

2020 EMBRACING TRANSFORMATION
FINANCIAL MANAGEMENT CONFERENCE

P&C Insurance Market Update

Brendan Dolan

President, Housing Partnership Insurance Exchange

Tracy Pride

SVP / Director, Real Estate Practice, IMA, Inc.

Michael Ripley

ERS Account Executive, IMA, Inc.

Chuck Wehrwein

COO, Housing Partnership Network

October 29, 2020

STRENGTHMATTERS®

Agenda

- Overview
- Executive Risk
- General Liability & Excess Liability (Umbrella)
- Property
- Future



Getting Started

- All participant lines are muted.
- You may use the **Chat** feature to ask questions.
- Please use the **Raise Hand** feature if you would like to speak.
 - The Raise Hand feature is located in the Participant panel.
- Any questions not answered during the presentation will be addressed at the end of the session.

Continuing Professional Education Requirements for CPAs

- **Polls are Required for CPEs**

- If you are seeking CPE credits, please submit ALL polls and the conference evaluations.
- We use **Polls** and the **Zoom attendance record** to verify participation throughout the webinar.
 - **Participants must submit ALL polls and be logged in no later than 10 minutes after the scheduled session start time to receive a certificate.**
- You may request a certificate of completion via the conference evaluations.
 - Links to the evaluations are emailed to all registrants.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Meet the Presenters

Chuck Wehrwein

Housing Partnership Network

wehrwein@housingpartnership.net

Brendan Dolan

Housing Partnership Network

dolan@housingpartnership.net

Tracy Pride

IMA, Inc.

tracy.pride@imacorp.com

Michael Ripley

IMA, Inc.

michael.ripley@imacorp.com

Is The Apartment Rental Industry in a Hard Insurance Market or Price Correction?

• SIGNS OF A HARD MARKET:

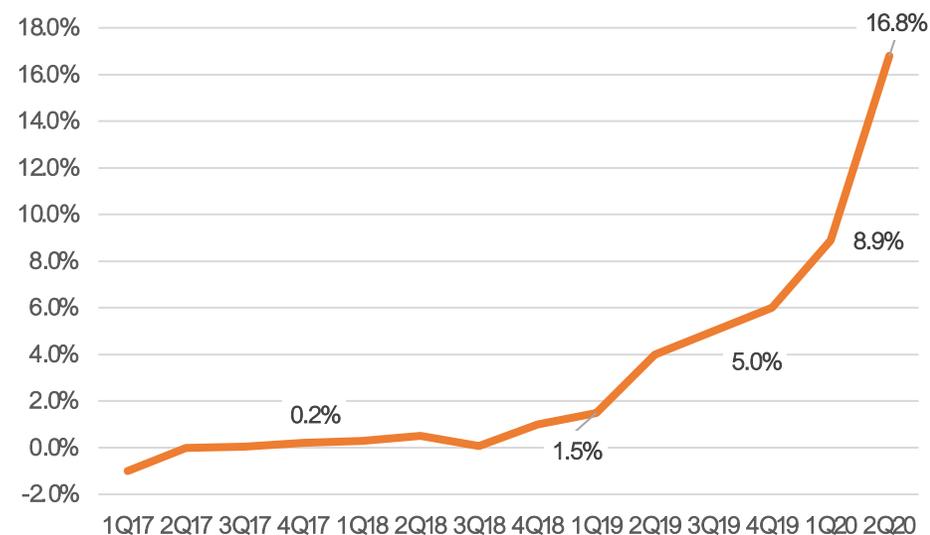
- Material rate increases across most, if not all, lines - ✓
- Material changes in retention requirements - ✓
- Reduced capacity - ✓
- Reduced capital – *no current signs of meaningful capital coming into the apartment rental sector*
- Insurers pull out and/or restrict writing in certain geographic regions ✓
- Reduction in coverage - ✓
- Change in market appetite ✓
- Inability to place coverage – *possibly depending on the portfolio and losses, coverage comes at a price*
- Insurers rescinding quotes prior to binding coverage – *not common but can happen* ✓
- Insurers providing quotes closer to effective date - ✓



