NIP Group Reviews State of the Specialty Industries for 2022

2/23/2022

TODAY'S AGENDA

Moderator

John Bertoli
SVP, Marketing

Webinar Speakers

Thomas Doherty
SVP, Specialty Programs

Jon Pease
VP, Claims

Anthony Ven Graitis
SVP, Risk Management

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1. About NIP Group
2. Underwriting Impact on Market Pressures
3. Challenges and Risks Facing Each Industry
4. Top Insurance Claims in 2021
5. Risk Management Options
6. Q&A

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MEET OUR PROGRAM MANAGERS

Michael Finati
LandPro & SitePro Program Manager

- As the Program Manager for both the LandPro and SitePro programs, I manage a team of 12 UWs for both renewals and new business
- Responsible for about $100M in GWP underwritten by both of teams
- Personally underwrite the largest and most complex submissions within both divisions
- Analyze market trends
- Close to 20 years of underwriting experience with heavy focus on contracting types of risks
- Contribute to periodical rate studies to ensure alignment with profitable growth objectives
- Continuously develop and implement changes to the UW process to enhance efficiencies and UW quality

MEET OUR PROGRAM MANAGERS

Dan Guida

GrowPro Program Manager

- Program Underwriting Manager for GrowPro segmentation - our focus is on greenhouses, nurseries, garden centers and hydroponic industries
- Our property line of business is our largest offering
- Analyze market trends
- Work on both new business and renewal, work with underwriting team on accounts
- I have 25+ years of underwriting experience with the majority on the property side of business

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2022 INDUSTRY REPORTS HIGHLIGHTS

- Growing Industries
- Technology Advancements
- Scarce Labor
- Supply Change
- Inflation
- Social Inflation

Projections for the growing industry

2020 was a year of exceptional — and rare — growth for the industry. Although revenue growth is not expected to remain at 2020 levels, a number of key factors will contribute to a steady growth rate in the five years to 2026.

The effect of imports and exports

Nurseries and garden stores are becoming increasingly exposed to the forces of globalization, as large retailers prefer to buy from businesses in countries with longer growing periods, like Ecuador and Colombia. Prices for agricultural goods in those countries tend to be lower, forcing domestic growers in the United States to respond by dropping their own prices. Globalization has had a net negative effect on the industry, but the collapse of international trade due to the pandemic in 2020 was not expected to return to pre-pandemic levels in 2021, giving domestic growers relief from foreign competition.

Although industry exports are traditionally relatively low, their value has risen at an annualized rate of 1.7% in the five years prior to 2021. This trend is expected to continue in the five years to 2026, combining with lower imports to deliver an annualized growth rate of 1.5% for the industry, bringing total industry revenue to $17.1 billion in the same period.

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STATE OF THE GROWING INDUSTRY: 2022

Projections for the landscaping industry

Similar to other industries, the landscaping industry is expected to continue to recover from the pandemic-related economic downturn of 2020 and 2021. Demand will be driven by a number of factors. Among the most prominent include:

Aging populations:
The Baby Boom generation continues to age, leave the job market and seek end-of-life care. That also means many of them are no longer able to handle their own lawncare responsibilities. As the proportion of elderly Americans continues to grow, the demand for landscaping services increases.

Business reopenings:
As lockdowns lift and restrictions on businesses come to an end, commercial offices once again require regular landscaping upkeep and maintenance. While in-person business activity likely decreased permanently, the resurgence of some commercial properties will increase the demand for landscaping services.

Strong residential housing market:
Many prospective homebuyers were forced to put their house-hunting on hold during the pandemic, causing the housing market to become unusually busy when lockdowns were lifted in 2021. A booming housing market creates a much greater demand for landscaping services both as homeowners try to sell their properties and new owners seek to improve them.

Housing market activity varies considerably by state, and it's important to know which states are experiencing the biggest booms. Here are the top 5 states with the hottest housing markets, according to Bankrate:*

Utah. New Hampshire. Washington. Arizona. Montana.

