STATE OF THE PROPERTY MARKET

PROPERTY UPDATE - Q1 2019

In Q2, the pace of hardening will accelerate in every segment of the property market, presenting a challenging environment for retailers and buyers.

At the end of 2018, the property market had begun to see some firming, and that continued into Q1 of 2019. As we move into Q2, this trend has not just continued; it has accelerated.

"The message for retailers is that things are changing in property more quickly than expected, and the changes are deeper than anticipated," says Harry Tucker, Executive Vice President and National Property Practice Leader for AmWINS.

Adverse loss development has been a catalyst in this acceleration. Two consecutive years with combined ratios exceeding 100% across the market has heightened the focus of management teams and underwriters to drive rate and reduce aggregate exposure. Increasing rates are creating a deeper and broader change in the market. The obvious tough classes – including frame habitational, recyclers, and open lot – were the first to be affected, but now the trend has crept into broader classes and non-CAT exposed business.

"Along with rate increases, we are seeing more tightened risk selection, reductions in limits, increased deductibles, and close review of policy forms," says Tucker.

However, the bright spot for clients is that the market is still well capitalized. "Carriers still want to write premium," says Tucker. "The difference today is that they are applying a level of underwriting discipline we haven't seen in quite some time."

BUILDER'S RISK

For retailers, there is plenty of business activity to pursue in builder's risk.

"In the frame builder's risk world, there is a lot of construction in the $50-100 million range, including multi-story buildings," says Frank Catalano, Executive Vice President at AmWINS Brokerage of the Midwest. "A year ago, there were about 35 cranes in Chicago. Today there are more than 60, and that level of increase is being seen in many other areas of the country, as well."

The challenge for retailers is that while demand for coverage is increasing, there has been some capacity constriction. "There have been considerable losses in the frame builder's risk world that are impacting the market," says Catalano.

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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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These losses have driven up pricing significantly compared to a year ago. Additionally, markets have – in some cases – halved the amount of limit they are willing to offer on frame builder's risk.

"Underwriters are also being more careful, requiring more extensive underwriting data, including inspections and Geotech reports," says Catalano. "We can still put coverage towers together, but it takes more time and involves bringing in more markets."

REAL ESTATE

In the real estate sector, and particularly within the multifamily space, the marketplace is hardening. Loss experience is a driving factor, as carriers are now laser focused on returning their books of business to profitability.

"Carriers in many cases are quoting higher prices, higher deductibles, and/or restricting coverage, yet still receiving bind orders, which empowers them to hold their ground or push further on the next opportunity they review." says Bob Black, Executive Vice President, Property at AmWINS Brokerage of Georgia.

At the same time, there has been a reduction in capacity available for accounts with total insured value of $500 million or less. "Carriers are more closely managing their line sizes, with certain MGA's having no paper to offer at the moment, thereby requiring more program participants or the replacement of certain MGA's for sizable real estate accounts," says Black.

As a result of the reduction in capacity and re-underwriting of non-profitable books of business, we are seeing an increased flow of new business, which puts a strain on underwriting workloads. "Quotes are being issued much closer to the effective date than in years past, due to the magnitude of opportunities in the marketplace right now" says Black. "It's important for retailers to partner with a wholesaler that has strong relationships, full market access and real marketplace leverage in order to cut through the clutter."

Another hot topic in the marketplace right now is valuation. "A good number of carriers are heavily focused on valuation adequacy right now," says Black. Certain carriers are internally rating using higher values than are reported on the renewal SOV, while others may require valuations to be strengthened prior to quoting.

In Real Estate, as in any challenging sector, it's imperative for the retailer to share a quality submission with their AmWINS broker. Carriers and our underwriters want to write business, and in the current climate, quality submissions are more likely to result in a successful final outcome for everyone involved with an opportunity.

CARGO/STP

Cargo and Stock Throughput (STP) business placed in the London marine market has been hit particularly hard by the performance management underway at Lloyd's. "Brokers and clients are grappling with rate increases on accounts with and without losses, capacity shrinkage of more than 20% in the Lloyd's cargo market, and overall market hardening," says Toby Kayll, Managing Director of the Marine division at THB Group Limited, an AmWINS Group company.

The changes began several months ago, when Lloyd's warned syndicates that it was implementing a performance management approach in response to unsustainable losses and that it would be seeking remediation plans for underperforming classes of business, including Cargo/STP. As a result of capacity constriction, pricing is being closely reviewed, along with risk profiles, limits, terms and conditions. Brokers are seeing cuts in line size, along with wording revisions or declinations due to class. Accounts considered "underpriced" are faring even worse.

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Despite these challenges, the major cargo market leaders remain active; however, detailed information is being requested for all risks with stock exposure, and location surveys are becoming more common. “Every account is being scrutinized today,” Kayll says.

In this climate, it is critical to provide a complete application with as much risk and exposure information as possible in order to obtain the best terms and pricing. Retailers will benefit from partnering with a wholesaler that can skillfully navigate the complexities of the changing London market. THB Group, AmWINS’ London brokerage operation, has the expertise and industry relationships to assist retail agents in delivering the best solutions for their clients in today’s complex and dynamic environment.

RENEWAL PRICING TRENDS—PROPERTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS property lines account data