FUTURE-READY: ANTICIPATING WHAT'S NEXT

2021 PRIVATE RISK MANAGEMENT MARKET MID-YEAR OUTLOOK

AHT INSURANCE
A BALDWIN RISK PARTNER

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AHT Insurance is an insurance brokerage and consulting firm offering property and casualty, employee benefits, retirement, private client and international services for clients throughout the United States and 42 other countries. Supporting numerous industries and boasting national recognition in the technology, manufacturing, government contracting and nonprofit practice areas, AHT offers clients highly customized solutions to identify and help mitigate risks they may face. AHT's professionals put clients' needs first and focus on what they do best –providing best-in-class service and solutions. Learn more about AHT at ahtins.com.

EXECUTIVE SUMMARY

THE STATE OF THE INSURANCE MARKET

A confluence of events continues to affect the Private Risk Management market and the unique risks it faces. After a year of several of the largest wildfires in California, the Midwest Derecho, and a record number of named storms in 2020, the Texas winter storms kicked off 2021, impacting residents and businesses in all 254 counties. These natural catastrophes have added to the pressure on insurers to obtain rate adequacy, limit capacity, and make changes to coverage terms and conditions – all characteristics of a "hard" insurance market.

Certain states, including California and Florida, are grappling with how to address property insurance rate hikes and the gap in market access as increasingly more carriers no longer want to insure catastrophe-prone areas. Florida is facing a call to reform its property insurance market, which has been threatened by excessive litigation, in addition to natural catastrophe losses. The government's flood insurance program is set to change its rates in the fall, impacting residents in the coastal states of California, Delaware, Florida, and South Carolina the hardest. A wave of litigation exacerbated by social inflation, the politics of cancel culture, and fraud also continue to unsettle the insurance market, driving up rates.

COVID-19: "PIVOT" IS THE OPERATIVE WORD

Despite the arrival of a vaccine, the effects of COVID-19 are far from over. The pandemic created a dramatic shift in how people live and work, and the telepresence surge, which allowed individuals to continue to connect with one another in both the personal and professional realms, led to a moving phenomenon. Many successful individuals and families have left urban areas at a faster pace for the suburbs and have traded living in traditional hub spots like New York, Philadelphia, Washington, DC, Los Angeles, and San Francisco for cities and counties with more wide-open spaces that are warmer and healthier. Many have also opted to live in their secondary or vacation homes to ride out the pandemic and may just decide to stay put.

Some individuals now find that remote work works for them and have made changes at home to permanently accommodate the shift to work from home (WFH), including expanding their home office and adding other amenities. Unfortunately, phishing and ransomware scams are on the rise as a result of the pandemic. Cyber criminals have become more adept at monitoring email correspondence, learning to mimic the tone and language used by their targets. To better impersonate an individual the receiver believes is genuine, some cyber criminals will even incorporate private family news and the names of partners and children in their messages.

The numerous, sudden changes brought on by the pandemic negatively impacted many people's physical and emotional wellbeing, which led many individuals to think about wellness like they never had before. Experiencing loss as well as adapting to a new normal of at-home schooling, and all the distractions that come with juggling work while at home, took its toll on many people. These issues were further exacerbated by social and community isolation. As a result, wellness spending is on the rise.

TOGETHER, AHEAD

While the pandemic brought on many challenges, it also reinforced our resiliency and ingenuity in the face of adversity. We not only found new ways to conduct business and connect with family and friends, but also developed a deepened sense of gratitude for things we previously took for granted. During a year in which things seemed hopeless, the world's brightest minds joined forces and created a vaccine in record time, which is allowing us to return to life as we once knew it.