Due to the combination of these factors, industry revenue is projected to increase at a rate of 2.4% every year until 2026, jumping to $129.2 billion in total revenue.*

STATE OF THE LANDSCAPING INDUSTRY: 2022 5

Projections for the construction industry

Due to the nature of the construction industry, construction revenue is closely tied to revenue in other industries. Construction companies were badly impacted by the effects of the COVID-19 pandemic in 2020. There was less investment available for new construction projects, drying up much of the resources needed to fuel industry growth.

However, the high performance of the residential housing market and the reopening of commercial properties is expected to drive growth in the industry over the next five years. Revenue is expected to grow at a faster rate in that period than it did in the previous five.

This rate of growth is expected to be driven partly by increased residential construction activity, projected to account for 27.2% of industry revenue in 2021.* The value of residential construction is expected to grow at a rate of 0.6% in the five years to 2026. Much of this growth will be due to the sector rebounding from the effects of the COVID-19 pandemic.

This rate of growth is expected to be driven partly by increased residential construction activity, projected to account for 27.2% of industry revenue in 2021.

27.2%

STATE OF THE CONSTRUCTION INDUSTRY: 2022

UNDERWRITING IMPACT ON MARKET PRESSURES FACED BY LANDSCAPE CONTACTORS

Construction Costs

- Buildings owned by insured are impacted by this item
- Building limits must rise in order to ensure replacement cost coinsurance penalty is not triggered
- As an underwriter, I am constantly in discussions with agents to confirm we have adequate insurance values

Labor Shortage

- A less experienced workforce leads to an increase in the potential for bodily injury to workers and the general public
- Having new employees can also lead to damage to property that the insured is working on for their client
- As an underwriter, I am looking to see if adequate safety training is in place in the form of toolbox meetings and formalized safety programs

Increasing Value of Equipment

- The impact of inflation is not just noticed by the general consumer or landscape contractor
- Thieves are aware the value of equipment has gone up and prices on the illegal market are in demand
- As an underwriter, when we have contractors equipment scheduled, I am looking to make sure there are adequate protections, such as locked machinery and secured keys to mitigate such exposure

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UNDERWRITING IMPACT ON MARKET PRESSURES FACED BY GREENHOUSES, GARDEN CENTERS, HYDROPONIC OPERATIONS

Construction Costs

- Buildings owned by the insured are impacted by this item, not just greenhouses but, other buildings as well as BPP
- Materials and labor costs increase the cost of repairs and replacements
- Limits and values must rise in order to ensure replacement cost coinsurance penalty are not triggered
- As an underwriter, I am constantly in discussions with agents and clients to confirm we have adequate insurance values, not just for today, but also for the future
- General inflation needs to be considered

Supply Chain

- The impact of the supply chain is not just noticed by the general consumer
- Much longer durations of repairs or replacement
- Contractors and builders are impacted by the inability to obtain replacement components on a timely basis
- As an underwriter, when we are insuring your buildings and property, we make sure the values of the structures are in alignment with the market to make sure we reduce any issues with claims
- Business Interruption Insurance Coverage

Increasing Value of Equipment

- The impact of inflation is not just noticed by the general consumer
- Thieves are aware the value of equipment has gone up and prices on the illegal market are in demand
- As an underwriter, when we have contractor’s equipment scheduled, we are looking to make sure there are adequate protections, such as locked machinery and secured keys to mitigate such exposure

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UNDERWRITING IMPACT ON MARKET PRESSURES FACED BY SITEPRO CONTACTORS

Labor Shortage

- A less experienced workforces leads to an increase in the potential for automobile accidents that injure the general public
- Results of inexperienced drivers' damage to the automobile that is owned by the insured
- As an underwriter, I am looking to see if adequate driver training is in place and there is a formalized MVR review of all drivers

Supply Chain

- The impact of the supply chain is not just noticed by the general consumer or contractors
- Mechanics are impacted by the inability to obtain replacement parts
- As an underwriter, when we are insuring autos, we make sure the values of the autos are in alignment with the market to make reduce any issues with claims

