



STRENGTH
MATTERS®

Financial
Management
Conference

State of the Commercial Insurance Market

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September 7, 2022



PROPERTY & CASUALTY INSURANCE MARKET CONDITIONS REPORT JUNE 2022

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SEPTEMBER 7, 2022

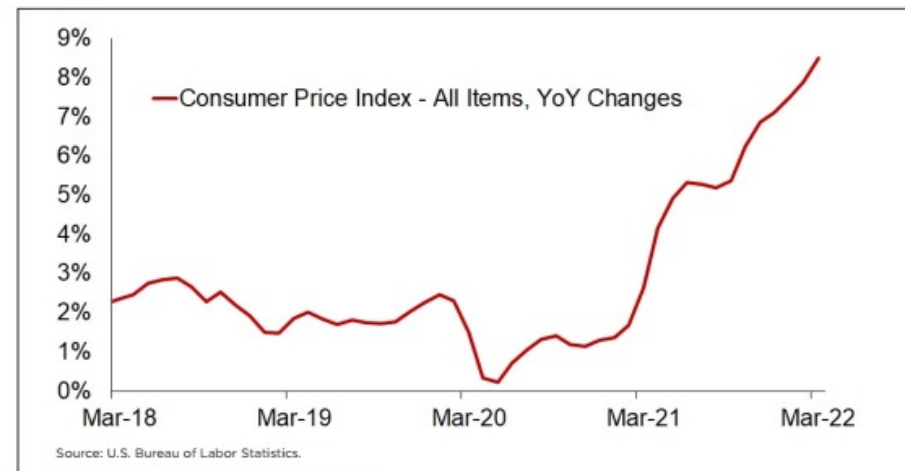


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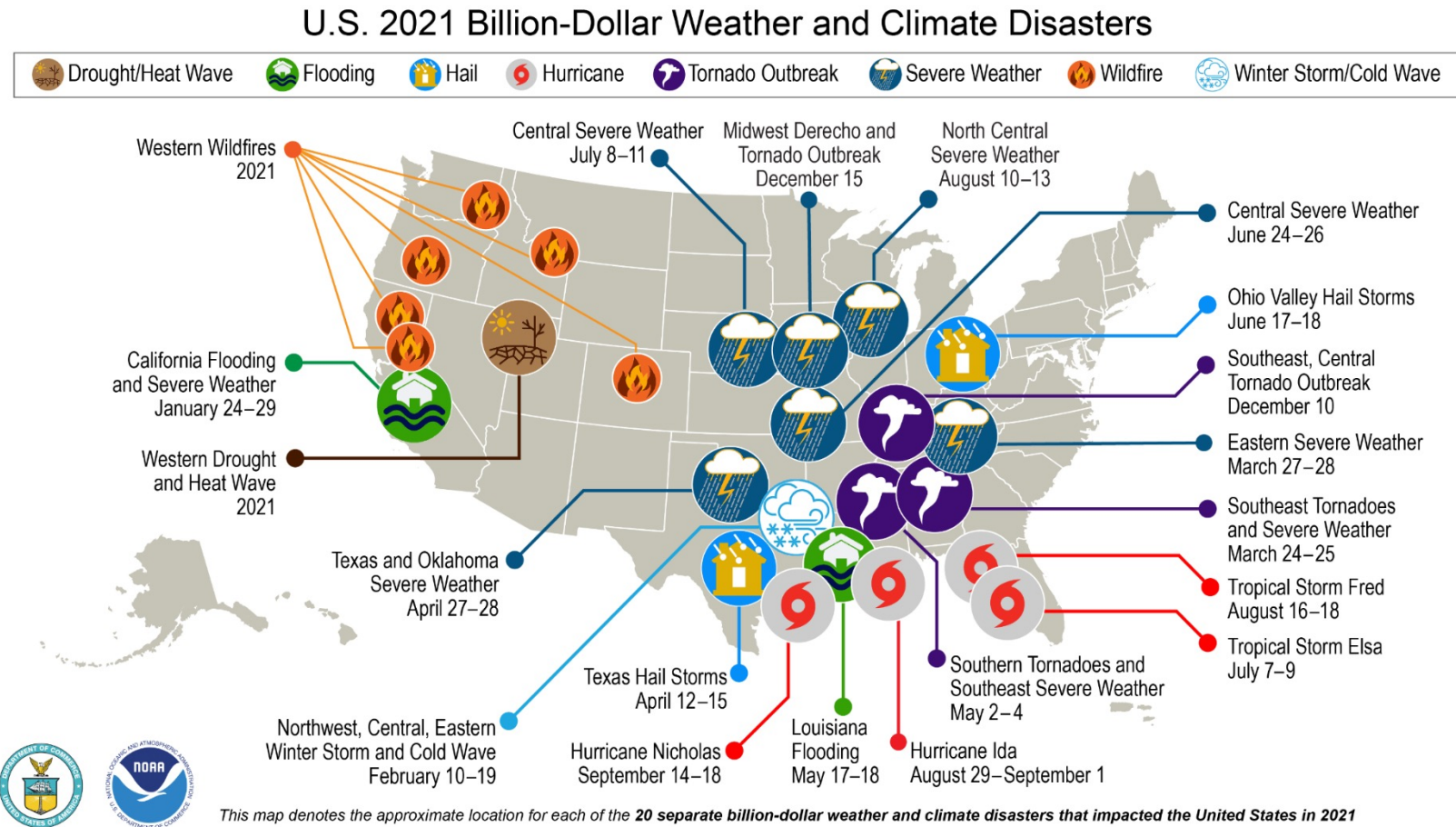
Broader economic and social issues affecting the U.S. Property Insurance Market

- Climate change / unpredictable weather patterns – both frequency and severity of natural catastrophes are increasing
- 40-year record inflation
- Supply Chain Issues
- Increasing energy costs
- Rising construction labor and material costs are increasing the cost of claims
- Low Interest Rates
- COVID-19
- Social Justice issues



Market Characteristics

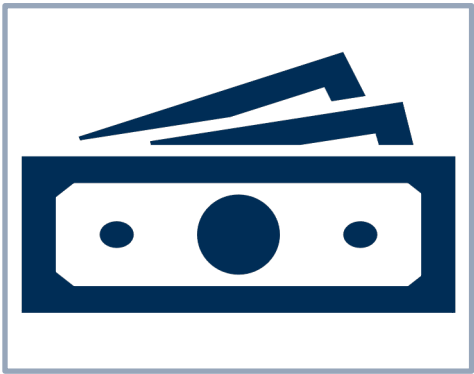
- 2021 was the seventh year in a row the U.S. suffered at least 10 catastrophes causing over \$1b in insured losses.¹
- Global insured loss estimated at \$145B in 2021 – the fourth costliest global insured loss event since 1900.²
 - 2nd costliest year since 2017
 - Hurricane Ida - \$105 billion
 - Winter Storm Uri - \$15 billion
- Social Justice related insurance industry losses exceeded \$2 billion in 2020.
- Early estimates of wildfire losses in 2021 are \$336 million with this number likely to increase.³
- Retail and reinsurance rates are all impacted by these trends.