Executive Risk / Management Liability

- The Directors & Officers Liability insurance marketplace started firming in the second half of 2018 with prices continuing to accelerate through 2019.
- In 2020, rate increases are ranging anywhere from 10% to 100%.
- Factors impacting the D&O marketplace:
 - Multiple years of underpricing
 - Heightened claims frequency
 - Accumulated underwriting losses
 - Higher defense costs
 - #MeToo-Related Risks
 - Diversity of Board of Directors
- Along with price increases*:
 - Capacity is actively being reduced
 - Carriers are exiting certain classes of business *and*
 - Re-underwriting entire industry classes of business
- COVID-19 is further complicating the D&O landscape with carriers concerned about insolvency and possibly adding insolvency exclusions.

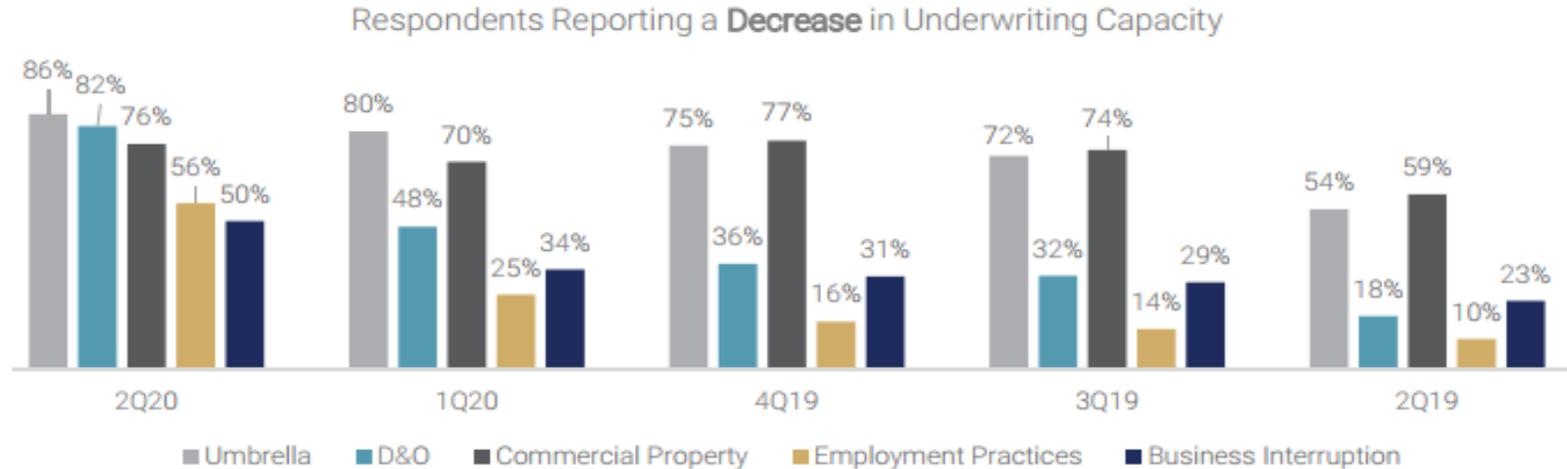
Premium Change for D&O, 2017- Q2 2020



Council of Insurance Agents & Brokers Commercial Property / Casualty Market Index Q2/2020

* RT ProExec Fall 2020

Executive Risk / Employment Practices Liability



*Council of Insurance Agents &
Brokers Commercial Property /
Casualty Market Index Q2/2020*

- COVID-19 is further complicating this marketplace, especially EPLI, with concerns over numerous challenges for employers such as:
 - Failure to provide Personal Protective Equipment / Retrofit the workplace
 - Retaliation if discharged for failure to follow employer's COVID-19 policies
 - Misrepresentation of the seriousness of the COVID-19 health risks
 - Furlough policies and the Human Resources practices regarding re-hiring

