriers emerge from London.

The past 24 months have been difficult for the public entity property market. While the increases continue, we are starting to see some softening. In some rare instances, we have seen single digit rate increases on certain public entity accounts, but that's typically on those that are loss free, have an appropriate deductible structure, and a small CAT footprint.

Markets are taking a closer look at insured valuations, as we have seen large losses in the public entity space where values were underreported. Insured should re-evaluate both the PD and BI values annually.

Exposure Changes

A key driver of the continued tough market conditions are convective storm and wildfire losses. Even insureds that are loss free from these types of storms are feeling the pain from markets who have suffered convective storm losses in the public entity class. The increase in convective storms has caused some markets to stop participating on accounts that don't have coastal exposure.

In areas prone to convective storms and wildfire exposures, carriers are re-evaluating limits and requiring higher deductibles. Although markets seeking percentage deductibles for wind, hail and convective storms are not new, the tone is becoming more urgent than in years past.

In states prone to convective storms, rates have increased exponentially over the last 18 to 24 months. Convective storms can even represent a larger portion of overall pricing than named windstorms, especially in the Southeast.

Exclusions

Similar to what the property market is experiencing, the public entity sector is also seeing standard exclusions for communicable diseases and cyber.

Insight provided by:

– Darron Johnston, VP and Amwins' Public Entity Property Practice Leader
– Edison, NJ Property Team – Kim Curcio, Rich Jacobsen, Greg Spinner, Bob Convissar and John Keegan