McGriff
REAL ESTATE & HOSPITALITY

Client Newsletter

Spring 2021

A Note from Team McGriff

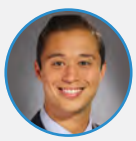
And just like that, 2020 is in the past and we are in the thick of a new year. So far, three words have been at the forefront of our minds in 2021 – optimism, caution and growth. 2020 forced us to adapt both personally and professionally in ways we never could have imagined. A positive outlook was key to adjusting to the new normal and bringing the best possible results, both to our organization, and to our clients.

Of course, we are proceeding through each day with caution, as we cannot predict what the future has in store. At this time just a year ago, the world changed in ways we could not foresee. Businesses and schools closed with little notice and COVID-19 seemed an unescapable threat. As you will learn in our market update, insurance markets appear to be taking the same, cautious approach. This includes the Cyber insurance market. In this newsletter, our cyber team outlines the unique and increasing cyber threats posed to the multi-family, hospitality and gaming industries. As expected, Property and Casualty market conditions continue to harden and many clients are seeing increases across these coverage lines, especially for umbrella/excess liability. We continue to rise to the challenge by collaborating with our clients to offer underwriters detailed renewal submissions and to analyze this data to provide a thoughtful client "story."

As we continue to battle a pandemic that has cemented its toll on life and business, we are certain that the knowledge, flexibility and growth mindset that were ingrained in us in 2020 will continue to serve us and our clients well in this new year. In addition to our personal growth, we have grown as an organization. In December of 2020 we expanded our Real Estate & Hospitality Practice with the launch of our Manhattan-based, northeast regional team that includes four hires with extensive industry experience. Their strong technical expertise and broad industry relationships are sure to benefit clients not only in the northeast, but nationally and internationally. Joining McGriff as part of the Northeast Real Estate and Hospitality Practice within the commercial division are:

Paul Cicerchia
Executive Vice President, Northeast Real Estate & Hospitality Practice Leader

Jamie Sharp
Senior Vice President



Jonathan Nigro
Vice President

David Beckley
Senior Vice President and Marketing Account Executive

Our goal for 2021 remains the same – to provide unparalleled value to our clients. With our multi-disciplined team, market expertise and focus on first-class service, we are well on our way and look forward to taking the journey along with our trusted clients. Thank you for giving us the opportunity to serve you.

Warmest regards,
Team McGriff

State of the Market

Property

Type of Account	2021 Q1/Q2*
CAT exposed	10 to +20%
Non-CAT exposed	9 to 15%

**rate changes vary dependent on loss history, deductible/limit changes and prior year rate change.*

The challenges of the 2020 property market have carried into 2021. We expect the market to remain stable with rate increases still being the norm, but moderating slightly compared to the rate increases of 2020. The frequency of attritional losses and natural catastrophes like storms, wildfires and tornadoes in 2020 and early 2021, combined with a higher cost to rebuild due to increased demand for materials, has taken a toll on the market. We are awaiting a potential Q2 market impact from the February 2021 polar vortex. Property underwriters are taking the position that unprofitability is requiring rate increases, sub-limit reductions and narrower policy wording. We are also seeing higher deductibles, specifically for water damage, sometimes as high as $250K. Some carriers are also trying to impose individual water damage deductibles by location versus per occurrence. The standard $10K All Other Perils deductible has now increased to $25K or $50K. And we are seeing carriers broaden the geography for wind and hail zones. Some carriers that traditionally focused on CO, OK and TX are expanding to cover more of the central U.S. and with deductibles ranging from $100K to percentage deductibles such as 2-3% of total insured values. Examples of narrower policy wording include loss of ingress/egress and civil and military authority limitations, renewal form changes and communicable disease/pandemic exclusions.

In response to COVID-19 and reductions in travel, **Hospitality** clients are facing increased underwriter scrutiny of low occupancy levels, vacancy-related maintenance issues (*e.g. pipe bursts and unknown water damage*) and repurposing of space. As we see some businesses return to a new normal, underwriters are also focusing on restaurant exposure within hotels. And with so much uncertainty, projecting 12 months of business income has proven difficult. As we work with clients to consider creative solutions in the face of these challenges, it remains key to consider lender requirements and engage lenders early in the renewal process to determine any flexibility in requirements for deductibles, limits and financial ratings.