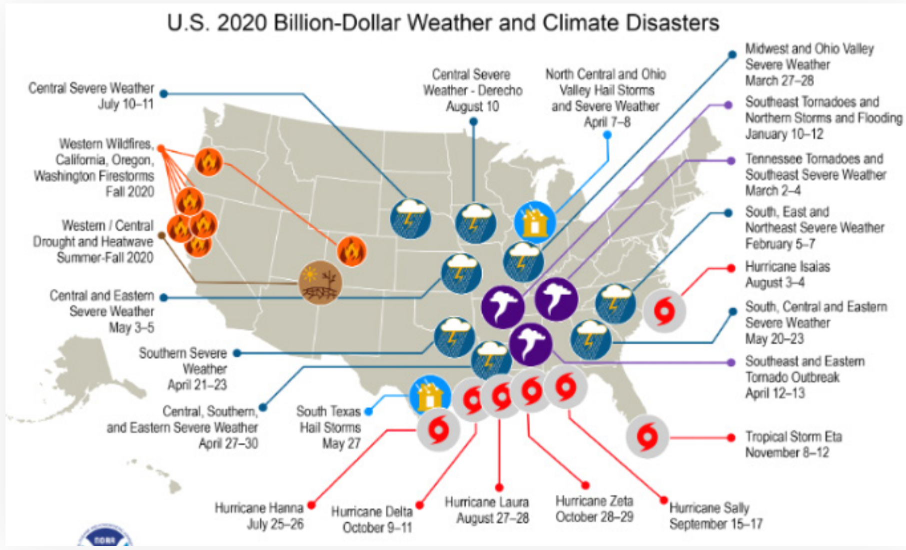
As we move forward, we do so knowing we can overcome future challenges together. BRP's MiddleMarket group looks forward to continuing to work on behalf of our clients, addressing your insurance and risk management needs. In this white paper, we provide an overview of critical areas and trends shaping the Private Risk Management insurance market, and how they may impact clients.

CATASTROPHES

According to a recent study by real estate data company CoreLogic, nearly a third (about 35 million) homes are at high risk" of being affected by a natural disaster - earthquakes, wildfires, inland floods, severe storms, hurricanes, and tropical storm-grade coastal surges.

In 2020, the United States saw a record number of 30 hurricanes make landfall and the most active wildfire season in the nation's history. According to the National Interagency Fire Center, by late December 2020, about 57,000 wildfires had occurred, burning a record 4.2 million acres, damaging or destroying 10,500 structures, and killing 31 people in California alone.

Figure A
Source: NOAA



The National Oceanic and Atmospheric Administration (NOAA) recorded 22 weather-related disasters last year, each resulting in at least $1 billion in damage and costing the nation $95 billion in damages (Figure A). In 2021, the Texas winter freeze impacted more than 4.5 million homes and businesses. Economic research firm, The Perryman Group, estimates that the storms could cost as much as $295 billion. And, in March 2021, a tornado outbreak across Georgia and Alabama caused property damage to more than 9,300 homes.

HURRICANE SEASON FORECAST

According to various predictions, the 2021 Atlantic hurricane season will be "more active than average," with up to 20 named storms (Figure B). Due to the ongoing La Niña global weather pattern and well-above-average Atlantic sea temperatures, including the Caribbean and Gulf temperatures, the upcoming hurricane season is expected to be tumultuous.

Figure B
Source: Artemis

Forecaster	Named Storms	Hurricanes	Major Hurricanes
NOAA	-	-	-
Colorado State University	17	8	4
Tropical Storm Risk	17	8	3
Accuweather	16-20	7-10	3-5
Weatherbell	16-22	9-13	3-6

THE OUTLOOK

WILDFIRES

After a devastating 2020 in which wildfires in California destroyed 10,500 structures and occurred at two to four times the frequency compared to previous years, the weather this year shows no signs of providing the state a respite from inclement weather patterns. The nation's most populous state received only half its average amount of rain this spring, making 2021 the third-driest year ever recorded in California.

TORNADOES

According to preliminary estimates from NOAA, in 2020 there were 1,075 tornadoes. Estimated insured losses for convective storms reached a record $36 billion (Aon). Convective storms are the result of warm, moist air rising from the earth, and depending on atmospheric conditions, may develop into tornadoes, hail, thunderstorms with lightning, or straight-line winds.

AccuWeather forecasters predict 1,350 to 1,500 tornadoes will touch down across the country this year.

