Real Estate and Hospitality Market Update

SPRING 2022

Gallagher

Insurance | Risk Management | Consulting

The Story So Far

While continuous challenges have kept our underwriting friends awake at night, insureds may rest easier following four years of rising rates, as new market entrants add capacity across nearly every business line. At Gallagher, we see signs of marketplace stabilization. For desirable business like non-CAT-exposed accounts with clean loss history, incumbent carriers face new competition, while flat renewals or modest increases exist in pockets of the marketplace for best-in-class risks.

Pressure for adequate insurance to value remains. With underwriters erring on the side of caution, true and accurate valuations with supporting methodology are more important than ever. Additionally, unaddressed property risk engineering recommendations will not be tolerated. Insureds should apply planned CAPEX to address these promptly.

Among casualty lines, the $1 million option is no longer a "gimme putt," especially with respect to multifamily risks. Carriers in the upper layers of insurance programs are increasingly wary of nuclear verdicts. Taking on higher deductibles or inserting small umbrellas to buffer excess liability may provide pricing relief.

Lastly, cyber liability remains deeply distressed. As this coverage matures, so do claims associated with an increasingly digital world. Cybercriminals show no signs of discriminating by industry with their headline-grabbing ransomware attacks. In this marketplace, increases of 50%–100% on cyber liability policies are not uncommon. Multifactor authentication has become a bare minimum requirement for underwriters to even consider offering a quote.

UNDERSTANDING THE FACTS

1 SUBMISSION COMPETITION
With underwriters receiving more, submissions must make a compelling case

2 PRECISION UNDERWRITING IN FOCUS
- Selective deployment of limit capacity
- More participants required to fill out program limits

3 ZERO TOLERANCE for incomplete risk engineering recommendation by underwriters

4 DEDUCTIBLES RISING
- Percentage wind/hail deductibles
- Water damage for mid- to high-rise buildings of $100,000+

5 MORE EXCLUSIONS
- Dog bites, habitability
- Assualt and battery
- Sexual abuse and molestation

6 SCRUTINY OF REPLACEMENT COST VALUATIONS
- Actual cash value endorsements
- Occurence limit of liability endorsements
- Increased premiums

Detail by Coverage Line

PROPERTY

- Per a January 2022 report by NOAA, the number of billion-dollar disasters in 2021 reached a tally of **20 separate weather- and climate-related catastrophes that killed 688 people**.
  - » Damages in 2021 totaled **$145 billion** globally. The trailing five-year total (2017–2021) has reached $742.1 billion, a new record.
  - » The CPI-adjusted annual average for billion-dollar weather events from 1980–2021 is 7.4.
  - » That same metric has **increased 132%** to a CPI-adjusted annual average of 17.2 billion-dollar events for the period of 2017–2021.
- NOAA attributes the dramatic uptick in these events to three primary factors.
  1. The exposure of assets at risk to these events increases every year, as new buildings and infrastructure are put in place.
  2. Greater measurable intensity of these events, such as wind speed and flood depth.
  3. The conditions under which a billion-dollar weather event can occur are more frequently met, in part due to climate change.
- Supply chain bottlenecks and labor shortages are dramatically increasing the reconstruction cost of assets following these disasters. **95% of contractors face at least one material shortage**, and **91% of contractors report moderate to high levels of difficulty finding skilled workers**.
- Accurately determining a property's value can be a challenge—however, if not done correctly, it may have serious consequences. Inadequate or inaccurate property valuations can lead to financial surprises in the aftermath of a loss, which can also affect your bottom line.

Detail by Coverage Line (continued)

