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The Earthquake Insurance Market: What's Next?

The earthquake insurance market is navigating a period of transition, moving from a phase of strict pricing and risk aversion to one marked by increased competition and opportunity. As insurers refine their portfolios and embrace new capacities, the market is poised for more favorable terms and rate reductions. And while earthquake risks remain a constant concern, understanding the emerging trends, regional impacts and future outlook is crucial.

CONTACT

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Earthquake market

The past five years have marked a period of hardening in the earthquake insurance market, characterized by stringent pricing, restrictive terms and cautious risk tolerance. This phase, unusual for the catastrophe sector which typically experiences short, event-driven cycles, allowed insurers to refine their portfolios, addressing high-risk elements such as older concrete and masonry construction, tuck-under structures and exposures to soft soils. By March 2024, the market had reached its peak, prompting key underwriting companies and MGAs to adjust their strategies, paving the way for increased competition.

The rebalancing of the market has opened up new opportunities. Many providers are now operating with a near-clean slate, bolstered by renewed enthusiasm from London and new nimble MGA capacities. This shift has led to increased competition and a broader appetite for business throughout the remainder of 2024.

Improved portfolios, particularly those involving post-1990 construction, engineered designs and favorable soil conditions, are witnessing greater capacity and subsequent rate reductions. Although the most exposed risks continue to face higher penalties, the overall market has started to stabilize, with potential rate reductions of 5% to 20% depending on the risk profile.

Earthquake claims

Despite these improvements, predicting earthquakes remains challenging. Earthquake reporting mechanisms are designed to provide real-time information during an event. And while seismologists continue to identify fault lines, they are often discovered only after an earthquake.

Earthquake underwriters have yet to face modern testing through recent events, leaving significant unknowns in their risk models. The last major update to commercial earthquake models occurred over a decade ago, with RMS and AIR models last revised in 2017.

Current theoretical pricing remains below what underwriting actuaries deem profitable over the long term. Nonetheless, the past serves as a useful benchmark and pricing has returned to historic highs seen post-2001 (September 11) and in 2006 (Hurricane Katrina). As a result, more companies are expected to enter the market, potentially leading to a return to competitive cycles, though the overall capacity for large natural catastrophe events remains interconnected.

Despite the stable market, the inherent unpredictability of earthquakes keeps the focus on effective risk management and preparedness. Insurers address potential catastrophic losses by increasing deductibles, limiting coverage amounts and raising premiums for higher-risk properties.

Future outlook

Looking ahead, the earthquake insurance market is anticipated to experience a flattening or up to 20% reduction in rates for PML exposures over the next six months, depending on portfolio specifics. Excess PML capacity is expected to see even greater price reductions. The influx of new MGA capacity, driven by underutilized reinsurance and increased appetite from Lloyd's, will likely contribute to further rate declines. However, Lloyd's open market underwriters may only follow the market down to a certain extent.

In the evolving landscape, larger insurers will leverage their earthquake capacity to write more fire business, particularly for larger risks. The market will increasingly reflect a share-based mentality, with pricing and capacity for California and Pacific Northwest risks converging. Broader terms and conditions, including valuations and deductibles will become more negotiable.

The market is expected to revert to a catastrophe event-led model, with pricing spikes following major wind events. A significant earthquake in California or the Pacific Northwest could have profound effects, especially given the low uptake of earthquake insurance among businesses and the ongoing struggles within the commercial real estate sector.

We help you win

Retailers should work with experienced wholesale brokers like Amwins. We specialize in earthquake risks and know how early conversations about pricing and coverage expectations can help structure placements and budgets.

Our team of expert brokers serves as your partner in providing solutions that best meet your client's needs. We work collaboratively to help your clients understand their unique risk exposures.

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