WINTER STORMS

In 2021, the Texas winter freeze impacted more than 4.5 million homes and businesses that were left without power for several days. The frigid temperatures and widespread power outages disrupted the water supply of more than 12 million people in major cities, including Dallas and Austin. The frigid, never-before-seen temperatures left thousands of homes with frozen or burst pipes. Economic research firm The Perryman Group estimates that the Texas storms could cost as much as $295 billion. It is still too early to project insured losses, but some modelers estimate the cost from the winter storms could be up to $20 billion. Insurers have received nearly 200,000 property damage claims as of the date of publication.

FAMILY OFFICE

PROTECTING AGAINST POTENTIAL LAWSUITS

The increased popularity of SPACs has seen an uptick in securities liability claims and other potential claim scenarios that can arise from missteps made during the life cycle of the SPAC process. From a risk management perspective, it is critical that the right Directors & Officers (D&O) insurance structure is in place. The target company for purchase should have private D&O coverage in place prior to the consummation of the transaction, and at the time of its IPO, the SPAC should purchase a public D&O policy for the individuals and the entity. The SPAC should also purchase run-off coverage designed to cover claims brought against its insureds for wrongful acts that occurred before the completion of the SPAC.

CYBERSECURITY

Cyberattacks have increased with the development of digital technology and many high-net-worth individuals and their family office managers forced to work at home due to the pandemic. A 2020 online survey of 200 family office executives, conducted by investment group Boston Private, found that 26% had suffered a cyberattack. The Boston Private study also found that 28% of family offices had not reviewed the risks posed by their third-party IT systems, while 81% had not conducted periodic background checks on personnel. All of this makes it easier for criminals to discover a high-net-worth individual's physical and digital footprints.

Family offices are open to three types of cyberattacks: phishing (criminals sending fake messages requesting financial information); wholesale payment fraud (criminals sending payment instructions to banks); and spoofing (criminals manipulating email accounts to impersonate genuine payees).

PROPERTY MARKET

Insurers have adopted an aggressive stance in the personal lines property market with rate increases and contract limitations. Homes valued at less than $1 million are seeing rate increases around 5% while those worth more than $1 million saw an average of 6.7% in the first quarter of 2021. Catastrophe-prone areas are seeing even greater rate increases. Insurers are seeking additional premiums wherever possible and are applying stricter underwriting, especially to property valuations.

CONDO INSURANCE

The partial collapse of the Champlain Tower South in Surfside has rattled the condo insurance market. Only a few days after the collapse, insurance companies issued letters to owners of condominiums that are 40 years or older requesting proof that buildings have passed all inspections. Failure to provide this documentation will result in loss of coverage for the insured. We expect to see insurers limit capacity for new condos and increase premiums due to the recent condo building collapse, as well as an increase in frequency and severity of water damage claims year over year. High net worth condos often have ultra-custom interiors throughout every square foot, including walls, ceiling, and floor areas. Additionally, high-end electronics and wiring behind walls often get damaged with any water loss. In these situations, the costs continue to escalate when similar alternative living arrangements are required.

Condos outrank homes when it comes to water damage claims, AIG, (Figure C). Findings include:

- Plumbing claims are significantly more frequent among condo owners.
- Air Conditioning claims frequency for condo owners are more than twice as frequent than for home owners and also higher for toilet, refrigerator, shower, and bathtub.