Habitational real estate is also seeing difficulty with placement, and in some instances, double-digit premium increases. Despite an influx of capital into the marketplace in early 2021 and an increase in appetite for medium to large real estate and multi-family accounts, we expect continued scrutiny of terms and conditions and attachment points, especially in light of recent losses, including winter storms. To obtain the best possible market results, multi-family clients should share detailed risk management initiatives and procedures (*e.g. non-smoking policies for tenants, requirements for water sensors, sprinkler systems and smart technology*). Also, detailed descriptions of large losses and steps taken to reduce the likelihood of recurrence are key. Finally, submissions that provide detailed, quality information regarding property components will go a long way to help underwriters in their decision making process.

Finally, the hard property market is affecting **Industrial** clients as well. Underwriters are no longer willing to brush aside whether companies have complied with loss control and engineering recommendations. Those who have complied are seeing better results in their renewals.

Overall, clients should not be surprised if multiple insurance carriers are needed for larger valued locations. Creative solutions to achieve the best possible results might include increased deductibles, quota share arrangements or reduced excess coverage limits. Property valuations are key to help determine the limits to purchase and to ensure blanket limits can be obtained (vs. scheduled limits) and replacement cost appraisals are helpful to validate the reported values.

Hail Zone (15 yr. mean recurrence interval)

- **Moderate** - Hail Size ≤ 1.75 inches (44mm)
- **Severe** - >1.75 inches (44mm) and ≤ 2 inches (51mm)
- **Severe** - >2 inches (51mm)

Source: https://www.fmglobal.com/research-and-resources/nathaz-toolkit/flood-map

Casualty

Type of Account	2021 Q1/Q2*	Auto	WC	Umbrella/Excess Liability Rate
General	5% to 10%	5% to +20%	Flat to 5%	Middle Market: 10-25% Risk Management: 20-50%+
Bad loss experience/ non-renewing incumbent	10-20%	25%-40%	5%-10%	Middle Market: 30% - 100%+ Risk Management: 30% -100%+

The real estate industry as a whole saw dramatic insurance rate increases in 2020. We expect the Casualty market will remain firm and that capacity will continue to tighten, especially for umbrella/excess liability throughout 2021. An increase in catastrophic losses as well as an increase in overall loss severity and frequency has led to considerable disruption in the umbrella/excess marketplace. The upsurge in claims litigated, nuclear verdicts and large settlements is also placing stress on the market. Underwriters are taking the position that these deteriorating loss trends are negatively impacting their profitability and are requiring rate increases, limited underwriting appetites, reduced capacity and higher attachment points. Many insureds are surprised to learn that insurers are reducing renewal capacity on lead umbrella and excess layers but not providing premium relief. Insureds that experience an incumbent carrier non-renewal or who require excess coverage totaling $100M or more in limits are seeing the greatest increases.

Meanwhile, some carriers are reevaluating coverage grants altogether. It is becoming more commonplace for any one carrier to offer only $5M or less in the first $10M of excess coverage. Quota sharing within the first $25M, along with lead excess buffers of $1M or $2M, is also becoming the norm. To combat these rate increases, insureds are considering higher deductibles, corridor deductibles or a reduction of their total excess limits. This has strained and lengthened the renewal process, as more carriers are needed to replace expiring umbrella/excess liability limits.
In response to COVID-19, communicable disease coverage is more difficult to obtain, especially for the Hospitality and Industrial industries. The Hospitality industry is also seeing insurers pay close attention to repurposing or businesses trying to modify job duties to meet the changing demand. Hospitality and Multi-family insureds are having difficulty finding assault/battery and molestation coverage. And some underwriters are looking at sexual abuse limitations or declining coverage for hotels in certain areas that may be exposed to sex trafficking.

