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Property Rates Rise as Carriers Retrench and Prepare for the Changing Market

The term catastrophe became a part of everyday life this year as the global coronavirus pandemic spread across the country. With spring also came the "normal" catastrophes, including a spate of deadly thunderstorms and tornados. This was followed by an early start to a hurricane season that kept setting records through the summer, and a disastrous wildfire season for which the full scope of damages will not be known for some time.

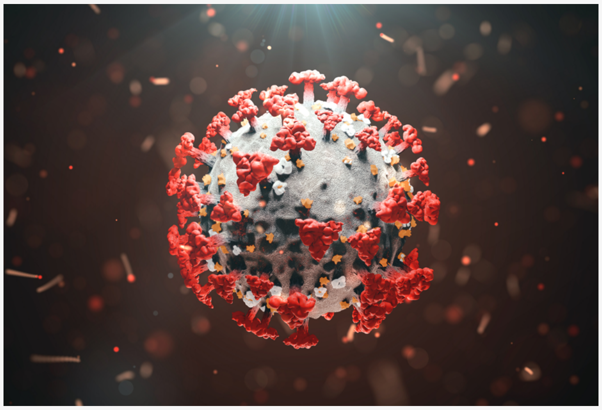
In the property market, the broad push for rate increases and term changes have gathered momentum as the insurance industry—already seeking to recoup catastrophe losses from the 2017 hurricanes and 2018 wildfires—faces pandemic-related losses reaching into the tens of billions of dollars from other lines of business. Beyond the financial losses, the pandemic is adding to the atmosphere of caution pervading the industry in a year also marked by costly natural disasters and civil unrest in cities across the United States.

Retrenchment and selectivity are the bywords in the property market as insurers re-examine their books of business by reducing exposures and aggregations, tightening terms and conditions, and backing away from occupancies and geographies viewed as too risky. The increased selectivity among markets means that even smaller accounts are being layered and larger ones are requiring more participants to complete. As underwriters face both heightened management scrutiny and increased submissions, proposals are taking longer to turn around.

The overall market has become more complex, making it essential to work with brokers who have deep market knowledge and strong relationships who can develop innovative strategies to build successful programs.

COVID-19

While most property policies exclude virus-related losses, there are some that provide coverage, the impact from what Chubb CEO Evan Greenberg called a "slow-rolling global catastrophe"[1] nonetheless carries over to property markets as insurers and reinsurers face steep losses in other lines, including the cancellation of major events and entire sports seasons. Artemis reported that insured losses and reserve setting related to the pandemic had reached $21.5 billion by early August, with Lloyd's accounting for $3.65 billion.[2] Willis Towers Watson estimated in May that COVID-19 insured losses could reach up to $80 billion in a severe scenario.[3] Around the country, lawsuits are proliferating as property owners seek coverage for business interruption losses stemming from government-mandated shutdowns under policies that require physical damage. The impact of these suits remains to be seen. Insurers, however, are actively clarifying terms to ensure property policies do not provide inadvertent coverage for pandemics and communicable diseases. Such exclusions have become non-negotiable as carriers re-evaluate business interruption coverage triggers and sub-limits.



COVID-19 Losses

COVID had a significant impact on global insurers and reinsurers. Among them, Swiss Re announced claims and reserves for COVID-19 of $2.5 billion for the first half of the year as it reported a $1.1 billion first half net loss.[4] Chubb announced COVID-19 losses of $1.36 billion pre-tax for the second quarter.[5] Munich Re registered about €700 million ($822 million) in reinsurance losses related to COVID-19, attributable mainly to cancelation of major events.[6] AIG estimated second quarter COVID-19 losses at $458 million and civil unrest related losses of $126 million.[7]

CATASTROPHES

While hurricanes historically generate much of the losses and headlines when it comes to natural disasters, convective storms and wildfires have played a growing role in recent years. The 2020 Atlantic hurricane season, however, is proving to be very busy. The first named storm, Arthur, formed May 16—ahead of the hurricane season's official June 1 start. Historically only two named storms form on average by August, but this year thirteen had occurred, including Hurricanes Hanna, the earliest eighth named storm on record which hit the Texas Gulf Coast, and Isaias which drenched the East Coast in early August, then Laura and Marco later in the month. In its August hurricane update, the National Oceanographic and Atmospheric Administration warned that an "extremely active" hurricane season was possible with up to 25 named storms, 11 hurricanes and six major hurricanes.[8] On September 18, 2020 we moved to the Greek alphabet to name Atlantic tropical storms with subtropical storm Alpha because the regular list of 21 names had been exhausted. This is the second time in history the Greek alphabet has been used to name storms, the first time was during the 2005 hurricane season. In addition, Munich Re estimates that La Niña weather conditions may also aggravate wildfire conditions in California.[9]

Catastrophe Losses

2020

The year is shaping up as extremely active. Severe thunderstorms led to $20 billion insured losses in the U.S. and Canada, including $2.6 billion from an Easter outbreak of tornadoes, according to Munich Re.[10] Nine named storms had formed by early August, compared to an average of two. NOAA has called for as many as 25 named storms and up to six major hurricanes. The west coast is already enduring a wildfire season of historic proportions.