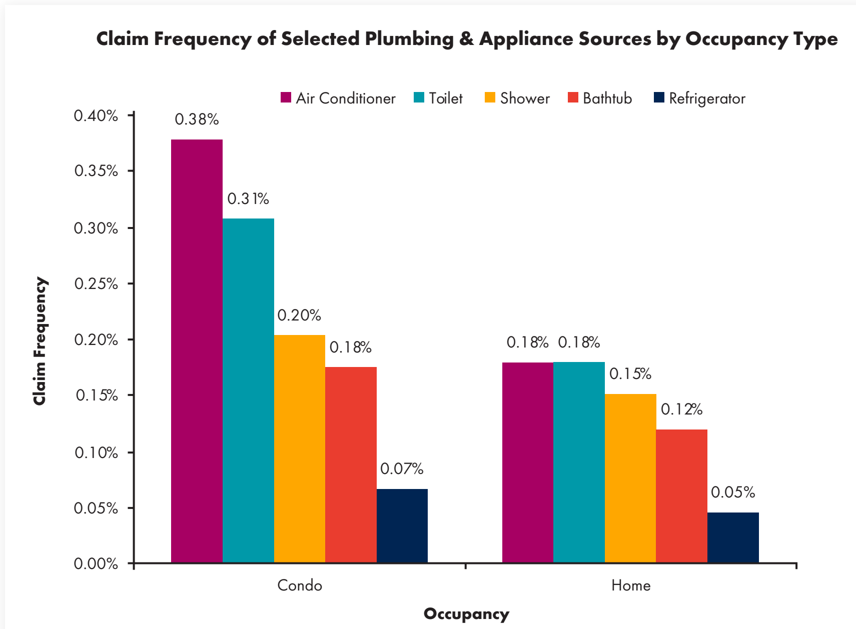


Figure C
Source: AIG

FLORIDA PROPERTY MARKET

Florida's residential property insurance market is in turmoil and remains threatened. Longtime residents are getting hit with double-digit rate increases or non-renewal notices and out-of-state home buyers who have moved to Florida during the pandemic are experiencing sticker shock. Insurers are no longer offering coverage in certain geographic areas after years of losses due to a combination of excessive litigation, contractor schemes, and several consecutive years of significant natural catastrophes. Claims unrelated to catastrophes account for the majority of all litigation. The state's Office of Insurance Regulation found that Florida accounted for over 76% of all homeowners' litigation in the United States in 2019. For example, in 2019, Florida insurers paid almost $3 billion in lawsuit costs; the fees paid out to attorneys far exceeded the damages paid out to insureds—a whopping 750% more, on average.

According to the National Association of Insurance Commissioners (NAIC), the cost for insurers to provide Homeowners insurance is 36% more per year in Florida than in every other catastrophe-prone state in the country. Insurers faced underwriting losses of more than $1.5 billion in 2020.

CALIFORNIA PROPERTY INSURANCE MARKET

The fallout from the California wildfires in 2020 and others in years past has resulted in insurers no longer providing coverage in high-hazard-prone areas. A California Department of Insurance study shows homeowners in fire-impacted zip codes are seeing a 10% increase in non-renewals of insurance policies. Insurers writing policies are increasing rates significantly, enhancing underwriting standards, conducting inspections, requiring homeowners to take steps to reduce wildfire risk and reducing geographic clustering. Credit rating firm Moody's expects Oregon and Washington homeowners insurers to start taking similar actions to California following the 2020 wildfire losses.

In addition, the number of households buying coverage from California's Fair Plan, a high-risk insurance program, which is costly and a bare-bones alternative for people who can't get private coverage, increased by more than 50% between the start of 2019 and June 2020 to almost 200,000 households.

FLOOD INSURANCE MARKET

According to a report published by non-profit organization First Street Foundation, rising sea levels and extreme weather could cause $20 billion of flood damage to at-risk U.S. homes this year, rising to $32 billion by 2051. Furthermore, First Street's flood modeling identifies around 1.7 times the number of properties as having substantial risk compared to the FEMA 1-in-100 SFHA (Special Flood Hazard Area) designation. This represents a total of 14.6 million properties across the country at substantial risk, of which 5.9 million properties and property owners are currently unaware of or are underestimating the risk they face because they are not identified as being within the SFHA zone. Moreover, flood risk is expected to increase as severe weather becomes more common.

CHANGES TO THE GOVERNMENT'S FLOOD PROGRAM

Long overdue, FEMA over the next year is implementing changes to its National Flood Insurance Program (NFIP). Known as the Risk Rating 2.0 – Equity in Action system, the program will be based on actuarially sound Flood insurance rates that are more equitable. The NFIP provides around $1.3 trillion in Flood insurance coverage for more than five million policyholders in 22,500 communities across the United States. Premiums will now be based on a number of factors, such as property value, distance from the ocean and the risk of rainfall-related flooding, similar to how the premiums in private Flood insurance are calculated.