Social Inflation

- From a liability standpoint, courts seem to be looking to make social statements, not just offer sound judgments
- With generational differences in the value of hard work attitude, some people are looking for a quick payout
- As an underwriter, slip, trip, and fall of visitors to the jobsite present a heightened exposure. I am looking to make sure there is adequate jobsite protection in place, such as cones and fencing off jobsites

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SUMMARY OF FACTORS INFLUENCING LOSS COST

- New Methods
- Scarce Labor
- Materials Shortages
- Inflation
- Social Inflation
- Demand vs Capacity

HOW MARKET PRESSURES INCREASE CLAIMS COST

Construction Costs

- Materials and labor cost increase the cost of repairs and replacements of 1^{st} and 3^{rd} party property
- General inflation

Mitigation

- Prevent losses from occurring in the first place
- Document the work performed

Labor Shortage

- Less experienced drivers
- Larger equipment deployed
- Increase in rollover accidents

Mitigation

- Watch out for bad drivers
- Train employees on new equipment and technology
- Invest in employees

Supply Chain

- Longer duration of repairs
- Shortage of rental vehicles
- Increased cost of parts

Mitigation

- Use of technology and safe practices

HOW MARKET PRESSURES INCREASE CLAIMS COST

Increasing Value of Equipment

- Scheduled TIVs based on purchase price lag replacement cost
- Mid/end-of-day shutdowns
- Scheduled maintenance

Mitigation

- Secure job sites, invest in security, and take steps to prevent theft
- Perform proper risk management

Social Inflation

- View of business and business owners
- Righting of wrongs
- Desensitization to dollar values
- Third-party funding
- Theft and vandalism

Mitigation

- Transfer or minimize risk
- Use of technology
- A good safety program can be a great defense

Working At (Beyond) Capacity

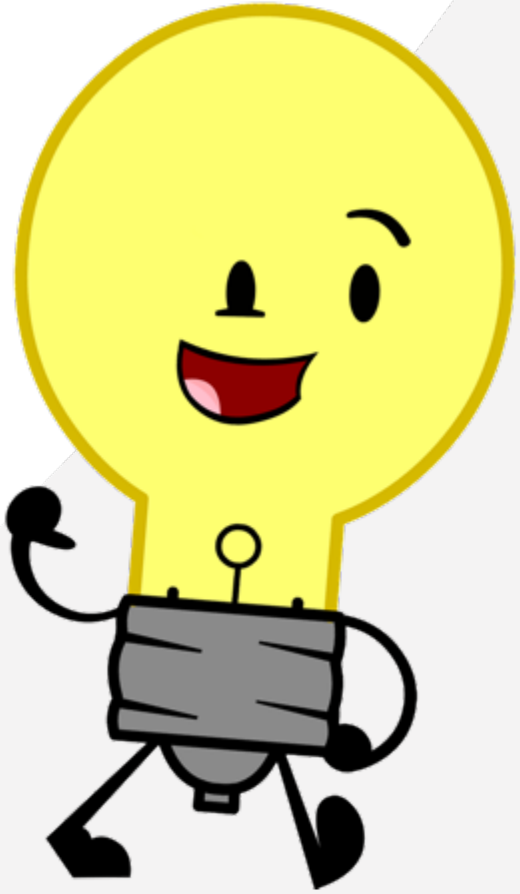
- Attention to training and maintenance
- Adding staff
- Distractions and fatigue

Mitigation

- New employee training
- Use data to identify risk
- Take advantage of available resources

SUMMARY OF RISK MANAGEMENT RECOMMENDATIONS

- Don’t forget the basics
- Use technology
- Develop a safety culture
- Invest in employees
- Risk Control is “cool” once again



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Q & A

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Thank you for tuning in to our **NIP Group Reviews State of the Specialty Industries for 2022** webinar!

Be on the lookout for the on-demand version of this webinar at **www.nipgroup.com**.