2019

Global insured catastrophe losses reached $52 billion in 2019, with Hurricane Dorian causing $4 billion in insured losses as it devastated the Bahamas, according to Munich Re. Thunderstorms and flooding played a larger role in U.S. catastrophe losses in 2019, with about $14 billion in insured losses, compared with hurricane losses of $2 billion.[11]

2018

California wildfires contributed insured losses of $18 billion to the global total of $80 billion in 2018, while North American insured hurricane losses added up to $15 billion, due mainly to Hurricanes Michael and Florence.

2017

Hurricanes Harvey, Irma, and Maria made the 2017 hurricane season the costliest ever, accounting for much of the record $138 billion in insured catastrophe losses that year.[12]

RATES RISE AS CARRIERS RETRENCH

Retrenchment is hitting all classes of business. In general, rates are rising 10% to 25%, although steeper increases can be expected on more complex renewals and more difficult classes of business including habitational, heavy manufacturing, recycling, food-related products and frame construction.

Submission volume has picked up significantly, and this, along with heightened underwriting scrutiny is leading to longer turn-around times for proposals. Underwriters are revisiting pricing, instituting carrier-mandated changes (i.e. forms, deductibles, protective safeguards, etc.), qualifying manuscript forms, and reviewing insurance to value more closely. Tougher risks are being subjected to greater scrutiny in a "vertical" approval process involving management as well as underwriters, and there are more questions about rates, terms, and conditions. Amid the heightened scrutiny, it has become more time-consuming to ensure consistent terms, conditions and sub-limits among various carriers on shared and layered programs.

CAPACITY

Increases in premium are being driven in large part by the fact that carriers have become more conservative in their limit deployment for any single deal. Historically, markets that offered $25 million on an account in an excess position may offer only $5 million or $10 million, making it necessary to bring in more carriers. Fewer markets are willing to provide single, stand-alone coverage, and programs that need to be restructured to reach the same limits may see much higher increases. Smaller accounts are having to access the E&S market for the first time to complete programs and more of these accounts are being layered. Carriers are limiting capacity in tougher processing risks, requiring a shared and layered approach in those accounts as well. For high hazard manufacturers, like food and recycling with a challenging loss history, available capacity may be insufficient to fill out programs, making it necessary for insureds to take on more of the risk to duplicate the limits they had last year.

While existing markets retrench, rising rates are drawing interest from new carriers and facilities as well as alternative capital. Facultative reinsurance capacity has been coming into the market for both middle market as well as larger shared and layered accounts. Some of this reinsurance capacity is competitive and is helping to soften the overall rate increases for some clients. Bermuda has been more active, and not only for the largest clients, with more Bermuda capacity on all layers or high loss placements.

New startups and other insurance agreements may help fill some of these limit shortages and provide new capacity. New facilities are being planned or coming online for CAT property. After their own retrenchment, Lloyd's may increase limit deployment for U.S. CAT risks because of the improved market dynamics. The stronger pricing environment is attracting new startups without legacy issues, such as COVID-19 claims. The rising interest is raising talk of a class of 2020 or 2021 for reinsurers, much like the Class of 2001 reinsurers formed after the September 11th attacks.

Property & Casualty Insurers Results

The U.S. property and casualty industry experienced its largest ever drop in surplus in the first quarter of 2020. Industry surplus fell by $75.9 billion in the first quarter to $771.9 billion from a record-high $847.8 billion at year-end 2019, driven mostly by a decline in investments.[14] First quarter net income was roughly flat with the prior year quarter at $17.9 billion, while the net underwriting gain rose nearly 20% from a year earlier to $6.3 billion. Net written premiums rose 6.2% to $164.4 billion.

MARKET SECTORS

CAT property

While sufficient capacity remains for CAT Property coverage, carriers are much more selective, favoring newer construction and implementing extreme underwriting discipline on older, beach-front properties, particularly in south Florida, as they seek to shed accounts that have been driving losses.

Rates and deductibles are being pushed up across the board, with modeling playing a significant role. Because of the rising rates, however, clients are more willing to entertain higher deductibles to bring premiums down to more affordable ranges. A 5% deductible has become the new norm. Clients are also agreeing to lower limits and taking on more self-insurance to keep premiums within budget.