According to FEMA, under the new Risk Rating 2.0, 23% of current policyholders will see premium decreases; 66% of current policyholders will see, on average, increases of up to $10 per month; 7% of current policyholders will see 10%-20% per-month increases, and 4% of current policyholders (estimated at more than 200,000) will see, on average, a $20 or more per month increase. There is a cap of $12,000 a year, which could take years for homeowners to reach.

The highest Flood insurance rate increases will affect coastal homeowners and those in flood-prone zones, with high-value regions such as Florida, South Carolina, Delaware, and California set to be particularly impacted.

The rate changes will take effect as follows: New policies beginning Oct. 1, 2021, will be subject to the new rating methodology. In addition, beginning Oct. 1, existing policyholders eligible for renewal will be able to take advantage of immediate decreases in their premiums. All remaining policies renewing on or after April 1, 2022, will be subject to the new rating methodology.

LIABILITY

Liability concerns continue to mount as large verdicts become commonplace due in part to social inflation and the widening gaps in wealth and income inequality. Social inflation is characterized by "nuclear" verdicts, new concepts in tort law, reviver statutes, litigation funding and anti-corporate sentiment.

Additionally, the pandemic, while impacting all Americans, did not do so equally and only served to further highlight the disparity between wealthy and lower-income individuals. These societal trends influence both the propensity of individuals to sue, the size of verdicts for those cases that go to trial, and the settlements agreed to out of court. Expectations are that jury awards will continue to rise in personal injury and liability lawsuits, directly impacting insurance rates and capacity issues.

AUTOMOBILE LIABILITY

Personal auto insurance rates are experiencing moderate insurance rate increases of about five percent. Although traffic literally came to a standstill in 2020 and claims frequency declined due to fewer drivers behind the wheel, claims severity continues to rise with 10% of auto fatalities resulting from distracted driving. Class-action suits against auto insurers have been filed by various states stating excessive insurance premiums were charged during the pandemic. While rebates and discounts were issued by various carriers, the litigation contends that they were insufficient and fail to reflect the decrease in driven miles and the reduction in accidents.

SAFEGUARDING ASSETS

In light of the current litigious environment, it's even more important for high-net-worth individuals and their family members to be aware of their social media presence in which words and actions can be misinterpreted and used to catapult a negative campaign and potential lawsuit. Underwriters are scrutinizing high-profile individuals and families and are seeking to limit their carriers' exposure from those who garner media attention.

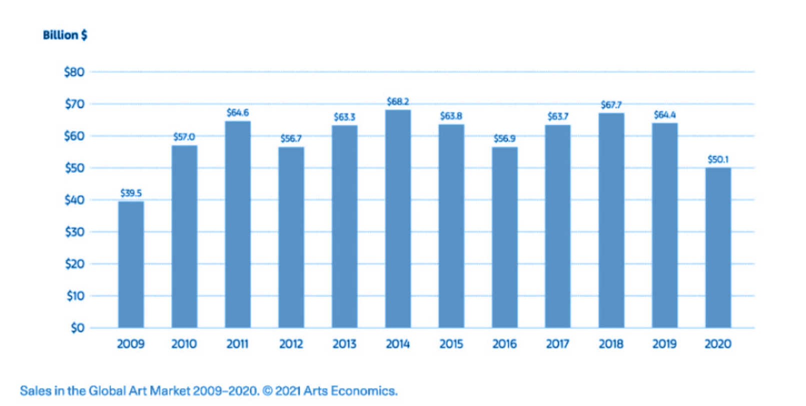
In addition to unlimited defense costs outside of the limit, it's important to carry high liability limits on all primary policies (Auto, Homeowners, Boat, etc.) along with an Umbrella policy, which adds millions of dollars to your liability coverage.