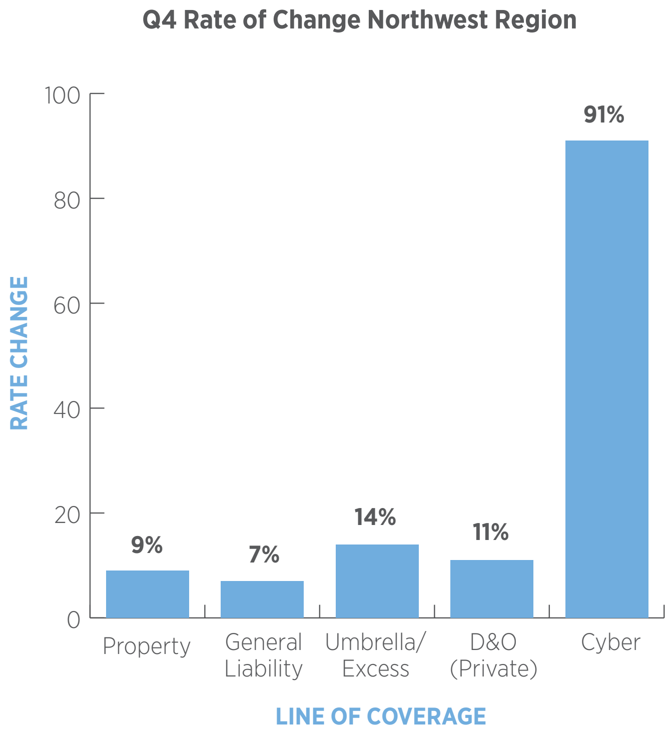
CASUALTY

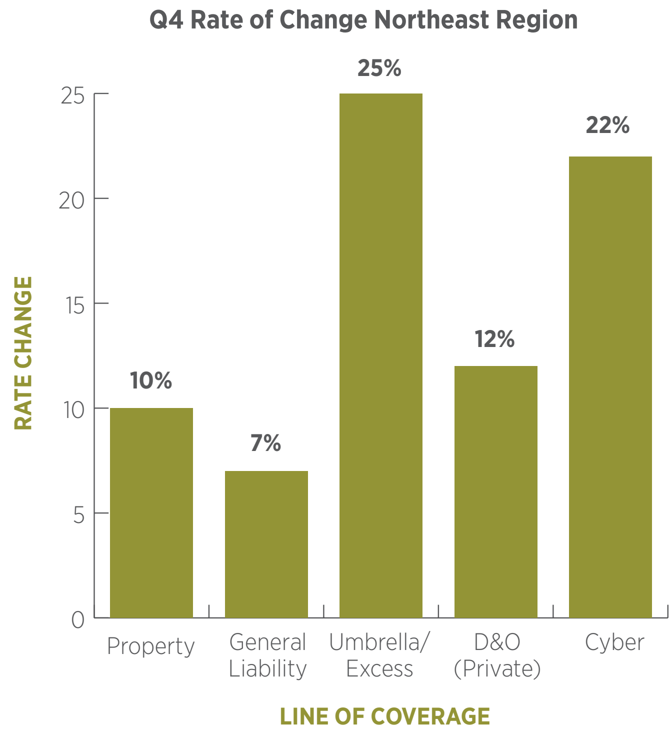
- Anne Blume, CEO of the Claims and Litigation Management Alliance, says that nuclear verdicts or jury awards in excess of $10 million "**impact insurance carriers, but also contribute to social inflation, drive up premiums and impact insured clients' bottom lines**."
- Social inflation is defined as "the phenomenon of unexpected rising insurance claim costs because of societal trends and views toward litigation," according to the International Risk Management Institute, Inc.
- Catastrophic losses are appearing in all industries and claims that break through the umbrellas have an impact on all insureds. In a recent analysis, the American Transportation Research Institute released a report documenting that the average size of verdicts that they observed from 2010 to 2018 **increased by 867%**, from just over $2.3 million to $22.3 million.
- The proliferation of nuclear verdicts is often attributed to third-party litigation funding and where third-party investors provide capital in exchange for a share of the eventual jury award.