¹ National Oceanic and Atmospheric Administration (NOAA)

² Aon 2021 Weather, Climate & Catastrophe Insight

³ Losses reported by ISO Property Claims Services



Key Factors Impacting Property Insurance Rates and Premiums¹

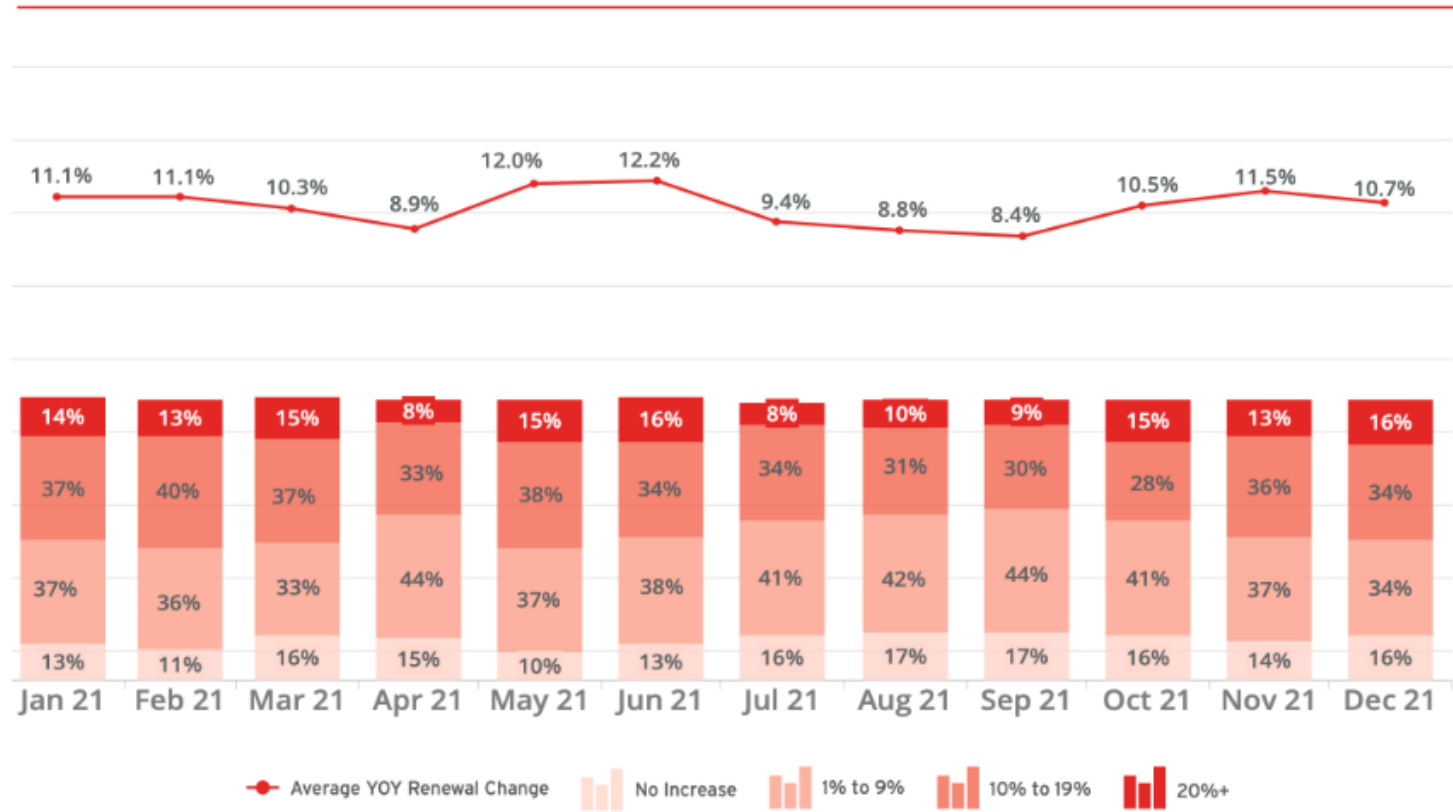
Geographic Location

Valuation Adequacy

Class of Business

Individual Account Loss Experience

CRC Group Property REDY[®] Index - December 2021
Monthly Renewal Pricing Analysis



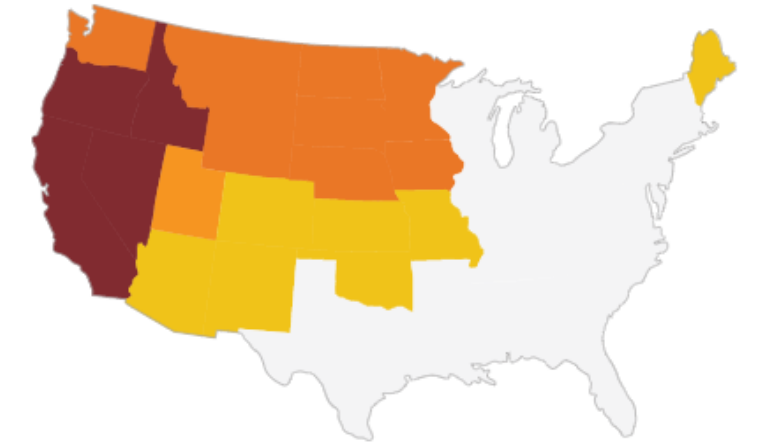
¹ AmWINS State of the Market Q3 2022

Key Factors Impacting Property Insurance Rates and Premiums

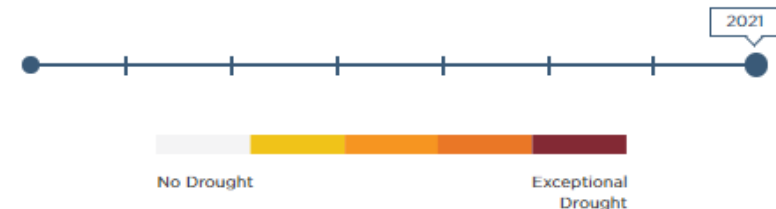
Geographic Location

- California locations with high wildfire scores – many carriers use RiskMeter or proprietary software to determine a wildfire score.
- Arizona, Colorado, Oregon and other western states are also concerns for carriers as respects wildfire.
- Houston and Galveston, Texas, and other coastal Texas cities/counties
- South of I-10 in Louisiana (Tier 1 Louisiana Parishes)
- Waterfront and Tier 1 Mississippi, particularly lesser construction types and condominium business
- Florida Panhandle, particularly condominium business
- Hillsborough and Pinellas Counties in Florida
- Dade, Broward and Palm Beach Counties in Florida
- States with Convective Storm Activity – CO, KS, NE, NM, OK, SD & WY

Over the past two decades, drought levels in the West have gotten more severe. This creates an environment that's dry and makes it easier to ignite and burn, causing wildfires that can rapidly spread.



