Real Estate Casualty Market
Hardening Enters Uncharted Territory

The real estate casualty market has continued to tighten in recent years. Market cycles are nothing new to the insurance industry; however, the hardening in real estate is unique both due to its persistency and severity. We are seeing a combination of restricted terms, diminished coverage, increased rates and greater underwriting scrutiny unlike anything in recent memory.

What's driving the market?

In a word: unprofitability. Real estate had already been firming more notably than other casualty lines, caused by years of underpricing in the preceding soft market. And as standard carriers have left the space, the resulting capacity decrease has exacerbated difficult market conditions.

At the same time, loss costs have continued to climb, driven by social inflation and rising jury verdicts.

Nationwide, plaintiffs have had increasing success pursuing claims against property owners, including for liability arising out of assault and battery (A&B), sexual abuse and molestation (SAM) and other crime.

Real estate has also been plagued by regional challenges, including habitability claims in California (allegations that property owners are not keeping buildings in habitable condition), action-over claims in New York (allowing an injured party to file claims on both workers' compensation and general liability policy) and litigation in any of the "judicial hellholes" well known to plaintiffs' attorneys.

CONTACT

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

LEGAL DISCLAIMER

More cost, less coverage

Rates

Most risks can expect double-digit renewal increases. Even for clean accounts, 10% to 20% increases are common, with 30% not unheard of. Distressed accounts or those that have been nonrenewed could see even steeper increases.

Retentions

Carriers continue to raise minimum retentions. Many key markets have set minimum retentions of $50,000 to $100,000. In addition, obtaining retentions less than $25,000 will typically come with restrictions on A&B and SAM. Locations with specific problems, such as crime exposure, could be facing retentions of up to $500,000 if coverage is even offered.

Sublimits

Previously, policies either included A&B/SAM within the location/aggregate limit for all losses or, for accounts with known issues, separated it with a small sublimit (under $1M/$1M). It was clear that excess layers would follow form in the first scenario but would exclude coverage in the second (due to underlying limits under $1M). Today, many more accounts can expect to see sublimits for A&B/SAM, even if they don't have loss issues. Additionally, accounts that typically had a per location with a cap of $5m or 10m for A&B may now be subject to a one-time A&B limit of $1M/$1M or $1M/$2M. In these scenarios, it is essential to clarify whether excess coverage follows underlying coverage or not as it relates to A&B and SAM.

Exclusions

Insurers are increasingly adding exclusions for habitability, A&B, SAM and human trafficking, regardless of an account's loss experience or crime score.

Greater underwriting scrutiny

In addition to offering less coverage at greater cost, underwriters are scrutinizing properties much more closely. Two areas to note include:

Crime scores. Expect underwriters to pull or request crime scores on each submission. Also, whereas crime scores had been just another data point for underwriters to consider, they are increasingly a deciding factor in overall acceptability. Risks with scores of 60 or higher will find crime-related coverage tough to place.

Artificial intelligence (AI). Because real estate is a very time-consuming line to underwrite, carriers are utilizing AI to streamline the process—and uncover additional details about submissions. For instance, underwriters can use AI against property addresses on a statement of values to quickly search for key terms (such as “assault” or “shooting”) and reveal exposures that might not have been discovered through a manual assessment.

Takeaway

Understanding the nuances of the various segments within the U.S. Real Estate insurance market and the diverse factors that can impact pricing will help retailers better prepare insureds for potential rate increases and term changes at policy renewal.

About the Author

- **Corey T. Alison**, ARM, EVP & National Real Estate Practice Leader – Casualty