Executive Risk / Cyber Liability & Crime

- Cyber marketplace has been hit hard with ransomware claims.
- Social Engineering (Phishing) claims continue to impact both Cyber Liability and Crime insurers. Fraudsters are continuing to dupe clients into committing Social Engineering Fraud.
- COVID-19 has pushed the Cyber insurance market from a transitioning market to hard market conditions.
- Employee Dishonesty claims historically have started in tougher economic times.
 - Be diligent regarding validity of vendor payments
 - Maintain separation of duties regarding bookkeeping and account reconciliations with bank statements
 - Require “call-backs” on wire transfers over a certain amount and verify wiring instructions.

Cyber Risks - What to expect in 2020



Munich Re: Cyber insurance: Risk and trends 2020



"Is this seat taken?"



Preventing COVID-19



Wash hands.



Stay home if sick.



Clean surfaces.



No close contact.

Warranty of Habitability Responsibilities



Complying with all state and local health and building codes



Maintaining structural components and a reasonably weather-protected unit



Providing the necessary heat, electric, and hot and cold water facilities



Making any requested repairs promptly



Ensuring that living conditions are peaceful and quiet, as well as hazard free



Maintaining a pest-free environment



General Liability and Excess Liability



General Liability and Excess Liability

- Insurance Industry results on primary General Liability and Excess Casualty (Umbrella) continue to deteriorate due to inadequate pricing as an industry for over a decade.
 - Claims frequency and severity continue to rise
 - The cost of liability losses continues to outpace rate increases, proving to be unsustainable for the long run
- Many carriers who are still willing to write apartment rental housing are quoting sub-limits and/or high self-insured retentions/deductibles on Abuse & Molestation or Assault & Battery.
 - Some carriers are only offering these coverages with defense within the limits of liability.
 - Many carriers are trying to exclude these two severity-driven types of losses.
- Apartment rental housing accounts that include Senior Living, Section 8 or Student Housing are seeing even less capacity than other apartment rental housing accounts.
- Exclusions for communicable disease and construction activities (beyond maintenance and non-structural renovations)
- Primary General Liability Rates for Apartment Owners are increasing between 15% to 30% on average with accounts with unfavorable loss ratios receiving higher percentage increases along with higher deductibles/self-insured retentions.

General Liability and Excess Liability

- Claims trends such as habitability claims and tougher litigation venues such as California, Florida, Cook County, IL continue to drive up casualty rates.
- Umbrella capacity continues to shrink with fewer carriers willing to offer lead terms and conditions over habitational.
 - Umbrella towers of 2 years ago with only 1-3 carriers are now being replaced by 6 or more carriers with the placement of the lead \$5m being key.
 - Primary limits of liability may need to increase to accommodate lead Umbrella carrier's minimum attachment point requirements – some carriers are requesting \$2m- \$5m as “primary” limits before providing an Umbrella quotation.
 - Some Umbrella carriers will only offer \$1m limit excess of primary General Liability.
- Wholesalers are reporting Umbrella/Excess Liability pricing volatility of between 2x to 10x multiples of expiring premiums.