Use the slider below to see how drought conditions across the United States have increased since 2000.



Sources:

The U.S. Drought Monitor is jointly produced by the National Drought Mitigation Center at the University of Nebraska-Lincoln, the United States Department of Agriculture, and the National Oceanic and Atmospheric Administration. Maps courtesy of NDMC.

Key Factors Impacting Property Insurance Rates and Premiums

Valuation

- Credible Replacement Cost Valuations are one of the most important issues to Property Underwriters in today's marketplace.
- Some insurance carriers may have pre-set costs per square foot for construction types and may not be willing to quote accounts that are valued less than those benchmarks.
- Carriers may automatically increase values on a year-over-year basis.
- Many accounts that are considered to be undervalued may be insured with scheduled limits, margin clauses tied to the statement of values or even possibly actual cash value.
- Replacement Cost valuation tools such as Marshall Swift are still widely used in the industry.

MARKET VALUE

How much someone is willing to pay for your home



location & neighborhood



school systems



market status

REPLACEMENT COST

How much it would cost to replace your home



cost of materials



cost of labor



cost of clean-up



Key Factors Impacting Property Insurance Rates and Premiums

Class of Business – Habitational

- Habitational, (especially Wood Frame), continues to be one of the toughest placements in the property insurance market.
- Pricing increases in combination with higher deductibles are common.
 - Carriers do not want to participate in attritional losses. Attritional losses are those other than CAT-related losses, i.e., kitchen fires, water intrusion, accidental sprinkler discharge, etc.

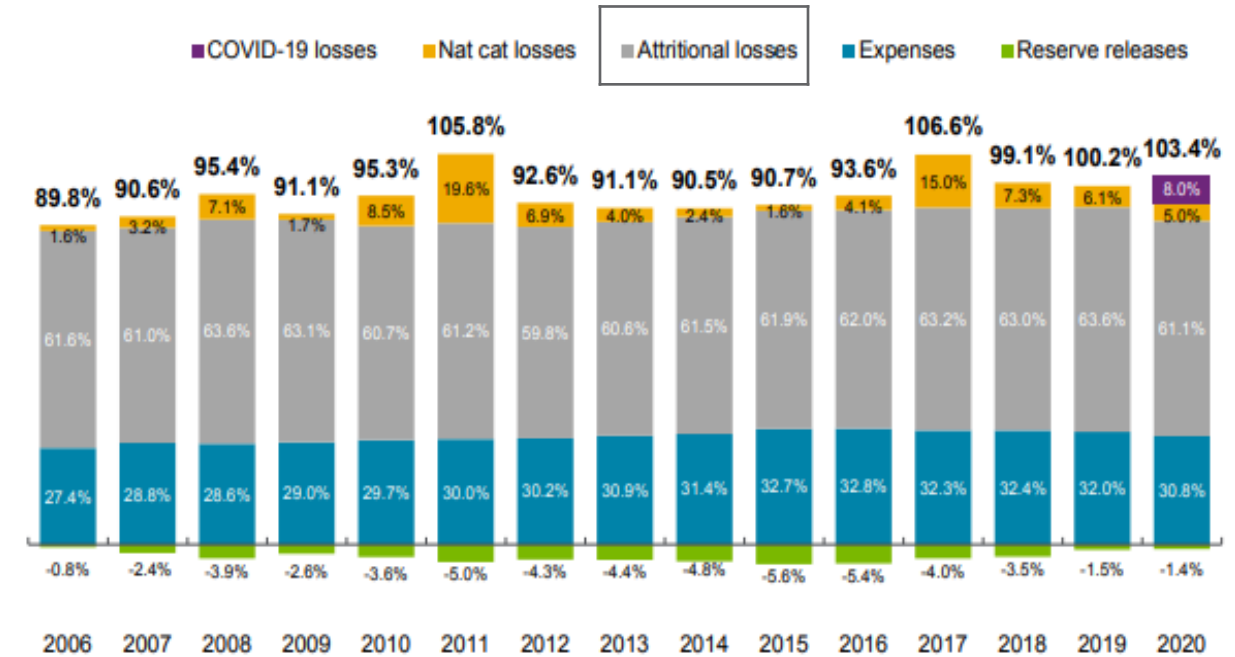
Individual Account Loss History

- In addition to the key factors already presented, an individual accounts loss history will play a large role in final pricing and terms and conditions.
- Be prepared to explain large losses, (over \$100k) and what controls have been implemented as a result of those losses.