Despite being the casualty line of business with the most COVID-19 claim activity, Workers' Compensation insurance rates are generally flattening, though we are seeing slight increases in response to losses of high severity. Most carriers continue to use Workers' Compensation as a competitive tool when paired with the General Liability and Commercial Automobile coverage. As for Commercial Automobile Coverage, AM Best reports that 2019 was the automobile insurance segment's worst accident year in 10 years, with losses that approached $4 Billion. Large commercial fleets are seeing the largest increases, especially in lead umbrella pricing. While the pandemic may have resulted in a reduction in total traffic, auto accident severity remained high and the number of businesses turning to delivery to meet client demand has also had an effect on some automobile rates.

Given this volatile market, insureds should strive to provide detailed submissions and utilize analytics tools, to the extent possible, to help differentiate risk profiles and exposures. Businesses in this sector must evaluate their risk management and insurance programs in a timely manner for the most favorable renewal results.

Don’t Let Your Guard Down - Cyber Market In Transition

By Suzanne Gladle

Because the impact of a global pandemic wasn’t enough, many companies are now facing another mounting challenge, cybersecurity. While there are obvious cybersecurity concerns for businesses around the world shifting to remote work, cyber risks facing the real estate, hospitality and gaming industries, whose operations necessitate some degree of on-site personnel, are often overlooked and underestimated. Retail and healthcare sectors receive a great deal of attention for cyber-related incidents. But multi-family, hospitality and gaming sectors, rich with sensitive, personal and financial information about residents, prospective residents, guests and/or employees, and with multiple transaction points like managers, lawyers and title companies, can be prime targets for cyber criminals too. In fact, two of the top five biggest, publicized data breaches in 2020 were at hotel chains – Marriott, where attackers stole names, e-mails and addresses from over 5 million guests and 10.6 million guests of MGM resorts. COVID-19 has certainly increased the existing cyber-related risks for these industries. Due to COVID-19, many businesses are installing new applications and engaging new online platforms to facilitate their routine activities. This technology has helped some industries facilitate remote work operations and others the ability to allow for contact-free check in processes and allow tenants to order groceries online.

Cyber liability insurance, which covers financial losses that result from data breaches and other cyber events, still seems somewhat new to the marketplace and is constantly evolving. Over the last few years, while cyber claims progressively increased, coverage, pricing and carrier participation remained pretty fluid. Until mid-2019, a continuous flow of new insurers were jumping into the cyber market, depressing premiums and expanding coverage. Even headline-grabbing data breaches did not cause alarming premium increases and stand-alone cyber coverage remained very profitable for insurers.

> The cyber insurance market is undergoing a major reset and insurance carriers are rebalancing their books to preserve a sustainable and viable stand-alone product.

Fast forward to today and we are seeing a very different landscape. The cyber insurance market is undergoing a major reset and insurance carriers are rebalancing their books to preserve a sustainable and viable, stand-alone product. It is no secret that there has been an explosive rise in ransomware events over the past twelve months. Initially, these events were slow to develop as the pandemic set in and work-from-home plans commenced. As employees increased usage of devices at home and outside the protected perimeters of highly secure corporate IT environments, the ransomware attacks skyrocketed and claims started to mount. Cyber criminals appear to have taken advantage of the global crisis.

According to Guidewire, ransomware attacks increased 40% in the first three quarters of 2020, compared to the same period in 2019, totaling roughly 200 million incidents globally. Shockingly, the U.S. surge in ransomware attacks increased 139% year over year, nearly quadruple the global rate. Carriers say a surge in demand for coverage, combined with an increase in claims, has led to increased cyber rates. Q1 2021 rates are up 30-100% from the previous year, depending on the industry, revenue size and volume of non-public records the company collects, processes and stores.

> Expect to complete a very detailed application, along with a ransomware supplemental application, and provide a submission that is as complete, accurate and detailed as possible.