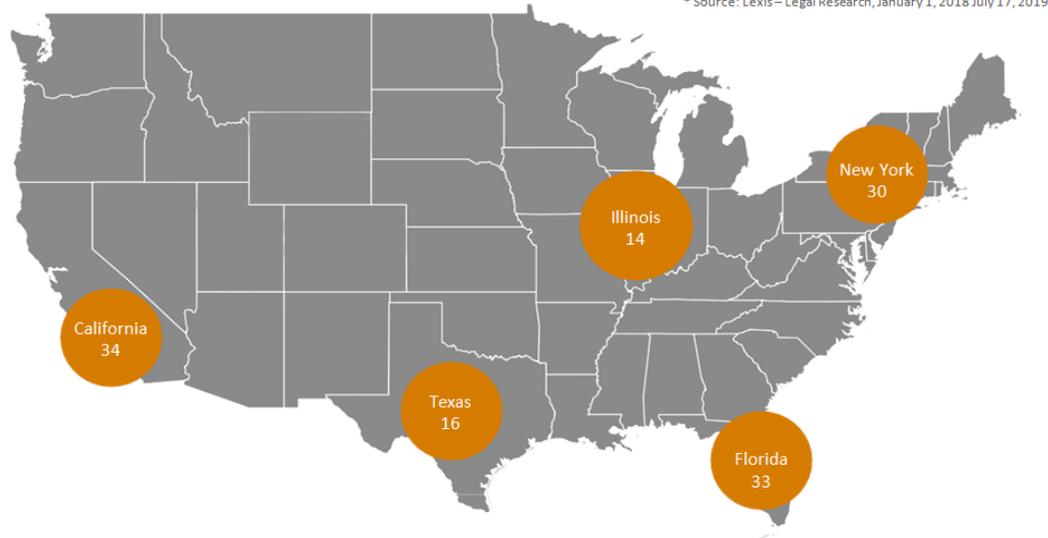


Source: *All Risks, January 2020 – Between a Rock and a Hard Market – The Changing State of Excess Liability.*

Excess Liability – Nuclear Verdicts

Lower Threshold	Upper Threshold	Count	Average	Largest
\$25,000,000	\$50,000,000	27	\$35,792,593	\$49,000,000
\$50,000,000	\$100,000,000	20	\$65,128,500	\$93,000,000
\$100,000,000	\$200,000,000	14	\$119,892,857	\$165,000,000
\$200,000,000	\$500,000,000	8	\$284,025,000	\$470,000,000
\$500,000,000	\$1,000,000,000	1	\$800,000,000	\$800,000,000
\$1,000,000,000	And Up	6	\$3,388,000,000	\$8,000,000,000
	Overall	118	\$236,715,169	\$8,000,000,000

TOP STATES BY VERDICT VOLUMES:

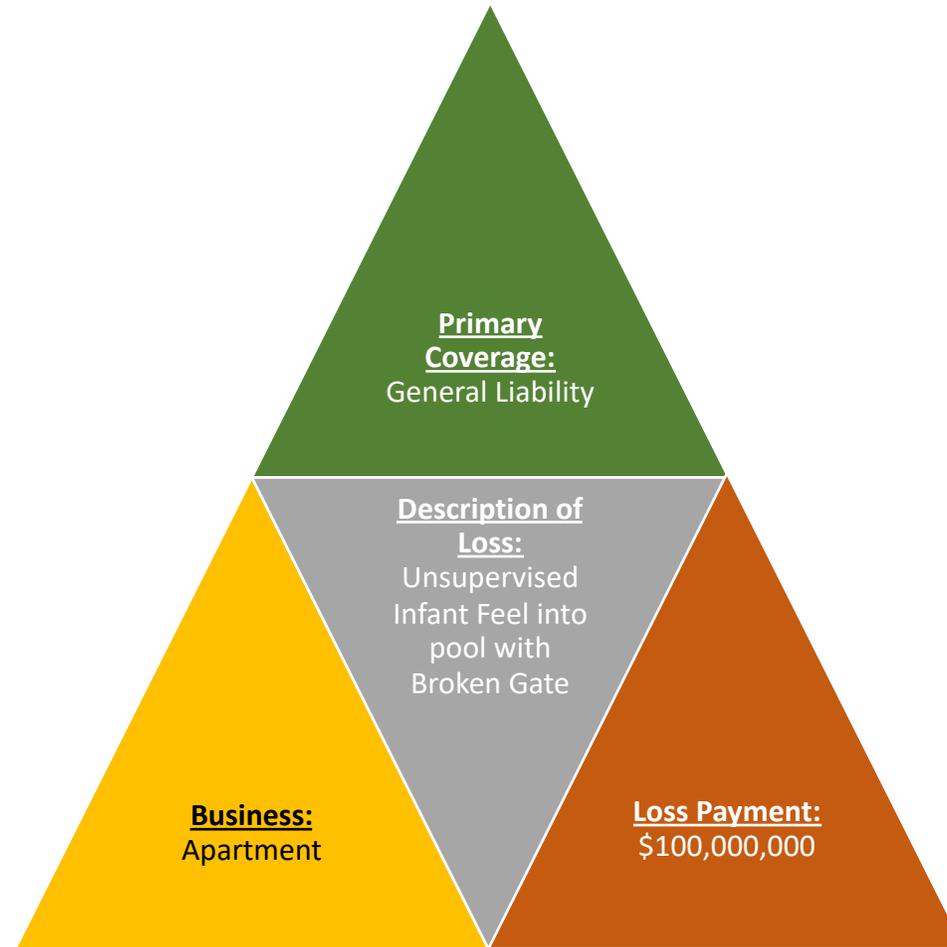


JUDICIAL HELLHOLES

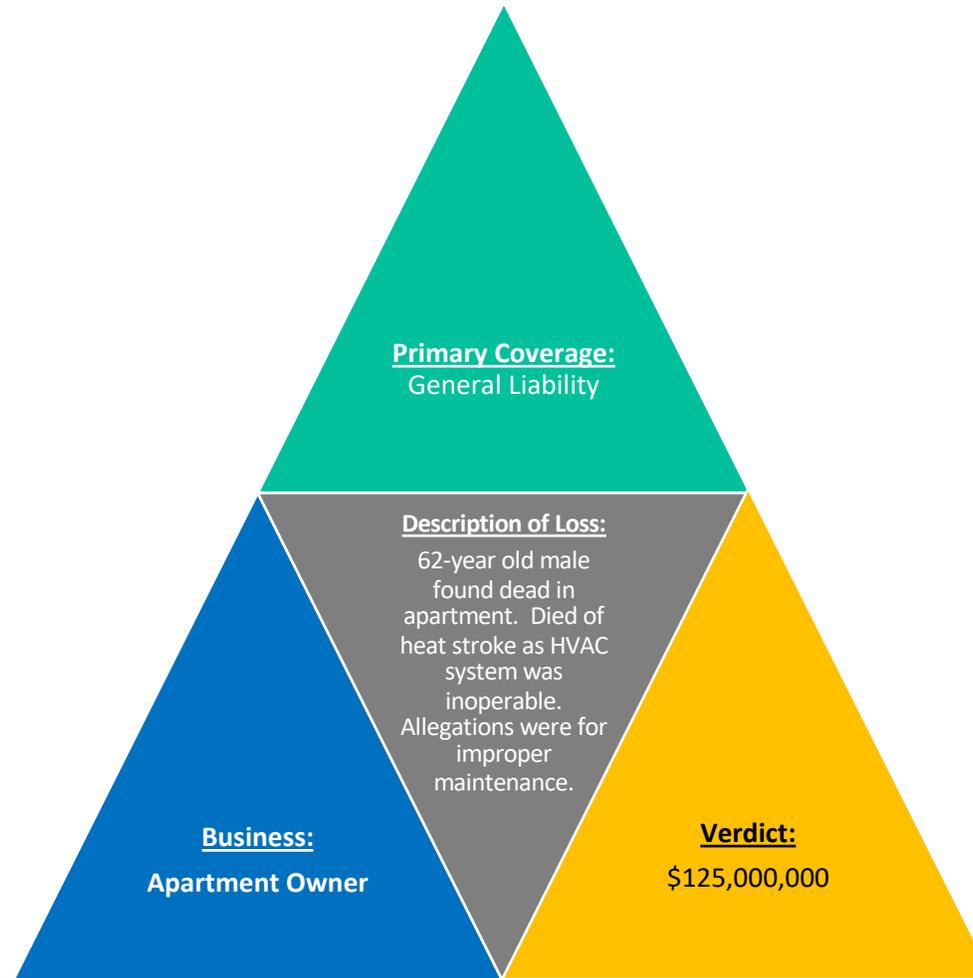
- 1 Philadelphia Court of Common Pleas
- 2 California
- 3 New York City
- 4 Louisiana
- 5 City of St. Louis, Missouri
- 6 Georgia
- 7 Cook, Madison and St. Clair Counties, Illinois
- 8 Oklahoma
- 9 Minnesota Supreme Court/Twin Cities
- 10 New Jersey Legislature