COLLECTIONS

FINE ART

The fine art market as a result of the pandemic shrank by 22% in 2020, down from $64.4 billion in sales in 2019 to $50.1 billion last year, according to "The Art Market 2021" report (Figure D). This revenue decline wasn't nearly as bad as many anticipated because of online sales. Digital sales, cites the report, doubled in value, from $6 billion in 2019 to $12.4 billion in 2020. They also more than doubled as a share of all sales by value, going from accounting for 9% of the overall art market in 2019 to a full 25% of all sales by value in 2020.

Another factor that helped soften the financial blow in the art market is that many high-net-worth individuals experienced asset growth last year and were ready to buy. Of the more than 2,500 high-net-worth individuals surveyed for the report, two-thirds said the pandemic had increased their interest in collecting. Among those high-net-worth collectors, Millennials were the biggest spenders, with 30% of them reporting they'd spent more than $1 million on art in 2020.



Sales in the Global Art Market 2009–2020. © 2021 Arts Economics.

Figure D
Source: Arts Economics

GOLD

Gold outperformed other major assets in 2020 (Figure E), with analysts still bullish and predicting gold will average $1,974 per ounce across 2021 as mass vaccinations worldwide spur a strong economic recovery from the pandemic.

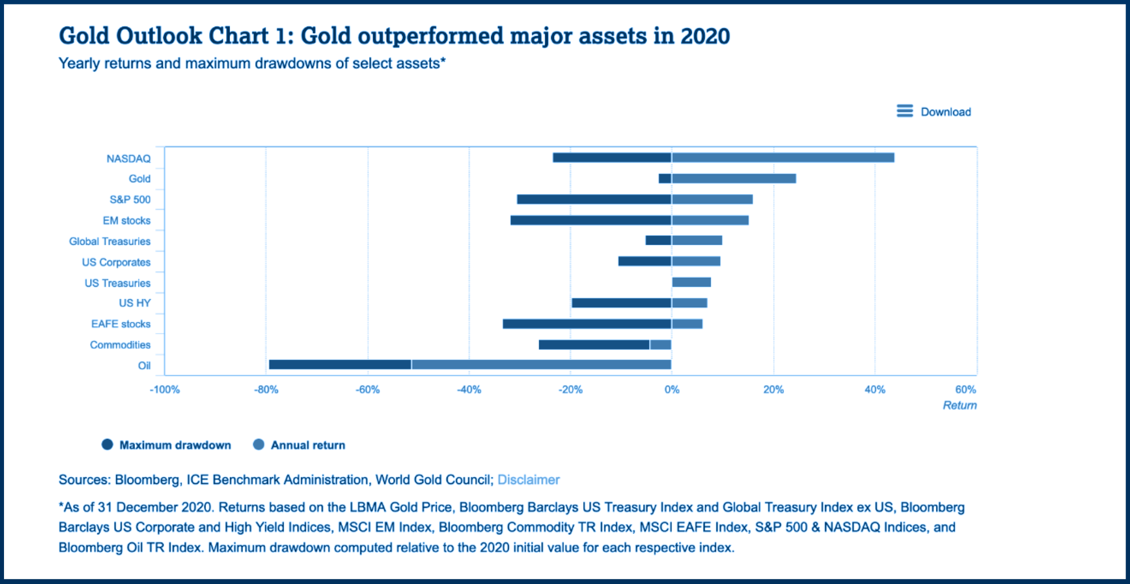


Figure E
Source: Bloomberg, ICE Benchmark Administration, World Gold Council

MARINE

Boat sales took off during the pandemic and show no signs of slowing down. First-time buyers are entering the market in larger numbers, an indication that the growth has long-term steam. According to the National Marine Manufacturers Association (NMMA), sales of boats, marine products, and services across the country leaped to a 13-year high in 2020 to $47 billion, increasing 9% from the prior year. Dealers in fact are struggling to maintain inventory and manufacturers are expanding production capacity to meet demand. COVID-19 changed the way Americans look at how they want to spend time with family and friends, and boating affords them the opportunity to be outdoors with those they love.