Convective storm

As the industry renews its focus on convective storm losses, it has often become easier to place accounts in Florida than high-risk hail areas. In hail-prone areas of Texas and Oklahoma, deductibles are a minimum of 2% and up to 5% depending on the location. Rate increases have moderated, ranging from 10% to 15%, but the extent of the increase depends on the specific program. Accounts coming into the E&S market for the first time should expect higher increases. Insurance to value is a prime concern, particularly on properties that have had prior losses. Percentage deductibles are being applied to wind- and hail-exposed accounts across the Midwest, including for municipal fleets, where carriers are more reluctant to cover physical damage.

Flood

Flood remains difficult as markets scrutinize risks more thoroughly, even in areas that were formerly not considered high hazard. Rate increases are above 20% for coverage in excess of NFIP and with business interruption waiting periods. It is particularly difficult to find capacity willing to cover locations with negative elevations.

Earthquake

Some carriers are actively seeking to reduce aggregations by cutting capacity, increasing rates, and/or adjusting other terms like deductibles at renewal. Reduced capacity may require an account to be re-layered. As carriers retrench, deductibles may increase for certain construction classes (i.e. joisted masonry), older year built, and accounts with adverse secondary characteristics such as soft-story parking. In some cases, deductibles have doubled on renewals. Providing more detailed data, particularly in regards to seismic retrofitting, can help generate more interest in the account.

Habitational

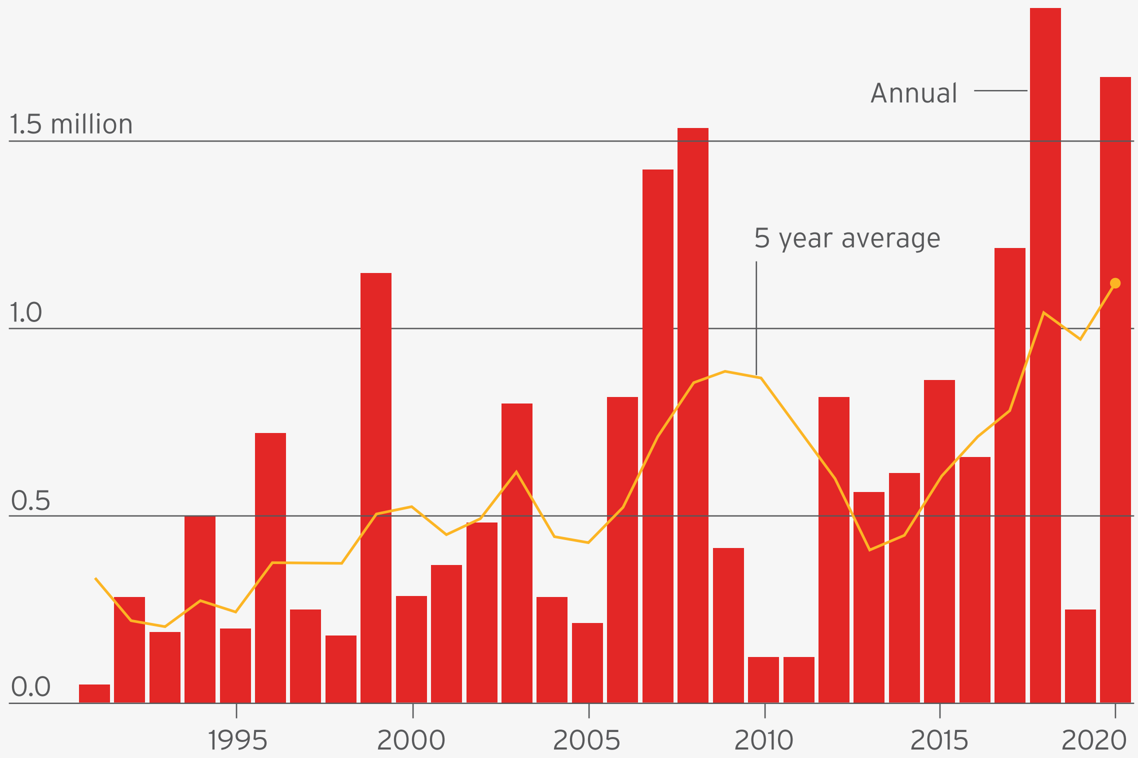
Markets have become extremely sensitive to valuation for frame habitational risks after large losses in 2017 and 2018 showed that reported values were often inadequate. As higher valuations are entered in cat models, this tends to raise the potential modeled losses, in turn, making carriers more reluctant to extend larger limits on excess layers because they may find themselves closer to the potential loss. Larger, layered programs are more challenging to assemble.

