

## STATE OF THE PROFESSIONAL LINES & CYBER MARKET

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### PROFESSIONAL LINES UPDATE - Q3 2018

*On balance, the professional lines market is characterized by consistency, while cyber insurance has become a buyers' market.*

#### PROFESSIONAL

In professional liability, while some conditions have changed – and some expected developments have not turned out as forecast – the segment as a whole is characterized by a remarkable consistency. The market remains soft overall, particularly in miscellaneous lines, while public D&O and parts of the health care market remain challenging.

“In public D&O, rates are rising, particularly on primary liability where insurers have become more cautious. Carriers are also particularly concerned with IPOs and M & A,” says David Lewison, National Professional Lines Practice Leader for AmWINS.

Underscoring insurers' concerns with public D&O is claim severity, driven by regulatory enforcement and increased costs of claim defense. Underlying problems with public companies can remain hidden while the stock market is strong, as plaintiffs have less to complain about when stock prices rise. However, when the SEC comes in to investigate, the plaintiffs can follow right along.

“We had hoped to see, through the current administration's focus on deregulation, less of a regulatory concern, but the SEC still has plenty of claims to investigate. And if the SEC is involved, claims costs skyrocket,” Lewison says. “Companies under investigation want to defend themselves using the best law firms, and those rates have escalated quickly and continue to climb.”

Although the market overall continues to be soft, one area where buyers are not finding pricing quite as low as in past years is in bottom excess layers, where rates have flattened out. “Insurers have become better and better at modeling to understand where claims costs are,” says Lewison. “As a result, whereas lower excess layers used to be priced as low as 50 percent of primary, now the rates can be closer to 70 or even 80 percent of the primary price.”

Diving deeper into the market, brokers will face some challenges placing certain classes of business. Debt collection services have been a problem in E&O due to the frequency of Federal Debt Collection Practices Act (FDCPA) and Telephone Consumer Protection Act (TCPA) claims. Medical professional liability for correctional facilities has also seen significant market constriction.

“There are now fewer than five insurers that will write medical professional for correctional or prison accounts, and when they do, it's on their terms and pricing,” Lewison says.

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One area of market firming that was expected but did not come to pass is employment practices liability insurance (EPLI).

“At the start of this year, we had expected to see some firming in the market due to concerns over claims arising from the ‘Me Too’ Movement, but a dramatic change hasn’t happened,” Lewison says. “Underwriters have seen more new business submission activity around EPLI, but it appears they’ve priced business appropriately for the expected level of claim activity.” It’s possible that companies and insurers are working together to settle the bad claims faster to avoid bad press, as well. Industries that have high-wage earners are being treated cautiously by carriers, as higher retentions are commonplace in those industries.

## CYBER LINES

Interest in cyber insurance continues to grow, driven by news of cyber crimes, ransomware, and breaches, and cyber buyers are finding a growing number of markets willing to serve them.

“We have over 100 cyber markets now, which is definitely creating a buyers’ market,” Lewison says. In many cases, renewal decreases can be achieved.

The competitive market, while generating more activity for brokers, also creates additional complexity. Coverage enhancements are very commonplace. Not all carriers, however, are alike and willing to offer the same enhancements. “Brokers need to spend more time differentiating among carriers’ products that are not standardized. This is definitely a case where partnering with a wholesaler who has deep expertise in the cyber market can help,” says Lewison.

The market is also seeing a new breed of cyber insurer that focuses heavily on risk management and prevention, rather than simply breach response. “We’ve seen several newer MGAs that are offering very robust tools for clients to help them detect and prevent threats, whether it’s attempts at network intrusion, software updates that need to be made, or other weaknesses that make a business susceptible to being exploited,” Lewison says. “Insurers are offering even lower rates because they believe the tools they offer in risk management will have an impact on claims costs.”

Carriers also continue to broaden both coverage language and underwriting appetite. Business income and contingent business income is becoming more common as part of underlying cyber forms, rather than by endorsement or enhancement. However, brokers may also find that non-cyber markets that were including coverage as a throw-in to property policies are less willing to do so after having suffered losses for which no discrete premium was collected.

Additionally, cyber is making inroads into the personal lines market. “Identity theft coverage has been offered by some personal lines carriers for a while. Now we are seeing bona fide cyber coverage – assistance with ransomware, cyber extortion, cybercrime, and personal data exposure – offered in response to a growing need, as well as an increasing number of ‘smart’ home devices that are at risk of cyber breach.”

Although personal lines cyber products have primarily been targeted to the high net worth segment of the market, interest is expected to increase across personal lines, just as it has expanded in the commercial sector.

No drastic changes are expected in the professional market in the months ahead, although continued product development and evolution in underwriting make it important that brokers are knowledgeable about current conditions. Doing business with a wholesaler that devotes the time and resources to understanding the spectrum of the professional lines and cyber marketplace is essential.

“An experienced wholesaler brings specialization that the retailer can, in turn, bring to the client,” Lewison says. “That adds value to the broker-buyer relationship.”

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