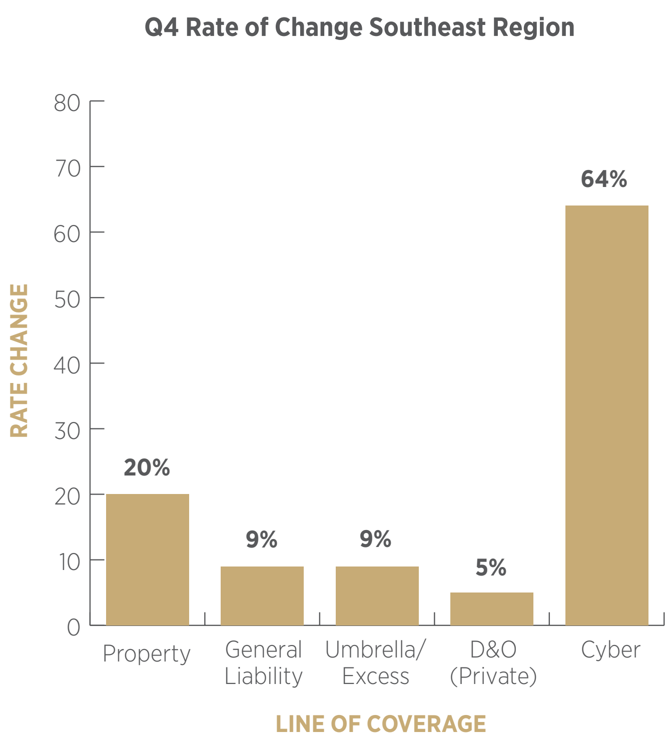
MANAGEMENT LIABILITY

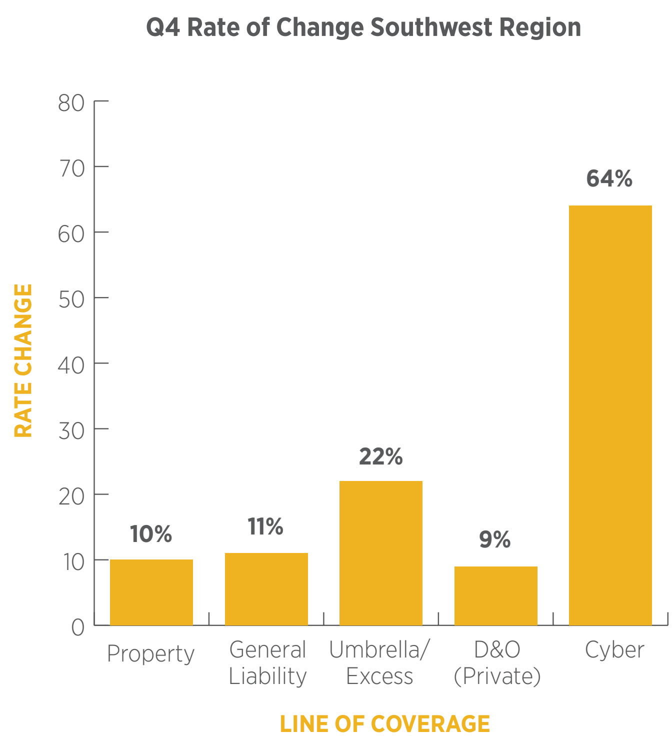
- Special purpose acquisition companies (SPACs) have experienced a meteoric rise in popularity. During 2021, **$145 billion were raised via 613 SPAC IPOs, a 91% increase over 2020 levels**; the Securities and Exchange Commission (SEC) has indicated they will be scrutinizing SPACs.
- A December 2021 report by the U.S. Equal Employment Opportunity Commission revealed that the EEOC resolved **70,804 employment-related suits that resulted in a total of $439 million in administrative and litigation monetary benefits**.