Simultaneously, underwriting cyber coverage has become more challenging. New limitations and exclusions are popping up from several leading markets, so policyholders need to be aware that:

- Available policy limits for ransomware events are being cut in half and some carriers will apply coinsurance up to 50% of the limit. In some instances, carriers may seek to exclude ransomware claims altogether if controls are not in place.
- Litigation involving the collection and use of biometric tools for workforce time-keeping, COVID vitals monitoring, guest building access and surveillance camera footage may be uninsured due to a bevy of recent cases with eight to nine-figure settlements.
- Aggregation events, like Solar Winds, Accellion and the Microsoft Exchange Server hack caused reinsurance trouble for cyber carriers. Expect to tell carriers how these events, and particularly, how SolarWinds’ attack may impact your business or your critical technology providers; brace for potential exclusions for any incident arising out of the December 2020 SolarWinds supply chain attack, although only a few markets are taking a hard posture.

Hardening market conditions always create a challenge for companies, as coverage tends to narrow while rates rise. To obtain the best possible cyber results in this hardening market, real estate, hospitality and gaming clients should:

- Ensure IT and compliance leadership are doing as much as possible to improve cyber security; most cyber carriers will decline any client that does not have multifactor authentication in place for network, email, and privileged account access.
- Take the time to do a thorough data inventory.
- Disable remote desktop protocol and VNC if not required; make sure all systems are updated and patched.

McGriff Cybersecurity Resources:
Microsoft Exchange Server Attack
Solarwinds Update

Suzanne Gladle is a Senior Vice President & the Cyber Practice Leader at McGriff. She has over 30 years of risk and insurance experience with a focus on risk identification, evaluation and solution development for exposures in privacy liability and network security, patent infringement, intellectual property, technology-vendor contract review, professional liability and general risk management consulting. Suzanne can be reached at (540) 565-0113 and via e-mail at sgladle@mcgriff.com. For more information about McGriff’s Cyber Liability Practice please visit https://www.mcgriff.com/business/business-insurance/cyber-liability.html.

Client Spotlight
Westgate Resorts

Westgate Resorts was founded in 1982 by David Siegel and operates as a subsidiary of Central Florida Investments, Inc. (CFI). Starting with a 16-unit resort at Westgate Vacation Villas, it now encompasses more than 14,000 villas at 27 beautiful resorts in premiere travel destinations throughout the United States. Westgate Resorts is the largest privately held timeshare company in the world and one of the largest resort developers in the United States.

At the beginning of the COVID-19 crisis, Westgate organized a dedicated team of professionals to rapidly develop and implement comprehensive procedures to protect its guests and Team Members, including advanced cleaning procedures, strict personal hygiene protocols and a long list of operating procedures necessary to mitigate the risk of this virus. WestgateCARES is their enhanced health and safety plan, developed in response to the current COVID- 19 pandemic as part of their ongoing commitment to ensuring the health and well-being of all their guests, Team Members and the communities they work and live in.

Westgate recognized that many in their local communities do not have the same level of resources and that there are thousands of small businesses in their community who may not have the know-how and resources to put together a plan that helps them successfully and safely operate their business as the country emerges from this pandemic. In the spirit of helping their communities as well as sharing this information with their guests and owners, Westgate made their WestgateCARES standard operating procedures and policies publicly available on Westgate's website. They invited all of their partners in hospitality from hotels, resorts, restaurants, retail and more to use these procedures in their own businesses or draw inspiration from them as they help stop the spread of this virus. These documents represent hundreds of man-hours of research and intellectual capital from some of the hospitality industry's most skilled leaders.

The WestgateCARES Mission Statement is "to enhance the health and safety of our resorts and communities, to develop processes and procedures to aid in those efforts and to do our part to ensure the health and well-being of all our guests and Team Members as well as our entire community. Westgate's first priority is providing the finest guest experience possible in the safest resort environment we can create."

McGriff has had the privilege of working with the Westgate Risk Management team for over 16 years and greatly values this partnership. The Westgate team is continually on the cutting edge of developing and deploying loss control programs and always looking for ways to improve the safety of guests and Team Members.

