# U.S. Real Estate and Hospitality Market Update

**SUMMER 2022**

Gallagher

Insurance | Risk Management | Consulting

# MIDYEAR REVIEW

While the days of lockdowns, travel restrictions, and intense masking requirements seem to be waning, the effects of COVID-19 continue to linger. Inflation, the so-called "Great Resignation," and supply chain disruptions are the most pronounced symptoms of the global pandemic that continue to impact the insurance industry. For real estate firms, while the marketplace has signaled signs of stabilization, the road ahead could take quite some time to return to what we once called "normal."

Property underwriters' primary focus remains on submitting true and accurate replacement cost valuations. The cost to rebuild a structure with new, like-kind, and quality materials continues to climb. The days when a broad 2%–4% blanket increase in values would suffice are gone as May 2022 inflation numbers read at 8.3%. Insureds seeking favorable attention to their property submission must lead with defensible data and supporting methodology by which their values were obtained.

In the casualty arena, real estate insureds should prepare to supply the underwriting community with deeper loss history for umbrella and general liability lines of business. Previously, 5–7 years of loss history was the norm, today underwriters are requesting loss history as far back as 10 years. This is in part due to the frequency of attritional losses that have pierced the limits of primary general liability policies. In the multifamily space, we are aware of more carriers demanding $2 million attachment points for umbrellas.

A bright spot for insureds exists in the management liability lines of business. The directors & officers liability marketplace saw 20+ new entrants who were attracted by the heightened rate activity. This has led to increased competition and most insureds with clean loss history could see decreases or flat renewals, especially in the excess layers.

The cyber liability market continues its tumultuous trend as insurers raise premiums and deductibles to account for increased losses derived largely from ransomware. Underwriters require multifactor authentication for all remote access, 100% endpoint detection, and hard copy segmented backups in order to even offer cyber coverage. Premiums are increasing for all companies and those without the aforementioned controls will be unable to secure full coverage for extortion demands.

## UNDERSTANDING THE FACTS

**1**

**SCRUTINY OF SUBMITTED REPLACEMENT COST VALUATIONS**

- Actual cash value endorsements
- Occurrence limit of liability endorsements
- Increased premiums

**2**

**"SECONDARY" PERILS IN FOCUS**

- Wildfire, severe convective storm, and tornadoes occurring in greater frequency and severity
- Underwriters increasingly wary of exposure to these perils
- Percentage wind hail/deductibles, water damage deductibles for mid/high-rise buildings $100,000+

**3**

**ZERO TOLERANCE** for incomplete risk engineering recommendation by underwriters

**4**

**SPECIALTY PROGRAMS, THE SILVER BULLET OF YESTERDAY**

- MGA programs cannot sustain losses
- Insureds exiting a non-renewed program for the standard market should expect sticker shock

**5**

**MORE HISTORY, BIGGER PICTURE**

- Underwriters seeking 10 years of umbrella/GL loss runs, no longer 5–7

**6**

**HEIGHTENED ATTACHMENT POINTS FOR UMBRELLA**

- $2 million attachment for multifamily risks becoming more common
- Litigation financing continues to drive attritional losses

# PROPERTY

The tale of two markets continues. Non-cat exposed, loss free asset classes can expect continued tapering of rate increases. While less desirable asset classes, insureds affected by losses, and cat exposed insureds will see more difficult renewals. Underwriters are increasingly wary of exposure to so called "secondary" perils like flood, hail, tornado and wildfire.

A confluence of factors are driving the heightened property rate environment.

1. **Natural catastrophe driven losses are more frequent and more severe, specifically secondary perils.**
    - Swiss Re reports that in 2021, global insured natural catastrophe losses totaled $111 billion across 306 events, claiming 11,881 victims.
    - Of the $111 billion in insured losses, $81 billion or 73% were the result of secondary perils.
2. **Underreported property valuations by the few increase costs for the many. Underwriters who are not confident, submitted values will resort to four strategies that make the insurance marketplace more difficult for policyholders.**
    - Insurers may choose to deploy less limit capacity than they had in past years.
    - They may ask the policyholder to assume more of the risk through increased deductibles and retentions.
    - Insurers may opt to tighten the terms and conditions under which a policy might pay out for a loss.
    - They have the option to raise rates and charge higher premiums for the same limits, deductibles, and terms and conditions.
3. **Submission data quality is paramount for an attractive submission that underwriters will want to work on. Insureds face greater competition, for less capacity, against a backdrop of industry-wide underwriter shortages.**
    - Commercial insurers process nearly 100 million submissions each year according to PropertyCasualty360.
    - U.S. Department of Labor reports that the "Great Resignation" saw 48 million people quit their jobs in 2021. The Microsoft Work Trend Index indicates 41% of the global workforce is considering leaving their jobs.