Property Self-Inspections

Written Contractual Risk Transfer to Contractors

Tenant Education



Source: Aon / company reports

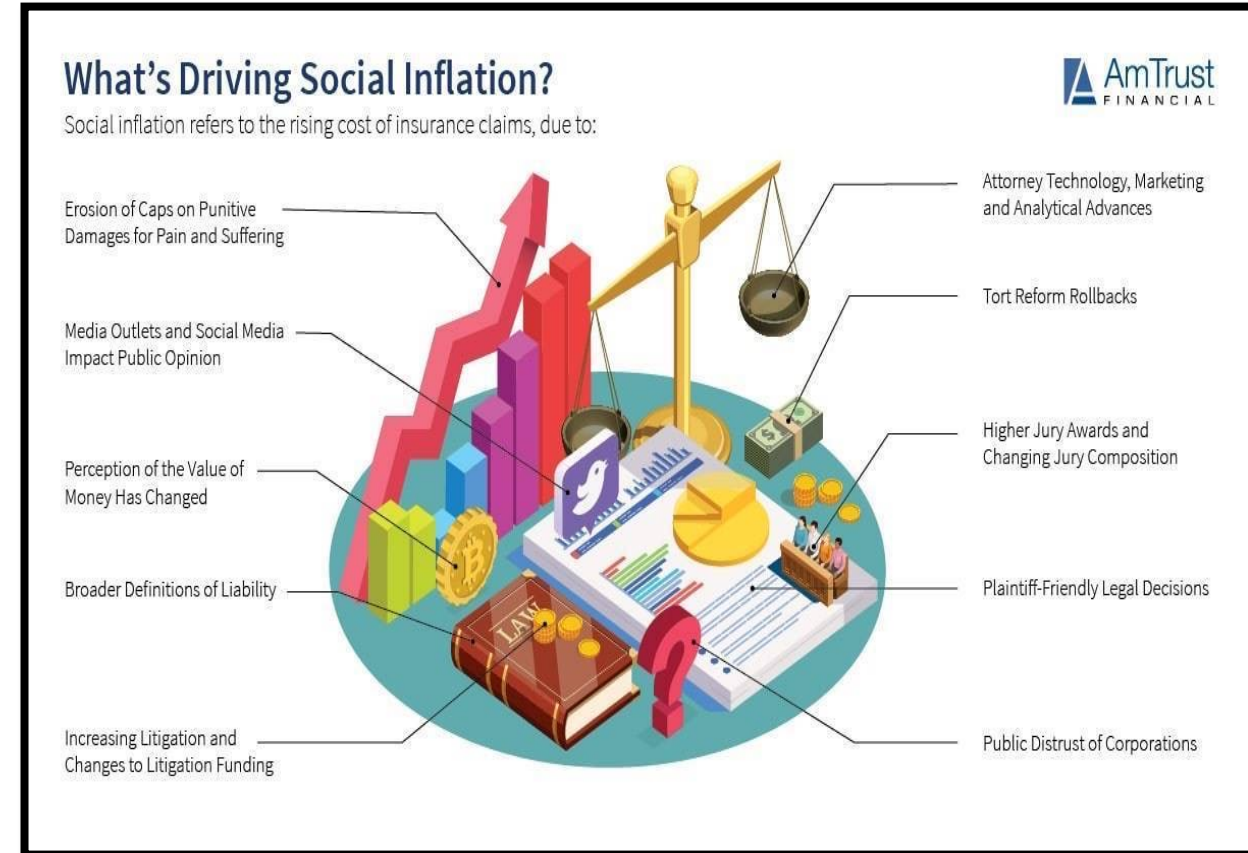
Builders Risk

- Placement of Wood Frame, single-structure Builders Risk projects, especially those in high-crime or wildfire susceptible areas:
 - Limited capacity
 - Higher Deductibles, especially for water damage and interior water intrusion.
 - Underwriters are carefully reviewing scheduling to determine if General Contractors are “fast-tracking” construction schedules that might increase potential for insured losses.
 - Security Requirements further increase Builders Risk insurance premiums.
 - Ensure you have a buffer built into your project/policy term should there be supply chain and/or labor shortages. It is difficult to obtain extensions to Builders Risk policies.
- Multiple carriers are required to place higher-valued wood frame projects.
- General Contractor Builders Risk program may be an option. Ensure that you are a Named Insured on those policies in order to have rights under the policy to file a claim and be part of claims negotiations.
- Capacity is abundant for Non-Wood Frame Construction



Market Characteristics

- In general, pricing trends have improved from the highs of late 2020
 - “Disciplined market” today versus prior “hard market”
 - Underwriters are exercising discipline
 - Portfolio reshuffling is on the decline
 - Flat to slight rate increases for favorable accounts
- Social inflation and traditional inflation are increasing claims costs
 - Social Inflation is resulting in higher settlements and judgements
 - Nuclear verdicts are lowering umbrella offerings from \$25M to \$15M, \$10M, or \$5M
 - Traditional inflation is increasing the cost to adjust claims
- Workers Compensation remains a bright spot for insurance purchasers
- Commercial auto insurance market remains challenging
 - Large contributor to nuclear verdicts
 - Average combined ratio fell below 100 in 2021 for the first time since 2011.





- Higher Claim Settlements
 - Nuclear Verdicts
 - Social Inflation
 - Third Party Litigation Funding
 - Carriers are paying close attention to settlements and judgements as the courts open back up post COVID.
- Crime Scores – Properties Being Excluded from coverage solely based on their zip code
- Full Exclusions, Sub-limits and/or high deductibles on Abuse & Molestation and/or Assault & Battery
- Apartment rental housing accounts that include Senior Living, Section 8 or Student Housing are seeing even less capacity than other apartment rental housing accounts.
- Other Coverage Restrictions: Habitability, Wildfire and Cannabis Exclusions

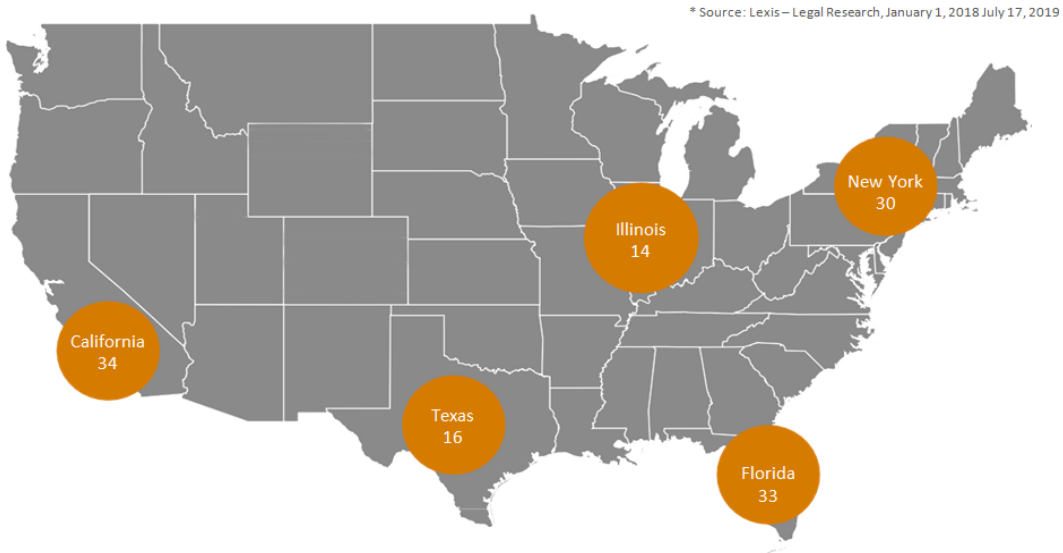


Excess
Liability –
Nuclear
Verdicts

24 Month
Period
(valuation 2/20)

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:

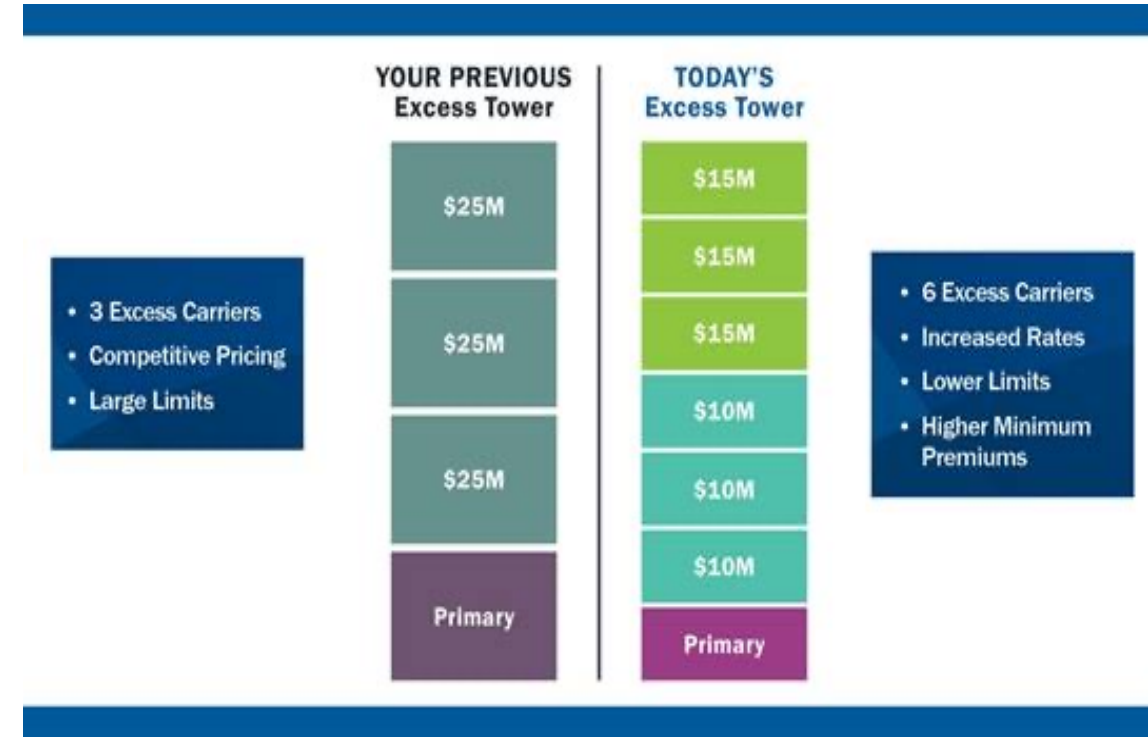


- 1 CALIFORNIA
- 2 NEW YORK
- 3 GEORGIA SUPREME COURT
- 4 PHILADELPHIA COURT OF COMMON PLEAS AND THE SUPREME COURT OF PENNSYLVANIA
- 5 COOK, MADISON AND ST. CLAIR COUNTIES, ILLINOIS
- 6 LOUISIANA
- 7 CITY OF ST. LOUIS
- 8 SOUTH CAROLINA ASBESTOS LITIGATION

Casualty Market Update



- 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 3-4 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.
- **While the steep increases seen between 2019 and 2021 have leveled, Umbrella carriers are not reducing prices. Policy holders can expect Umbrella carriers to follow similar percentage increases that are seen on primary General Liability and Auto.**



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

What is a Habitability Claim?

- All states except Arkansas, have their own version of “implied warranty of habitability”
- In simpler terms, a tenant’s right to live in a safe and comfortable home. This is the legal concept that guarantees a rental unit will remain livable throughout a tenant’s lease term. It prevents landlords from renting out an apartment that lacks essential services, such as electricity, heat, plumbing, a roof and windows, and a lockable door.
- The alleged violation of this implied warranty of habitability leads to habitability claims and depending on the allegations, the Personal & Advertising Injury section of the Commercial General Liability policy might provide coverage.
- Specifically, the section of the policy that is triggered is the Wrongful Eviction portion of the definition of Personal Injury.

Recent Habitability Claim Settlements in California

- A jury awarded \$1.6m to a single family in Los Angeles County in 2018. At the time, this was the largest U.S. bedbug award.
- In 2015, nearly 100 tenants were awarded \$2.18m in a settlement involving allegations of cockroach infestations, in addition to heating, plumbing and electrical issues.

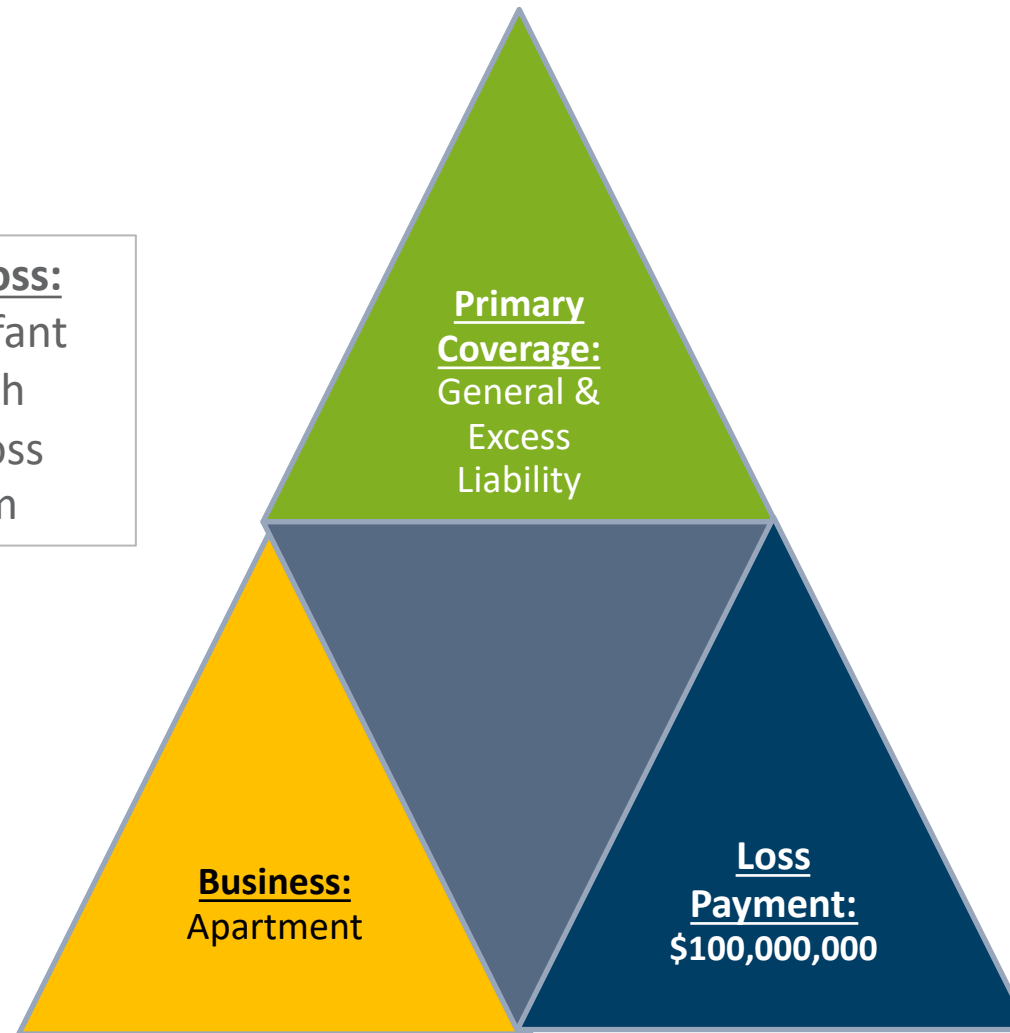


Casualty Market Update – Large Loss Payments



Description of Loss:

Unsupervised Infant
Fell into pool with
Broken Gate – Loss
Payment - \$100m

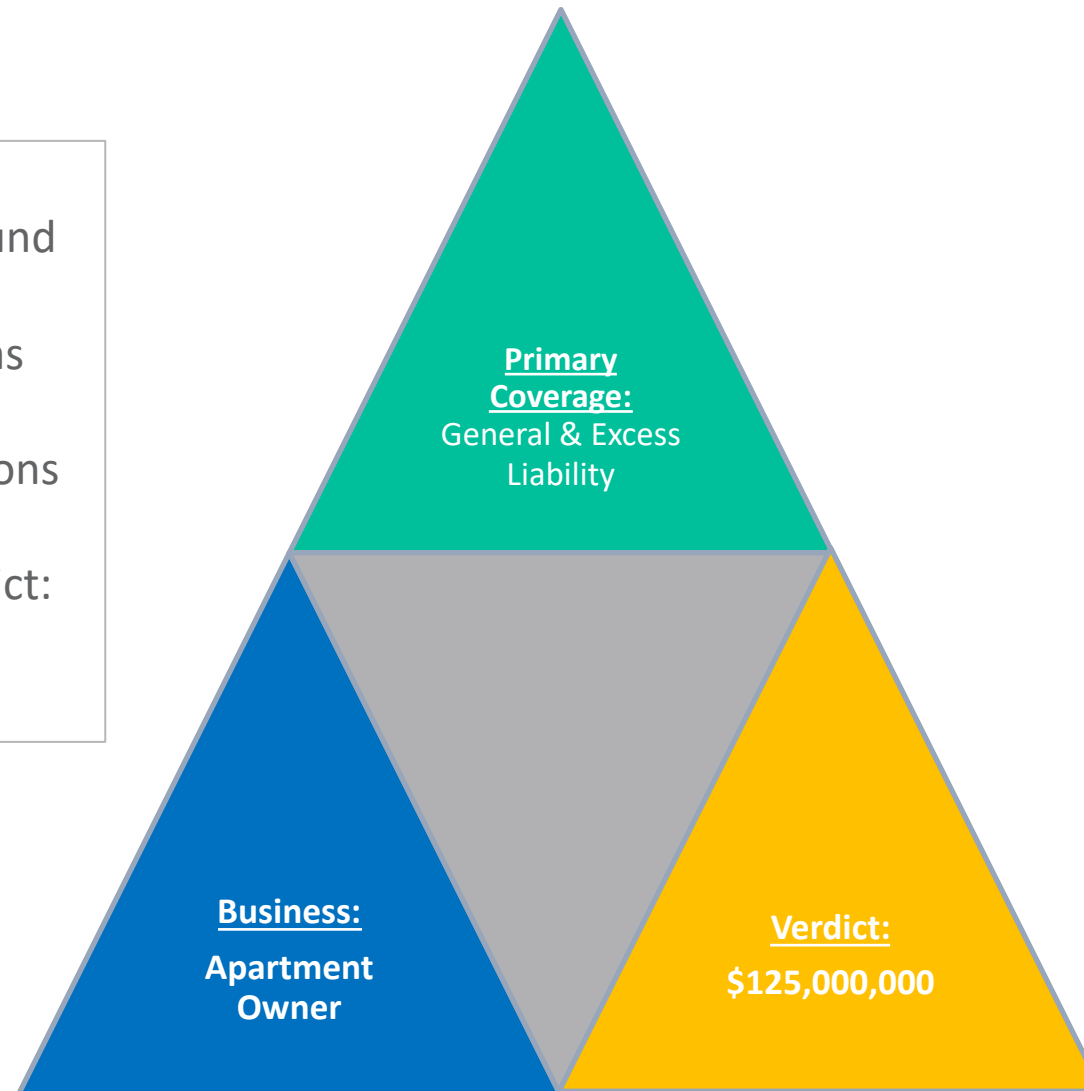


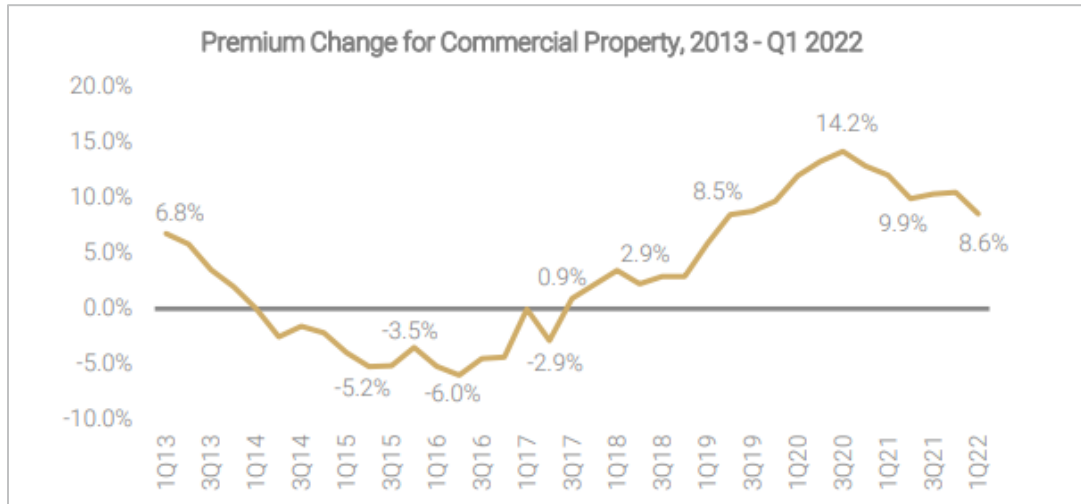
Casualty Market Update – Large Loss Payments



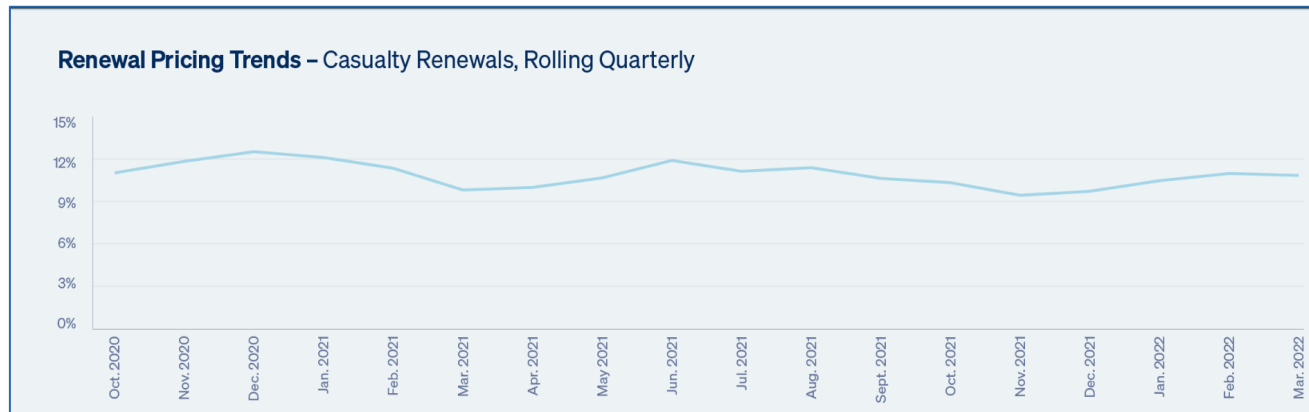
Description of Loss:

62-year-old male found dead in apartment. Died of heat stroke as HVAC system was inoperable. Allegations were for improper maintenance – Verdict: \$125m





Council of Insurance Agents & Brokers Commercial Property/Casualty Market Index Q1/2022



AmWINS Q2/Q3 2022 State of the Market

Industry Trends

As of June 2022, the following pricing trends are being seen across the insurance industry

Please note that as pointed out earlier in this presentation, the appetite for habitation accounts is very limited so the pricing ranges shown below may be more favorable than what you receive in the marketplace.

