SMALL ACCOUNTS & FLOOD SPECIAL UPDATE - Q3 2018

CONTACT

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Courtesy of AmWINS Group, Inc.

Succeeding in the highly competitive small accounts marketplace requires high efficiency and strong market access.

SMALL ACCOUNTS

Wildfires, mudslides, hailstorms, and more: all factors that would normally add up to trouble in the small premium, small accounts marketplace. However, competition in this market, including personal lines and small commercial lines, continues to be fierce, driven by the continued influx of new capital into the space.

“Despite Mother Nature’s wrath, there has been very little loss of enthusiasm for writing small accounts, and that’s reflected in continued depression of rates. It’s simply a very active, highly competitive landscape,” says Tony Gresham, President of AmWINS Access.

Capital continues to enter the market from two key areas: traditional P&C carriers who may not have been participants in small accounts but view it as an effective way to deploy capital, and new entrants from outside the P&C sector. All parties are looking to leverage better risk modeling and portfolio underwriting as a way to create predictable returns.

“With portfolio underwriting, there is limited risk of a single account or small number of accounts causing volatile returns,” says David Lavins, Chief Operating Officer of AmWINS Access. “Meanwhile, improvements in catastrophe modeling have enabled P&C risks to be much more quantifiable. Those factors have really turned small commercial accounts and personal lines into an asset class, which it was not before.”

“The attraction is that the small account market now offers a relatively predictable rate of return on a scaled book of business,” says Gresham. “Recent developments in technology enable markets to deploy significant amounts of capital in a highly efficient and low-cost manner, yielding relatively predictable returns and less volatility than in the large P&C market.”

The continued flow of capacity has ensured that rates on small accounts remain highly competitive. While there are some localized exceptions, such as areas impacted by recent storms or wildfires, property rates continue to remain very soft. Similarly, small casualty accounts enjoy a competitive rate environment, with only a few specific classes seeing prescriptive changes in underwriting and rate.

The most sought-after classes in the small business market include lessor’s risk only, contractors, restaurants, bars, and taverns. Hotels, motels, and convenience stores will find markets somewhat more limited due to liability concerns, and churches – particularly those with ornate or historic architectural details – tend to meet with greater underwriting reluctance.

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This paradigm shift by capital providers will continue to dampen the market impact of adverse events of weather, and with no reason to expect significant changes, retail agents and carriers alike will be best served by working with distribution partners that can provide efficient and thorough access to the market.

“Retailers should work with wholesalers who have broad-based relationships with underwriters and who have the processes and controls in place so that products can be delivered efficiently,” Lavins says.

FLOOD

As Congress continues to mull substantive reforms to the National Flood Insurance Program (NFIP), on July 31, 2018, it voted to extend the authorization for the NFIP through November 30, 2018, with no changes having been made. Despite critics’ efforts to push for major reform to the NFIP, Congress has now passed six short-term extensions and allowed the program to lapse, however briefly, in both 2017 and 2018.

Formed by Congress in 1968, the NFIP had been a self-sustaining entity, with premiums covering the program’s losses and administrative costs. That all changed in 2005 with a $16 billion flood loss from Hurricane Katrina. After further losses from Hurricanes Sandy, Harvey and others, the program accumulated over $36.5 billion in debt. In late October 2017, Congress passed a bill to forgive $16 billion of the NFIP’s debt.

“Due to an increase in the frequency and magnitude of major flood events and the lack of needed reform to the NFIP, taxpayers will continue to pay the losses through federal aid programs,” says Zak Hooker, Flood Underwriter at AmWINS Group in Charlotte, North Carolina.

In an attempt to manage losses, the Federal Emergency Management Agency (FEMA), the entity that administers the NFIP, has made significant changes to the program in recent years. In 2016, the program began eliminating or reducing rate subsidies and implementing a 25 percent annual rate increase until “full-risk rates” are achieved for all pre-FIRM (Flood Insurance Rate Map) subsidized policies. These changes affected non-primary residential properties, properties with severe repetitive loss, and those that were substantially damaged or improved.

In 2017, FEMA announced additional rate increases. For pre-FIRM subsidized policies, rates are increasing 5 percent on average for primary residences to over 20 percent on average for commercial properties and non-primary residences, with an expected overall average rate increase of 6.3 percent.

However, these premium increases are unlikely to dig NFIP out of its hole. “With its current debt load, it’s hard to imagine the NFIP being able to pay that off through premium increases, certainly not in the foreseeable future. The question is what other changes to the program might have to be made as a result,” says Missy Klor, Vice President, AmWINS Access in Morehead City, North Carolina.

A study released in April 2017 by the U.S. Government Accountability Office (GAO) found that “reducing federal exposure and improving resilience to flooding will require comprehensive reform of the NFIP.”

Recent flood events have created a heightened level of awareness of flood insurance coverage, but the uncertainty of the public flood marketplace has contributed to the decline in the NFIP in recent years. The NFIP peaked at 5.7 million policies-in-force in 2009, with roughly 5 million NFIP policies-in-force today. The private market for flood insurance has developed rapidly to fill the void.

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“As lenders become increasingly aware of the acceptance of private flood for federally backed mortgages, growth in the private market will continue to be on the rise,” says Hooker. According to 2017 statutory insurance filings compiled by S&P Global Market Intelligence, there was $624 million of private flood insurance written in 2017, up from $413 million in 2016, a 51% increase.

Although flood is a difficult peril to underwrite, increasing sophistication in the private market – arguably more sophisticated mapping than FEMA utilizes – means that carriers can offer attractive pricing on desirable risks. To help retailers place coverage in the private market, AmWINS rolled out in-house private flood products, complementing the existing ability to offer NFIP coverage.

“AmWINS provides retailers options for flood coverage, which is a valuable tool to have in their arsenal in this volatile marketplace,” Klor says.