## CASUALTY

According to Swiss Re "liability claims have been rising faster than economic growth in most major countries recently, increasing claims costs for insurers." As such, the premiums associated with casualty lines of business can ebb and flow with the economic and social trends impacting society until tort reform is introduced to curb harmful trends. While we see casualty rates moderating for real estate organizations, it is important to be aware of these social and economic trends driving the marketplace.

1. **Crime**
   - » Carriers are increasingly warry of crime scores when evaluating an insured's risk profile.
   - » Real estate firms should be on the lookout for exclusions related to sexual abuse and molestation, as well as, assault and battery.

2. **Nuclear verdicts (verdicts in excess of $10 million) result in attritional losses that impact the umbrella and excess lines of business.**
   - » In 2021 the real estate and hospitality saw a handful of verdicts issued ranging from $671 million to $800 million according to Chubb.
   - » A $997 million settlement was reached in the wake of the tragic Champlain Towers South condominium collapse in Surfside FL. The security firm responsible for the safety equipment is on the hook for the largest share, in the amount of $450 million.

3. **Litigation financing, where third-party investors provide funds in exchange for a share of the eventual jury award.**
   - » Liberty Mutual's Chief Underwriting Officer, David Perez, communicated to A.M. Best that hedge fund managers are even adding entire in-house legal financing units due to the attractive investment opportunity.
   - » Swiss Re's U.S. litigation funding and social inflation report detailed that up to 57% of these massive judgements end up in the pockets of lawyers and third party financiers.

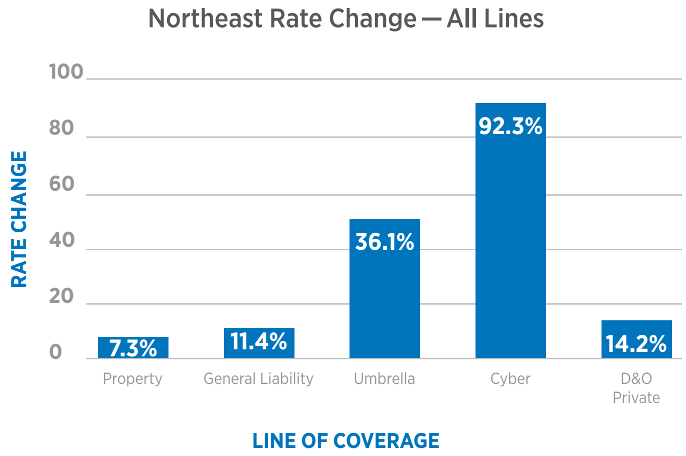
## MANAGEMENT LIABILITY

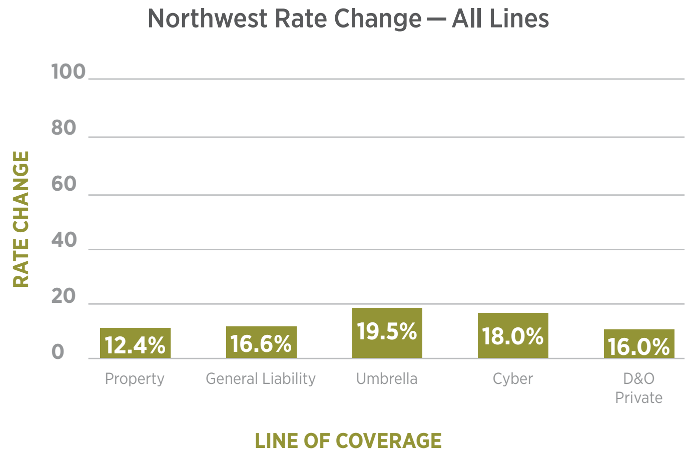
The landscape for management liability lines of business is always changing and evolving with the latest challenges management must face. Executive leadership has more to consider today than ever before. Increased focus on ESG (Environmental, Social and Corporate Governance) and DEI (Diversity, Equity and Inclusion) mean that decisions made my management carry significant responsibility beyond the performance of the business. Real estate firms should take note of the following market trends.