Increases in Property values due to market pressure for adequate valuations will also increase premiums.

- Property – Non-CAT with Good Loss History: 5% to 10% increase
- CAT Property with Good Loss History: 10% to 15% increase
- CAT Property with Poor Loss History: 15% and higher
- Primary General Liability: 10% to 25% with strong likelihood of requests to put sub-limits on Assault & Battery and/or Abuse & Molestation. Be wary of Habitability & Wildfire exclusions.
- Umbrella Liability: 10% to 25% which might be coupled with increases in exposure, (# of Units).

What Can You Do to Improve Your 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
- Control of your Underwriting data

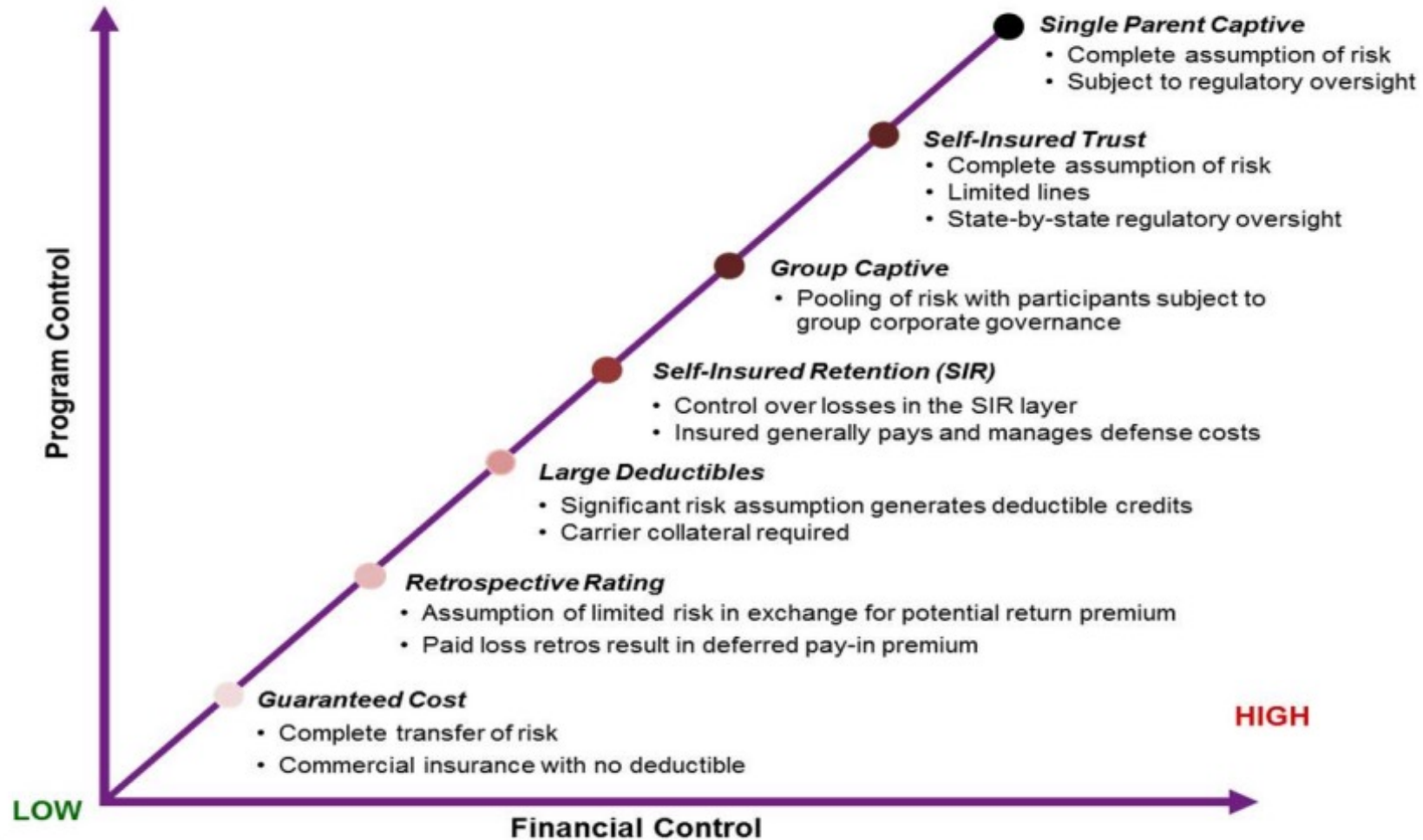
Meet with your insurance carriers – whether by video chat or in-person, creating relationships makes a difference



- **Total Cost of Risk:** The cost of managing risks and incurring losses. Total cost of risk is the sum of all aspects of an organization's operations that relate to risk, including retained (uninsured) losses and related loss adjustment expenses, risk control costs, transfer costs, and administrative costs.

RT solutions are developed when:

- The risk is very difficult to quantify
- The risk is emerging or evolving rapidly
- Insureds are larger and more sophisticated
- Carriers are non-renewing, raising retentions or reducing available capacity
- Insured's loss history is better than their industry
- Insured has implemented new loss prevention strategies
- Insured perceives carrier profits are excessive