2020 stats about boat sales from the NMMA:

- Year-to-date, all boat and yacht segments saw growth ranging from 7% to 26%
- Wake boats sales are estimated to be **up 20%** in 2020
- For the first time in a decade, new boat buyers under age 40 outnumbered buyers over age 60

It's important to note that while boat sales are churning, the insurance market in this area is still challenging. Many insurers, as a result of significant catastrophe-related losses over the last several years, have either exited the Marine market or have limited capacity. In addition, just as advanced technology in the automobile market is driving up claims insurance costs, so is the latest in boat technology. Some technology has opened the door to power-surge claims, lightning strikes at the docks, and even power surges from generators.

Carriers that have remained in the Marine market are now asking for deductibles for certain exposures and limiting their exposure in certain geographic areas like Florida, Georgia and the Bahamas. Also, older boats (pre-1990) are tougher to insure. Underwriters are also looking at the experience of the owner of larger boats prior to writing the coverage.

THE IMPACT OF COVID

MIGRATION TO SUBURBS, SMALLER CITIES

The pandemic accelerated housing trends that were already in play, including the exodus of successful individuals and families from dense, heavily populated big cities to the suburbs and smaller cities. Insurer Chubb, in collaboration with the Kinder Institute, surveyed 600 homeowners with incomes of more than $250,000 and found that they are moving in greater numbers than others (Figure F). Long-term predictions from Chubb/Kinder Institute include a decrease in office leasing, growth in smaller city development, and commercial space conversion to residential use. Factors behind the move on the heels of COVID-19 include changes to lifestyle; the desire for more open spaces, a larger house and a home office; and the flexibility of remote work and no longer having to physically be in a corporate office.

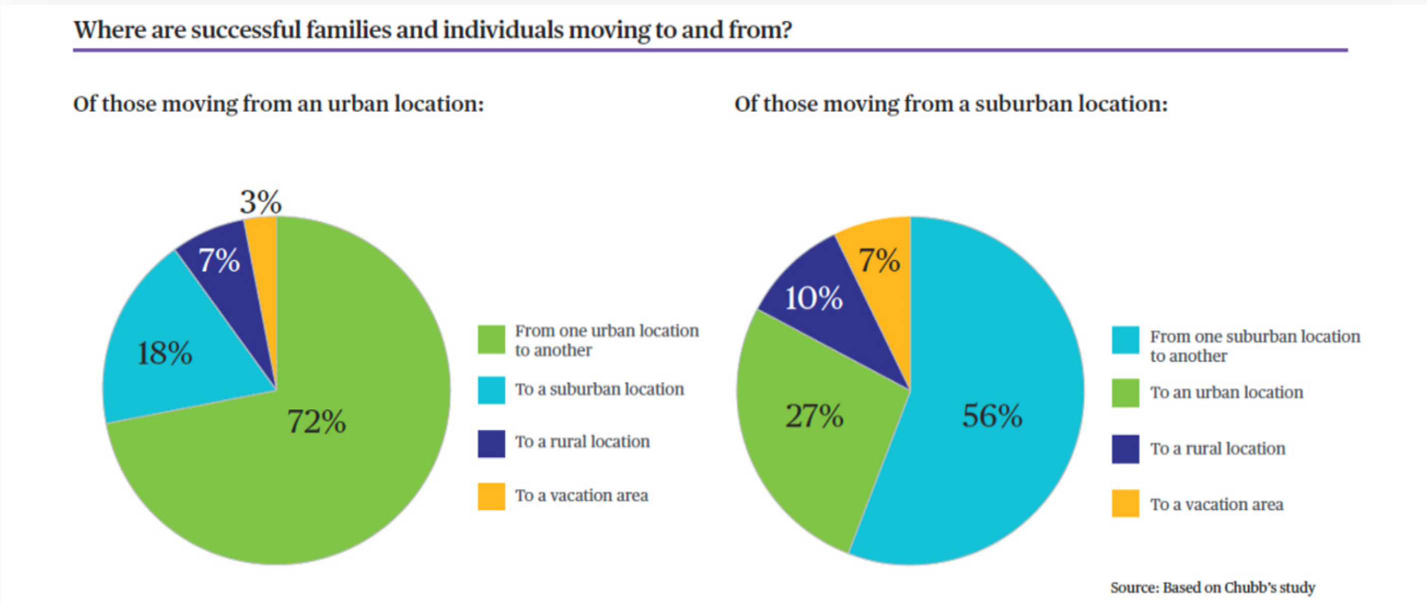
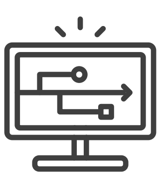


