AMWINS

Facultative Reinsurance: Property Market Update

With the property insurance market in a constant state of flux, the utilization of facultative reinsurance has increased dramatically. Its trends have mimicked what we have seen on the E&S side, with the market softening, causing brokers to reconsider how they position this capacity.

Market Conditions

Treaty renewals at 1/1, 4/1 and 5/1 were more organized than in 2023, bolstering most markets' confidence and ability to quote capacity – even in high hazard CAT zones. At the same time, there continues to be limited appetite for attritional business and a focus on secondary perils. Facultative demand remains strong as it enables markets to fill gaps in their treaty programs and decrease markets' overall net retention.

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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Key Occupancies

- **Large Shared & Layered Accounts** are under significant rate pressure. Carriers that had stepped back from these accounts are once more providing capacity and this has trickled over to the facultative side where we are seeing more carriers willing to offer larger lines (including the return of the $100M line).
- **Construction** accounts remain under pressure. CAT sublimits that were decreased due to capacity restraints in 2023 are now increasing.
- **Healthcare** accounts should be focusing on closing gaps in business interruption and equipment costs.
- **Energy** remains an outlier as it does not follow general property market trends, so it's important to work with a knowledgeable facultative reinsurance broker with a specialty in this industry.
- **Public entities** must focus on adequate valuation versus indexing values year over year as we have begun to see more focus on CAT and secondary CAT perils for entities located in a smaller geographic area.
- **Real Estate** markets are now more willing to consider construction ages and types they would not have quoted last year.

It's important to note that these are not the only areas in which facultative reinsurance can benefit. Be sure to talk to your broker about how this coverage could benefit your client.

Secondary perils

Facultative reinsurance markets appear to be more attentive to severe convective storm losses than wholesale or retail markets. However, with unparalleled access to modeling and data, they can pivot quickly and find new fronting capacity when carriers may not be able to. This is especially key as **severe convective storm losses have already surpassed $10B this year**, including large losses such as the **Dollar Tree warehouse in Oklahoma.**

London

At the peak of last year's hard market, London made it clear that the 2024 business plan would include a renewed focus on providing capacity to the property market. As a result, the facultative market has seen increased competition and a new downward pressure on rates as Lloyds looks for new and creative ways to book premium.

What retailers need to know

Reinsurance is essentially insurance for insurance. And while this may be an overly simplistic view, we can narrow it down even further: facultative reinsurance is insurance for insurance on an individual policy. Looking at it even closer, it's insurance for insurance on a problem, for the individual insurance company, within an individual policy.

Unlike treaty reinsurance, which offers carriers protection on a portfolio, every facultative policy is a bespoke policy. It can also provide coverage where a treaty may not, place coverage directly behind a captive and decrease the insured's net and treaty retention.

New capacity in the E&S and retail space has increased both competition and the need for facultative reinsurance. It has helped to create downward pressure on rates, but facultative capacity is not limited to being a soft or hard market play. As a key market that can be utilized on most property placements to help ensure that your client is getting the best program results, it may also:

- **Increase line size and increase stickiness.** With the transition to a softer market, layers may be oversubscribed. With facultative reinsurance, carriers may be able to increase line size, get on a program and increase the stickiness of a placement.
- **Reduce cost and make quotes more competitive.** Facultative reinsurance has the potential to be less expensive than a carrier's coverage outright. Blending carrier coverage with facultative reinsurance can help trend the premium amount downward.
- **Improve the policy's terms and conditions, including sublimits and deductibles.** Purchasing facultative reinsurance may allow a carrier to provide additional CAT capacity and/or ancillary coverage, such as terrorism. It can also help the carrier provide a lower deducible through a buydown or a second/subsequent cover that is fully embedded in their quote.
- **Secure coverage when CAT perils don't model favorably.** Facultative reinsurance can help cover certain carved out perils, like flood, even after a carrier declines coverage based on modeling.
- **Reduce concentration of values.** Leveraging facultative reinsurance to carve out one or more locations in a schedule can help with high hazard areas.
- **Access London, Bermuda and other international markets.** Facultative reinsurance brokers can access all international markets, regardless of whether they are being utilized or accessed elsewhere on the upfront. Remember, Lloyd's and most Bermuda markets offer direct and facultative (D&F) coverage.

Considering facultative reinsurance should be second nature on every placement. However, not all facultative reinsurance brokers are created equal. With the influx of new capacity and players entering the space from other areas of the business, it's important to choose a broker with strong relationships, knowledge of how to leverage the market and creativity in structuring deals.

We help you win

Facultative brokers are risk specialists, placing the most difficult account exposures such as windstorm, flood and earthquake in the property sector. Amwins Re brokers are fundamentally different from other brokers in this segment. We understand that each account is special and can create unique plans bespoke to your client – working directly with the carrier to capture more capacity and customized options.

Our team averages more than 20 years of experience in facultative reinsurance and is noted for their vision and aggressive execution in the completion of multi-layered national accounts and difficult to place exposures. Unlike our facultative competitors, who serve as service centers for a larger treaty operation, Amwins Re was conceived and operates as a true stand-alone facultative specialist.

About Amwins Re

Amwins Re has been specializing in the placement of facultative property reinsurance and program administration since its creation in 1984. This deep, long-standing expertise serves as a value-add to many of Amwins' E&S carrier partners and ensures that we are securing the best terms for our retail clients and their insureds.

In addition to our expertise in transactional facultative placements, Amwins Re is fully engaged in the production and administration of niche program business. These programs bring together "A" rated carriers, reinsurers and managing general agents in such diverse areas as habitational, municipalities, motor truck cargo, auto physical damage, excess and surplus property, workers' compensation buybacks and automobile carve-outs.

With access to markets in the U.S., London, Bermuda and globally whatever the exposure, Amwins Re can provide the appropriate facultative solution to any risk management dilemma.

About the Author

- Jennifer Del Re, President, Amwins Re
- Paul Amidei, EVP of Property, Amwins Re
- Sal LoBello, EVP of Property, Amwins Re
- Meghann Rusert, EVP of Property, Amwins Re
- Terri Shebly, VP of Property, Amwins Re
- Harry Tucker, EVP and National Property Practice Leader
- Jessica Zuiker, VP and Assistant National Property Practice Leader