Westgate Lakes Reort and Spa, Orlando, FL

Ensuring Proper Property Maintenance Before, During and After a Vacancy
McGriff Risk Control

As more businesses return to more typical operations in the midst of COVID-19, policyholders will need to answer some questions and derive a plan of action to ensure proper maintenance before, during and after an unoccupied period. This guidance also applies to buildings that are, or will be, undergoing extensive renovation or development. **McGriff's experienced risk control team has outlined the below items for affected businesses to consider.**

- How long has the building been vacated?
- When is a return planned?
- Will operations be limited upon return?
- Will areas and portions of the building be empty for an extended period of time?
- Will the building remain permanently vacant/unoccupied?
- What time frame do the company's insurance policies define as vacant?
- Do the policy terms and conditions require notice to the carrier of the modifications or limited use of the building?

The answers to these questions may result in different outcomes. Potential protective measures may include adding an endorsement to amend the policy's building occupancy, or issuing a formal notice to the carrier regarding the risk adaptations. We recommend that businesses work in close consultation with their insurance broker to review how vacancy policy provisions apply to the insureds circumstances and whether specific actions are needed to respond.

Issued mandates, business-imposed limitations/restrictions on operations or construction/development may require a business to vacate the building or a portion of it for an extended period of time. In this scenario, it is important to secure the applicable property as much as possible and document all actions taken. There may be policy conditions which require protective measures.

Below are a few important recommendations for securing the property.

- Property owners or managers should visit the property frequently and inspect the building exterior and interior checking for damage or signs of attempted intrusion. They should ensure all points of entry are locked.
- If the property is protected by a security camera system, make sure signs are posted conspicuously notifying the public.
- Fire protection systems should be active and maintained, with valves locked in the open position.
- Alarms and other component testing schedules should be maintained.
- Keep heat and smoke detection systems active.
- Fire pumps should have weekly churn test.

- Keep third-party monitoring of fire and security alarms current.
- Property owners and managers should consider turning off the domestic water supply to limit any leaks that may lead catastrophic loss. However, the fire sprinkler water supply should be maintained.
- Chemicals and hazardous materials should be properly stored in approved flammable liquid cabinets or other approved locations.
- Authorities should be notified that the building is being temporarily vacated so they can monitor for criminal or suspicious behavior.
- Be cautious using social media to communicate business plans. Announcing an extended closure of operation may be an invitation to thieves or vandals.
- Computer rooms should be secured to ensure offsite back-up files are up to date.
- Water should be flushed and fountains, and water coolers cleaned to prevent legionella.
- The proper chemical mixture should be maintained in all water systems to prevent bacteria growth.
- The HVAC system should remain operable to prevent mold.

Employee Highlight

Brad Clark, CIC

Real Estate and Hospitality Co-Practice Leader
Vice President

Brad Clark joined McGriff in 2007 after working for several years as a marketing and sales executive with a large, national insurance brokerage firm. Brad now serves as a Co-Leader for McGriff's Real Estate & Hospitality Group and focuses on developing operational and financial risk solutions for his clients. His team actively engages with clients to assess their risk profile and design specialized, enterprise-wide risk management solutions that enable clients to efficiently transfer risk and utilize alternative risk financing to fund their retentions. With a strong construction background, Brad assists clients in contractual risk transfer for new developments and assists with the placement of OCIPs and other project-specific insurance solutions. He is active in several industry associations including ULI, NMHC, and NCRLA and several other real estate and hospitality associations.

About McGriff

A subsidiary of Truist Insurance Holdings, McGriff is a full-service broker providing insurance, risk management and employee benefit solutions to clients across the United States. The firm's coverages include commercial property and casualty, corporate bonding and surety services, cyber, management liability, captives and alternative risk transfer programs, small business, title insurance, personal lines, and life and health.

About Truist Insurance Holdings

Truist Insurance Holdings, Inc., the sixth largest insurance broker in the U.S. and seventh largest in the world, is a wholly-owned subsidiary of Truist Bank. Truist Insurance Holdings operates more than 250 offices through its subsidiaries: McGriff Insurance Services, Inc.; CRC Insurance Services, Inc.; Crump Life Insurance Services, Inc.; AmRisc, LLC; and its Premium Finance companies (AFCO Credit Corporation, Prime Rate Premium Finance Corporation, Inc., and CAFO Inc.).

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