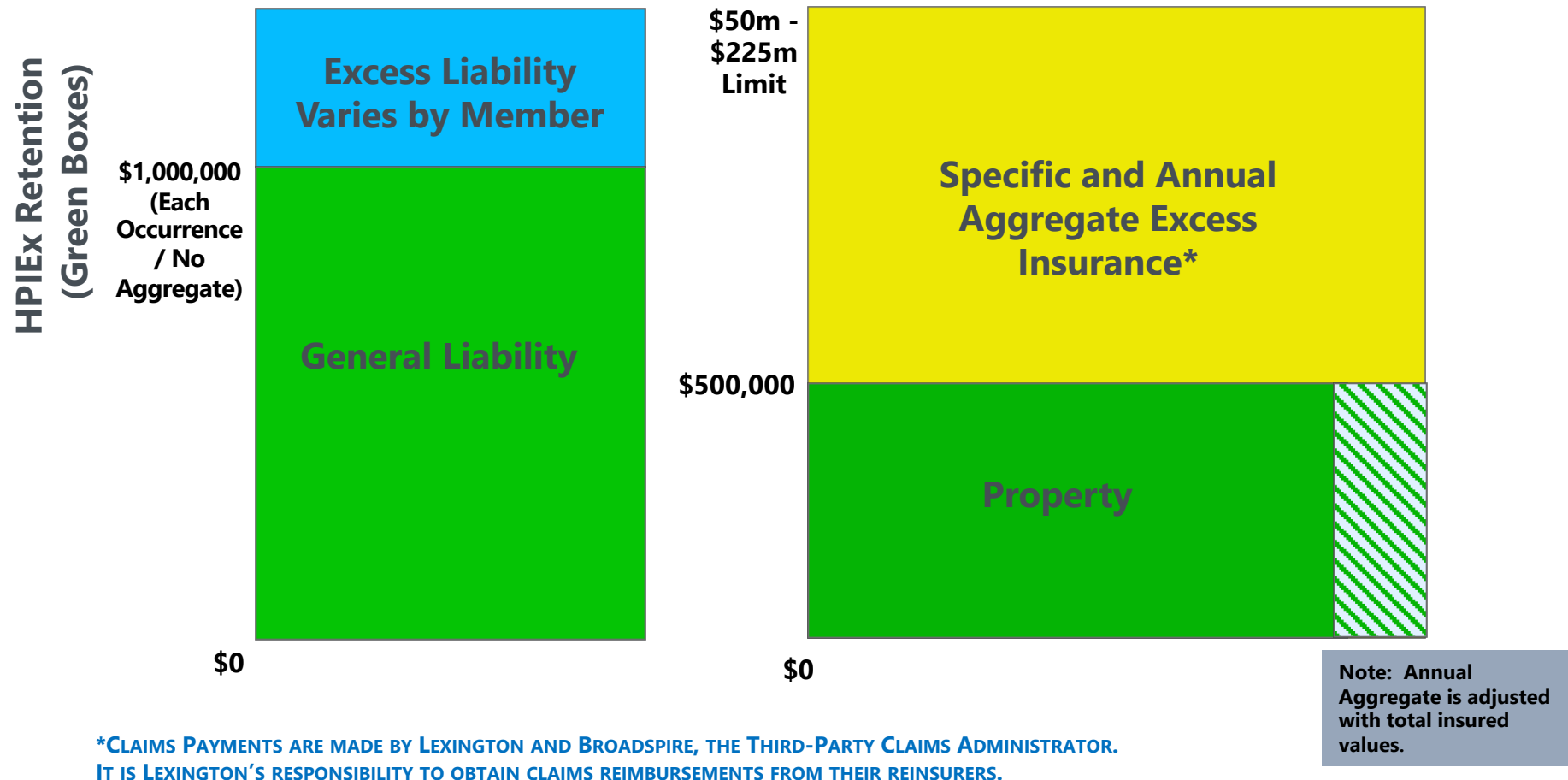
- † Reciprocal Reinsurance Company owned by 24 HPN members and HPN
- † P&C and WC are two economically independent entities under one governance structure, the Subscribers Advisory Committee, (SAC).
- **PROPERTY & GENERAL LIABILITY**
 - † Launched in 2004 and has experienced consistent growth
 - 14 Members to 24 Members
 - Premium Growth - from \$7.6m to \$36.5m
 - Unit Count has grown - from 33,000 to 96,000
 - Total Insured Values - from \$3.4b to \$15.3b
- **WORKERS' COMPENSATION**
 - Launched in 2014 with strong results
 - 6 Members to 12 members
 - Three consecutive years of distributions



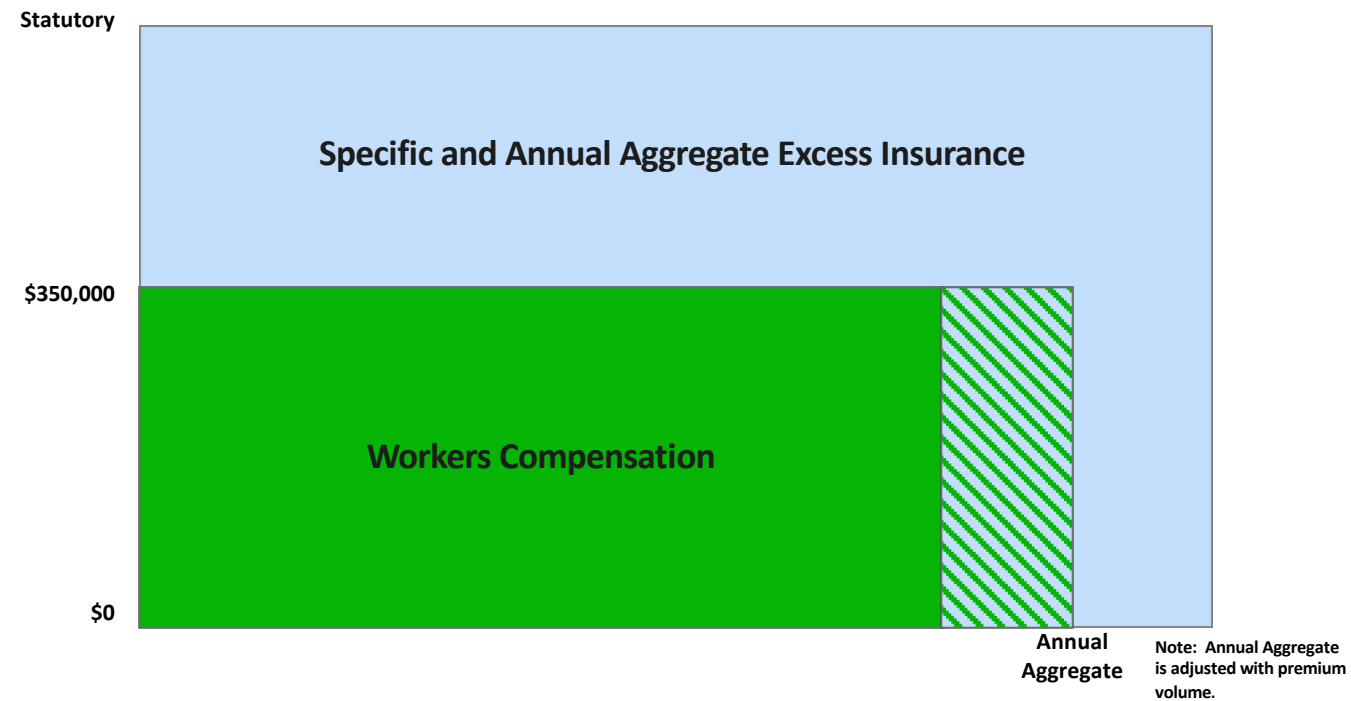
- Capital Contribution: 20% of first year's annual premium
- Goals & Principles
 - Long-Term Commitment
 - Oversight
 - Control
 - Stability
 - Robust Member Engagement
 - Superior Service
 - Members are rated based on Individual Results
 - Accountability of Ownership

HPIEx 2022 Property & GL Insurance Program Structure

(Fronted by Lexington Insurance / 23 Subscribers)



HPIEx Workers Compensation Program Structure



Questions?



- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact consult.lwells@gmail.com if you do not receive the link.

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