Figure F
Source: Chubb

THOSE STAYING PUT ARE RENOVATING

Property renovations, in general, have experienced a significant upswing amid COVID-19 with pools, saunas, and home gyms among the most sought-after features. Demand has also risen for indoor spaces that have an "outdoorsy" vibe, as well as kitchen and bath remodels. Home extensions and additions jumped 52%, and security and privacy features, such as fence installation and repairs were up 166% in 2020, according to Houzz, an online remodeling platform.



CYBERCRIME ON THE RISE

High-net-worth individuals are increasingly the target of cybercriminals, made easier as a result of COVID-19 and the work-from-home environment. High-net-worth individuals lack the cybersecurity infrastructure and sophistication of corporate businesses. In addition, often their private lives are known because of social media – details cybercriminals can use in their social-engineering and phishing schemes.

STRATEGIES FOR NAVIGATING TODAY AND TOMORROW

1. Work with a broker whose passion is protecting your interests.

The insurance market has been challenging for several years, and continues to be as severe weather events, a highly litigious environment and "black swan" events like COVID-19 challenge carriers and usher in rate increases, diminished capacity, higher deductibles, coverage restrictions, and non-renewals. Working with a broker who specializes in Private Risk Management and understands your needs and the market provides you with a partner who has expertise and access to negotiate on your behalf to protect your family, assets and property. We love what we do; we keep ahead of the trends so we can anticipate how we can best serve you, and always have your back.

2. Focus on resiliency and preparedness.

Resiliency and preparedness are the hallmarks of a great insurance and risk management program. We have seen how one catastrophic event can upend entire communities (e.g., the Texas storms) and the importance of risk-mitigation to minimize exposures and potential losses. This includes being risk-ready for natural catastrophes and having strong security measures in place against today's threats, including cyber, home invasions and burglaries. Our carrier partners offer a full range of services tailored to the needs of high-net-worth individuals.

3. Know your risks.

Today's environment has ushered in new and emerging risks about which it's important to understand. Climate change is a contributing factor to an increase in severe weather events and the exposure to risk for more properties, particularly those in high-hazard locations; wealth disparity, social media and a cancel culture mentality have put reputational management in the forefront and dramatically altered the litigation landscape; the rise in cybercrime, further exacerbated by COVID-19 and remote work, has jeopardized business networks and individual privacy; and the influx of SPACs has left directors and officers potentially vulnerable to additional exposures. It's important to educate all family members on these and other risks and the potential damage they can cause in terms of property, asset and reputational loss. We are here to provide a helping hand to bring these issues to light and advise how to manage them.

4. Foster a relationship with a professional who actively is engaged with you and your account.

Among the many things we learned in the wake of the pandemic is that things can change quickly and significantly. You need an insurance partner who is ready to assist you at key points in your life as you pivot. From the shift to remote work to relocating and home remodels to changes in the insurance market that may impact your coverage, you want a knowledgeable insurance partner who is aware and there for you throughout the year. We want to ensure that changes will be properly reflected in your insurance program and that you are kept abreast of potential market trends that could affect your premiums, limits, deductibles and policy terms.

5. Partner with an insurance professional who can provide you with options.

Specialists in the Private Risk Management space not only understand the insurance and risk management needs of affluent individuals but also provide options and alternative solutions in addressing exposures. This is particularly salient in areas where coverage is hard to come by as carriers exit markets or alter their underwriting criteria because of the tremendous losses they've experienced over the last several years and potential new threats on the horizon. While we understand that price is an important consideration in implementing an insurance program, we also understand that the ability to transfer certain risks is paramount. We work with clients throughout the country including in Florida and California where the insurance property market is challenging, leveraging our expertise and relationships to create a comprehensive solution that addresses your unique exposures.

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