AmWINS Group, Inc.

STATE OF THE PROPERTY MARKET

PROPERTY UPDATE

Although market-hardening predictions have not materialized, a repeat of last year's catastrophic losses could shake the property sector in 2018.

As 2017 neared its close, many industry observers were anticipating a fairly substantial spike in property renewal rates, a projection driven by an expected jump in treaty reinsurance renewals that would trickle down to the primary market. Treaty increases of 20 to 30 percent were seen as possible, if not probable.

However, as 1/1 business renewed, that prediction did not materialize.

"Although we did see some firming of the market and an end to the five-year downward spiral of rates, increases have been held in the mid-single-digit range for accounts with favorable loss experience, with poorer accounts subject to double-digit rate climbs," says Harry Tucker, AmWINS executive vice president and national property practice leader.

MARKET DRIVERS

Predictions of market hardening were based on 2017's catastrophic (CAT) loss experience. Last year was one of the worst ever for hurricanes, with 17 events and three Category 4 storms. Hurricanes Harvey, Irma and Maria caused an estimated $70B to $90B in industry losses. Farther west, California wildfires tore through thousands of acres, adding approximately $12.5B in losses during 2017.

However, these losses have so far failed to produce true market hardening, with losses impacting earnings more than capital. In fact, much of the alternative capital that was affected by losses has already been replaced.

"There simply is plenty of capital in the market," says Tucker. "Additionally, insurance carrier balance sheets are strong, despite CAT losses in 2017."

The Insurance Information Institute (III) reported that policyholder surplus has grown by 8.4% over the last 8 quarters, reaching an all-time high of $719.4B as of 9/30/17.

The industry now has $1 for every $0.76 of NPW, close to the strongest claims-paying status in its history. This new capital is flowing in from many sources. The alterative capital in the market reached $90B of capacity in 2017, up from only $10B in 2005. A record $12.56B of CAT bond issuance is also 38% higher than the previous record, according to Artemis.

Investments in Insurance Linked Securities (ILS) increased, dispelling concerns that a major CAT year would lock up capital and stifle the ability to write business going forward. ILS capital represents approximately $31B of the $90 billion of alternative capital in the market, again according to Artemis.

CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker.

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ON YOUR TEAM.

As always, exceptions can be found, largely in troubled classes. Primary habitational, wood and lumber, and dealer open lot risks continue to produce poor attritional loss experience. Those classes are experiencing a “micro hard market,” characterized by shortage of capacity and significant price increases.

Additionally, RMS released version 17.0 during 2017, and modeling results for U.S. Hurricane and Earthquake have mostly decreased as a result of the updated version of the model. While this response runs counter to actual catastrophe experience for 2017, it could help insurers temper rate increases, as charging a similar renewal rate would yield a higher AAL multiple in version 17.0 versus the prior version.

“For earthquake, the new version seems to have lowered some modeling results in Southern California, which helps to offset increase reinsurance costs,” says Tucker. “The biggest problem is the new model is hammering locations is the South San Francisco Bay area (zones A2 and A3). This has caused significant increases in pricing in this area and is really the only spot in the EQ market that is truly hard currently.”

LOOKING FORWARD

Based on the reality of 1/1 renewals and activity seen in the first quarter, some projections can be made for the remainder of 2018. Through the second quarter, we believe clients should expect carrier behavior consistent with what was experienced at the end of 2017. With ample capacity in both primary and excess layers, good accounts can expect flat to low-single-digit increases, while those with tougher loss experience will see increases over 10% and higher retentions.

The long term is more difficult to predict, because it remains to be seen what the storm season of 2018 holds and, most importantly, if capacity can withstand a repeat of 2017. Declining carrier results would bring pressure from investors. In addition, anticipated interest rate increases – driven by growth in both the U.S. and global economies – could pull capital from the insurance market in search of higher returns elsewhere.

In this dynamic marketplace, it’s important that retail brokers partner with a wholesaler that can help them navigate the current market and that offers the data, specialization, CAT modeling and claims advocacy needed to successfully execute in the midst of volatility. A wholesaler with knowledge of the ILS marketplace, London capacity and the ability to structure loss-sensitive alternatives on larger and more complex accounts can make all the difference in writing property business in 2018.

RENEWAL PRICING TRENDS

Property Renewals – Rolling Quarterly