Habitational specific markets are seeking rate increases in the 10% to 15% range. On larger deals, carriers are seeking higher deductibles for all-risk or water damage. Markets are more often requiring split deductibles, such as for water damage, theft and vandalism. For some non-coastal frame apartment schedules, carriers are looking for deductibles ranging from $100,000 to $250,000 and may pair those with percentage deductibles for wind and hail in high risk hail areas. Insurers are more often requesting conditions such as protective safeguards.

Wildfire

After multiple multi-billion-dollar wildfire losses in 2017 and 2018, insurers are much more selective on risks, particularly in so-called wildlife-urban interface areas. Modeling has become increasingly important as carriers assess wildfire scores on accounts, particularly in areas viewed as higher risk. Accounts in wildfire-prone areas can be difficult to place, especially with 2020 shaping up to be another historic wildfire season. More than two dozen people have died since early September, when powerful winds helped spark fires and propelled existing ones in California, Oregon and Washington, leaving millions of acres burned and thousands of structures destroyed.[16]

Acres Burned in California Wildfires[15]



Data for 2020 goes through Aug.30 Data for all years is based only on federal and state firefighting not local

By The New York Times | Source: California Department of Forestry and Fire Protection

Builder's Risk

Frame projects have become increasingly difficult. Fewer carriers are willing to extend substantial capacity after significant losses in the sector in recent years. Markets are seeking higher pricing and stricter terms, for instance, requirements for security systems. Adding to the uncertainty, some carriers are declining to extend quotes and even decline extending active policies for projects that have been delayed.

Higher rates, however, are drawing potential interest from new entrants. More interest is being shown in renovation accounts as buildings are being re-purposed to reflect the changes in demand due to the pandemic, for instance, with projected lower demand for office buildings as more people work from home.

Manufacturing, Processing

Carriers are limiting capacity in tougher classes of business, like manufacturing, recycling, and food processing. Prices are increasing substantially, particularly for non-sprinklered occupancies such as, chemicals, plastics and woodworking. Price increases correspond to the perceived risk, with high hazard risks looking at higher rate increases. Virtually all of these tougher high-hazard classes require a full market effort and a shared and layered approach.

A CREATIVE APPROACH

Because of the capacity retrenchment and the rippling rate increases, almost every single account requires an "all hands on deck" approach and a thorough effort throughout the market. The market is changing rapidly and carriers are changing their appetites, deciding to accept business that they may have previously declined in softer times. This has led to a significant increase in submissions and a concomitant slowdown in turnaround time due to higher submission volume. Creativity is key in helping clients achieve the best results. It is not uncommon to have multiple strategies on the same account or to consider several completely different programs.

Using detailed data to provide a clear picture of the risk that underwriters can grasp quickly can help accounts stand out amid the flood of submissions. Clients investing time and effort to understand modeling results and use them as the basis for the best possible outcome, and to identify risk mitigation efforts that can help bring more stability to premiums going forward. Persistence is also crucial. While markets are showing less interest in tougher classes, market appetites can change quickly. Markets that were showing little interest in specific risks may become willing later.

Key Takeaways

- Rates are rising across the board, in general around 10%-25% or more for more complex accounts.
- Carriers are reassessing risk profiles and re-evaluate aggregation across all classes of business.
- Retrenchment is hitting all lines, especially habitational, heavy manufacturing, recycling, food-related products and frame construction.
- Carriers are becoming more conservative in their limit deployment for any single deal, driving the increases.
- Small accounts are entering the E&S market for the first time and some carriers are beginning to require minimum premiums.
- In high-hazard risks carriers may limit capacity and require the insured to take on more of the risk to duplicate previous years' limits.
- Increased submission volume and more underwriting scrutiny is leading to longer turn-around times.
- Underwriters are closely scrutinizing manuscript policy forms provided by brokers and mandating changes.
- Insurance to value is a particular concern for carriers and many are requiring restricted endorsements tied to reported values.
- Tougher risks are being subjected to greater scrutiny in a "vertical" approval process, making it more time-consuming to ensure consistent terms, conditions and sub-limits among various carriers on shared and layered programs.
- Persistence and complete submission data is vital.

BOTTOM LINE

It's a hard, difficult and complex market, but one that creates opportunities as more programs move into the E&S market. At the same time, this market demands a more creative approach as programs may need to be restructured, shared and layered. Programs are generally requiring participation from more markets to complete, making them more complex. As rates rise amid declining capacity, achieving the most cost-effective results for clients requires persistence as well as creativity. CRC Group producers have built relationships that help keep them in contact with all appropriate markets and are adept at developing strategies that can best meet a client's financial and risk management goals. Providing detailed account data to underwriters is essential. This challenging, highly fluid market calls for experienced brokers who can help clients navigate the constantly changing conditions. Contact your CRC Group producer for more information.

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