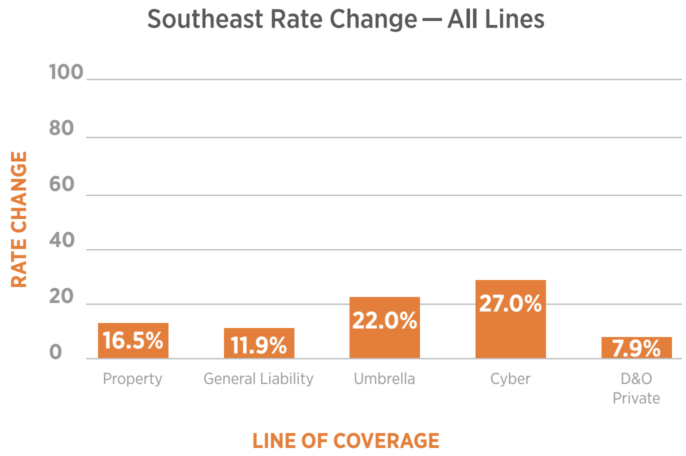
1. **Directors & Officers Liability**
   - » An improving marketplace means that most insureds can expect near flat or decreased rates.
   - » Gallagher's Emily Loupee said that 20+ new D&O insurers have entered the marketplace during the past two years and are seeking to write new policies. This increased competition is driving down the costs, especially on the excess layers.

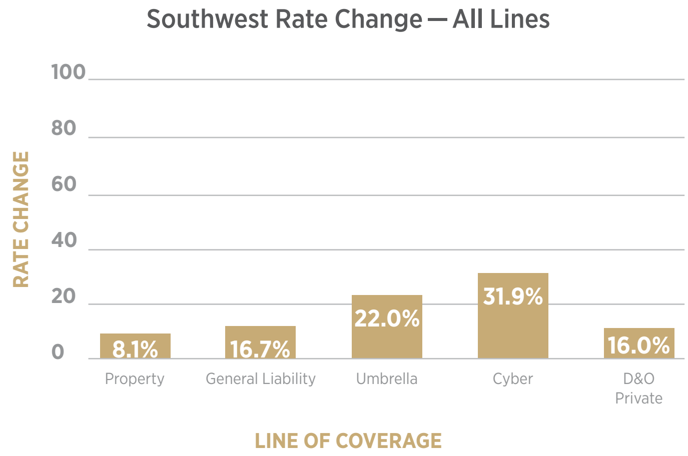
2. **Cyber Liability**
   - » Due to the pervasiveness of ransomware attacks, the cyber insurance marketplace is undergoing significant growing pains as the coverage line matures.
   - » The FBI estimates that cybercriminals stole more than $26 billion through email fraud between 2016 and 2020 with an average loss per incident of more than $150,000.
   - » All companies, regardless of controls or loss experience should expect increases.