Poll #1

Excess Liability – Actual Verdict Apartment Owner

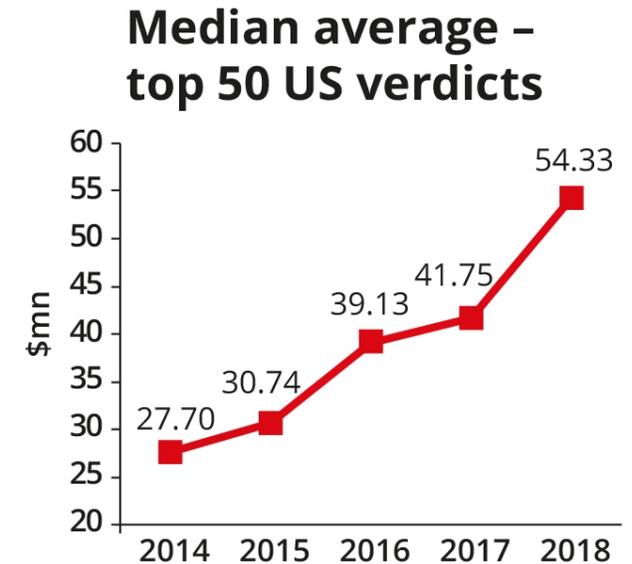


Excess Liability – Actual Verdict Apartment Owner



Excess Liability – Litigation Trends Leading to Nuclear Verdicts

- **The Reptile Approach** - plaintiff counsel uses tactics to activate jurors' survival instincts in hopes that they will make decisions based on instinct (i.e., fear) rather than logic and reasoning
- **Social Inflation** - strong emphasis on government and corporate ethics, responsibility, accountability, regulations and safety. Socially conscious.
- **Venue Shopping** – the practice of plaintiffs choosing court locations they believe will be favorable to their lawsuit.
- **Third Party Litigation Funding** - Third party litigation funding (TPLF) is the practice of hedge funds and other financiers investing in lawsuits in exchange for a percentage of any settlement or judgment. TPLF is a global industry with approximately \$100 billion available to funders and firms.



Source: Shaub, Ahmuty, Citrin & Spratt

What can Strength Matters Members Do to Improve their Insurance Renewal Results?

- Review current Risk Management Practices to ensure they are effectively addressing your potential exposures to claims:
 - Written C-Suite Support of Loss Prevention and Risk Management Strategies
 - Pro-active budgeting for capital expenditures
 - Written and documented Preventive Maintenance Programs
 - Written and documented regular property self-inspections with a focus to safety
 - Written risk management practices regarding COVID-19
 - Background Checks for employees and vendors
 - Vendor Management
 - Strong written contractual risk transfer practices in place
 - Obtain competitive bids on jobs exceeding set amounts
 - Written procedures for incident reporting and accident investigation and prompt claims reporting
 - Pro-active Claims Management Strategies in place
 - Security Vulnerability Assessments
- Meet with your insurance carriers – whether by video chat or in-person, creating relationships makes a difference