Marketplace Snapshot

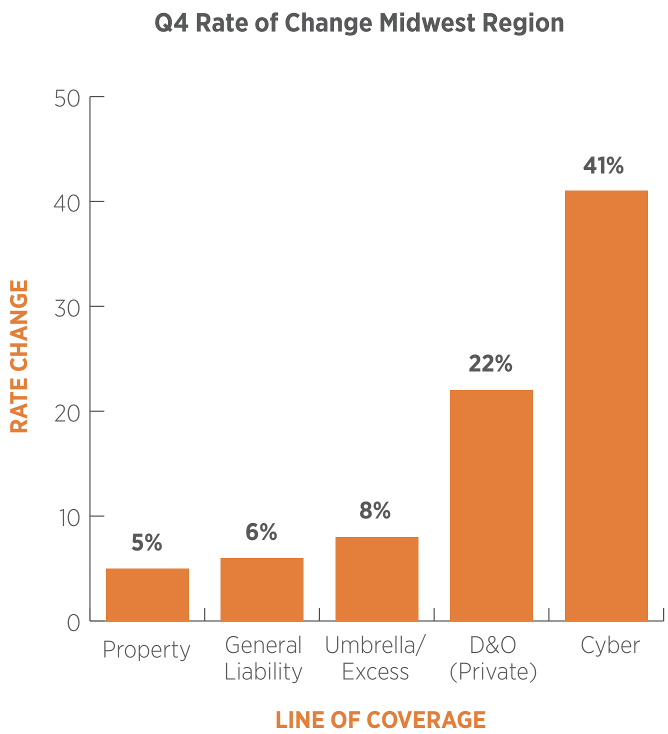


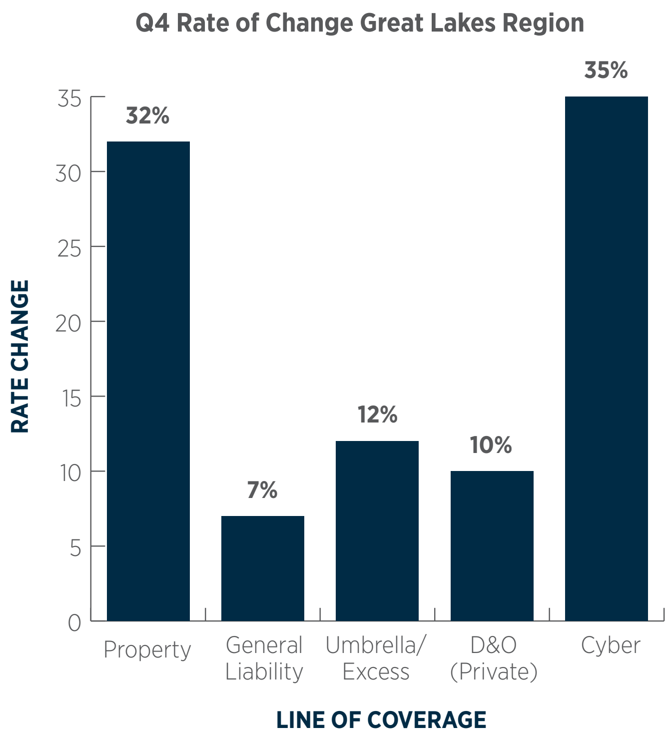


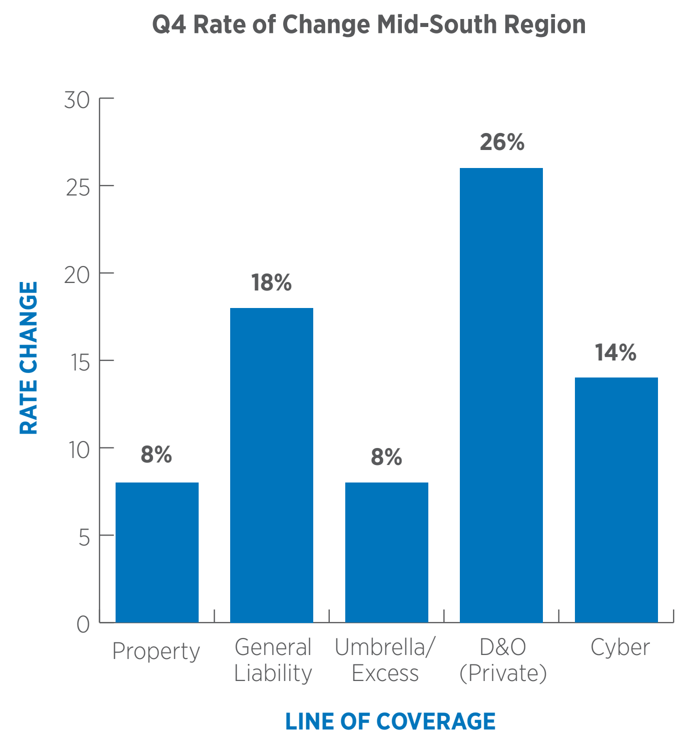


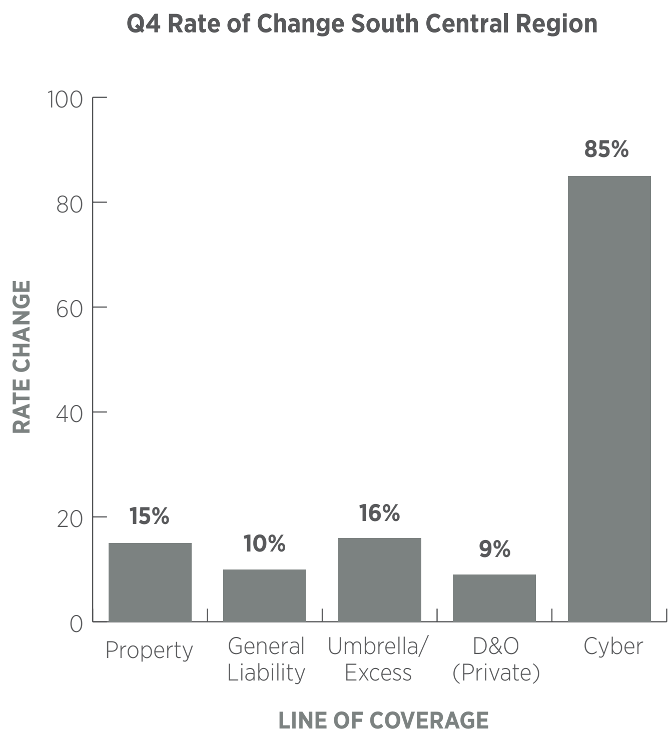


Marketplace Snapshot (continued)









The **CORE**360® Difference

CORE360® is our unique comprehensive approach of evaluating our clients' risk management program that leverages our analytical tools and diverse resources for customized, maximum impact on six cost drivers of their total cost of risk.

We consult with you to understand all of your actual and potential costs, and the strategic options to reallocate these costs with smart, actionable insights. This will empower you to know, control and minimize your total cost of risk, and improve your profitability.

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