# Marketplace Snapshot

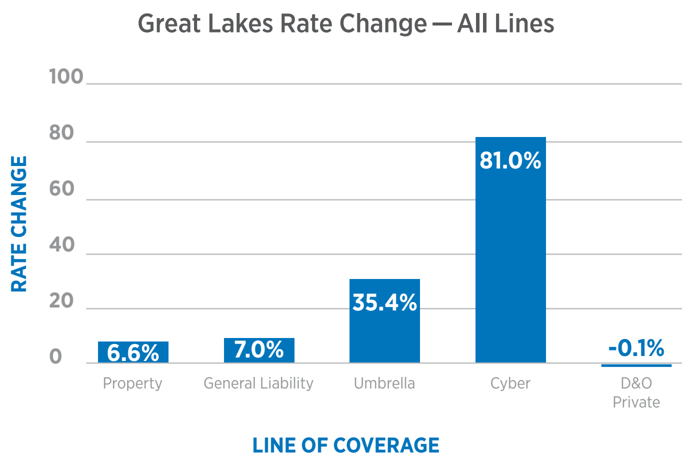


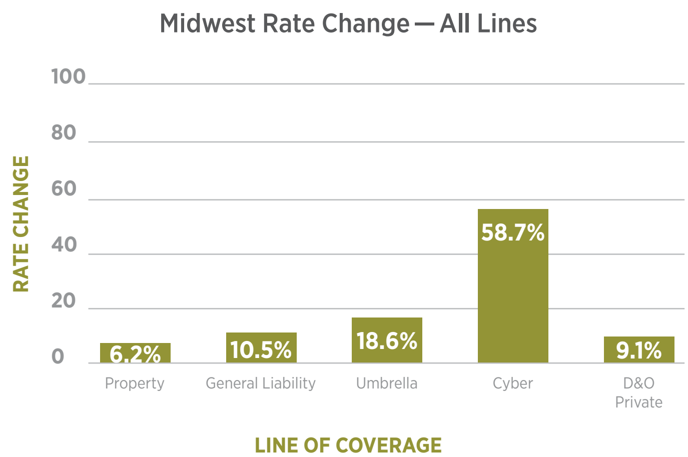



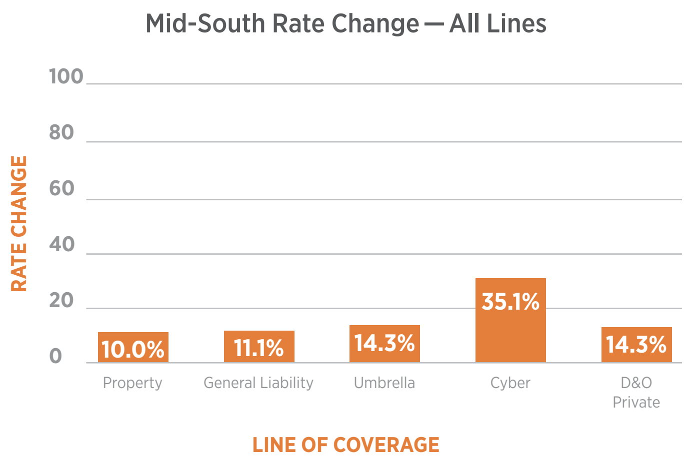



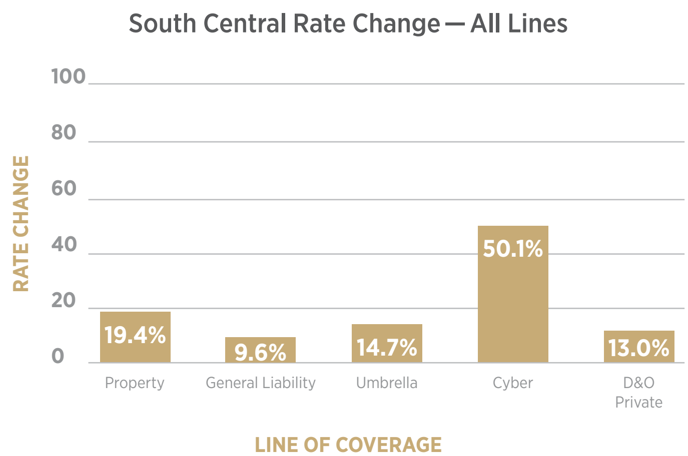



# Marketplace Snapshot (continued)



# The **CORE**360® Difference

**CORE**360 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.


**ajg.com** **The Gallagher Way.** Since 1927.


Bevere, Lucia, and Federica Remondi. "Natural Catastrophes in 2021: The Floodgates Are Open: Swiss Re." *Natural Catastrophes 2021: Flood Gates Are Open - Swiss Re Sigma*, Swiss Re Institute, 11 May 2022, https://www.swissre.com/institute/research/sigma-research/sigma-2022-01.html.

"Chubb Benchmark Report." Chubb, Chubb Bermuda, https://www.chubb.com/us-en/benchmark-report.html.

Davis, Tom. "Insurers Call for Reform, Public Awareness in Fight to Curb Shock Verdicts." *A.M. Best RSS News*, A.M. Best , Mar. 2022, https://news.ambest.com/articlecontent.aspx?refnum=317593.

Davis, Tom. "Insurers: Third-Party Litigation Is Fueling Rise in Shock Verdicts." *A.M. Best RSS News*, Mar. 2022, https://news.ambest.com/articlecontent.aspx?refnum=317592&altsrc=43.

Federal Bureau of Investigation. "Internet Crime Complaint Center (IC3): Business Email Compromise the $26 Billion Scam." *Internet Crime Complaint Center (IC3) | Business Email Compromise The $26 Billion Scam*, Federal Bureau of Investigation, 10 Sept. 2019, https://www.ic3.gov/Media/Y2019/PSA190910.

Iacurci, Greg. "4.3 Million People Quit Their Jobs in January as the Great Resignation Shows No Sign of Slowing Down." CNBC, CNBC, 9 Mar. 2022, https://www.cnbc.com/2022/03/09/the-great-resignation-is-still-in-full-swing.html.

Mason, Jeff. "Pandemic Staffing Crunch Creates Commercial Insurance Hurdles." *PropertyCasualty360*, PropertyCasualty360, 16 Aug. 2021, https://www.propertycasualty360.com/2021/08/16/pandemic-staffing-crunch-creates-commercial-insurance-hurdles/?slreturn=20220411150442.

"Preparing for the Turnover Crisis." Microsoft, *Microsoft*, https://www.microsoft.com/en-us/worklab/preparing-for-the-turnover-crisis.

says:, Plaintiff's lawyer, et al. "Surfside Condo Families and Survivors Reach $1 billion Settlement with Insurers, Others." Insurance Journal, *Insurance Journal*, 12 May 2022, https://www.insurancejournal.com/news/southeast/2022/05/12/667335.htm.