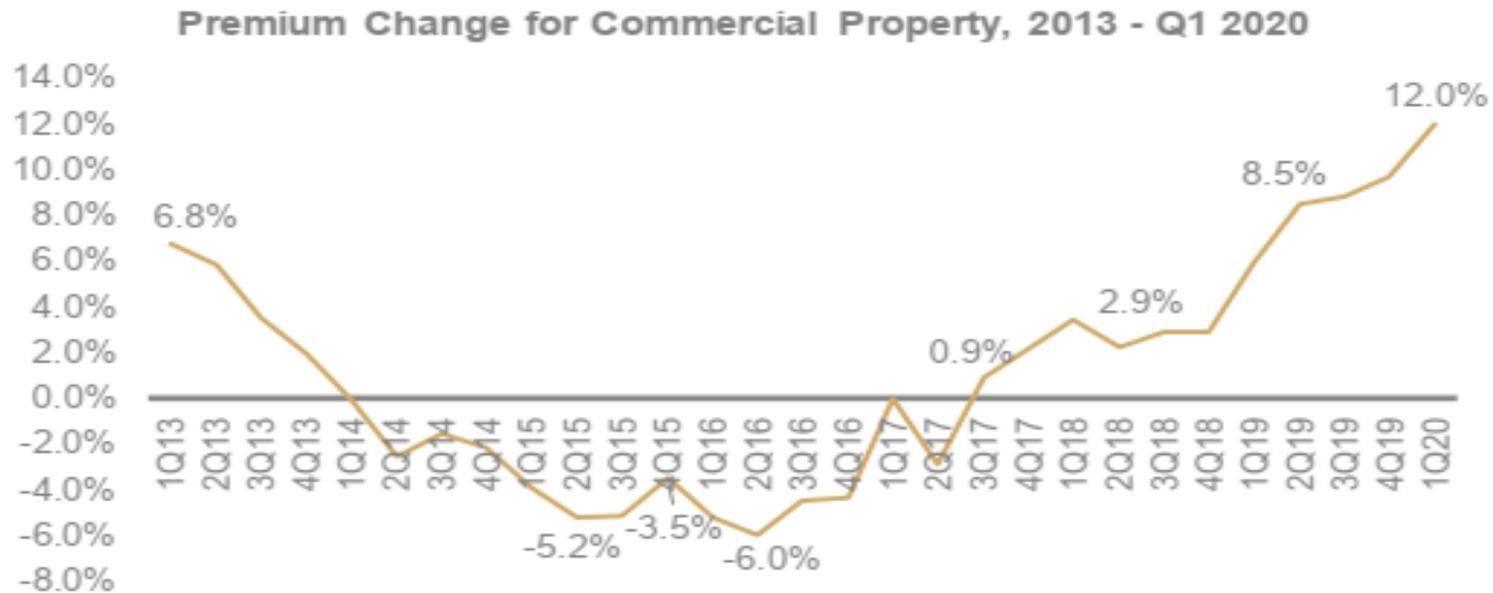
Poll #2

Property Insurance

Housing organizations are facing a hard market

1. Hard Market: Rising premiums. ... The **property/casualty insurance market** is cyclical. A period of rising premiums and reduced capacity—a **hard market**
2. Higher Deductibles – certain properties
3. Less Competition
4. Higher Building Costs – Claims amounts have risen
5. Rate Increases between 10% - 40% per Housing Finance Magazine

Property Pricing Rise since 2013



Builders Risk

- Rates have increased across the board with most Builders Risk Markets
- Deductibles are increasing on all projects with water damage deductibles receiving the most attention as this cause of loss plagues this industry. Most projects will see water damage deductibles starting at \$50,000 or higher.
- Carriers may have concerns about government stoppages of jobsites due to COVID-19.
- Projects over \$50m and higher may run into capacity issues depending on the location, construction type and current history of social and civil unrest.



Poll #3



What Organizations can do

Reduce Claims

1. Analyze Losses – where are losses coming from
 1. Fire & Water
2. Set up Loss Control Task Force
3. Tenant Education
4. Inspecting the Property & Inspecting Units



What Organizations Can Do

Increase Communication

- Don't get surprised with an Increase
- Be Organized going into renewal
- Consider alternative options...Captive or other risk financing methods
- Communicate with other similar organizations
- Develop Relationships with Insurance Market



Poll #4 – Property Program

Hard Market Causes & Why it will Continue

- Increased weather-related claims: Fire, Hail, Hurricanes
- Underpricing
- Reinsurance
- Social Unrest
- COVID - Uncertainty

Thank You



shutterstock.com • 1209671656