STATE OF THE PROPERTY MARKET - Q3 2019

CONTACT

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

LEGAL DISCLAIMER

Views expressed here do not constitute legal advice. The information contained herein is for general guidance of matter only and not for the purpose of providing legal advice. Discussion of insurance policy language is descriptive only. Every policy has different policy language. Coverage afforded under any insurance policy issued is subject to individual policy terms and conditions. Please refer to your policy for the actual language.

Courtesy of AmWINS Group, Inc.

The pace of market hardening has quickened in property, presenting both challenges and opportunities for retailers.

The property market continues to harden overall, with changes in pricing, deductibles, coverage, and/or capacity noticeable from quarter to quarter.

"This market change was anticipated and inevitable based on poor attritional loss experience, back-to-back years of heavy storm activity, and a prolonged soft rating environment," says Harry Tucker, AmWINS National Property Practice Leader. "It has been exacerbated by restructuring at AIG and FM, resulting in a change that has come more quickly and is more severe than we anticipated early in the first quarter of 2019. We've seen market change on an almost weekly basis."

As discussed in previous AmWINS State of the Market property reports and detailed later in this update, certain classes are particularly troubled. While some "rogue" facilities and standard-lines carriers occasionally buck the trend, the vast majority of markets are tightening significantly or reducing their exposure to a number of classes of business. Carriers are charged with returning their property books to profitability, which requires increasing rates and deductibles, reducing limits, restricting terms and/or even exiting certain classes of business altogether.

Even if this year's CAT season is benign, the market is expected to continue to firm in the near term, although perhaps at a slower pace if the season's results are favorable. The June CAT Treaty renewals saw increases in the range of 15 to 20 percent, according to market analysts.

"The combined effects of adverse loss development from the past two years of CAT events and a decrease in ILS capacity as investors wait for trapped capital to be released, along with fundamental changes at Lloyd's, AIG and FM, will continue to drive the market," says Tucker. "CAT perils aside, the market has experience increased frequency and severity of attritional losses, resulting in multiple years of non-profitable books."

Areas of the property market that are particularly challenging include:

- **California Wildfire**: The severity and frequency of recent events, combined with California's legal environment, are causing carriers to change underwriting guidelines and/or avoid the exposure altogether.
- **Convective Storm**: Severity and frequency increases over the past few years are resulting in changes to underwriting positions and pricing.
- **Flood**: Claims from the recent flooding in the Midwest are starting to materialize, and the long-term effects are yet to be seen.

(continued on next page)

(continued from previous page)

Overall, the E&S market is retrenching and, in some cases, withdrawing from classes of business. Additionally, an increase is being seen in the amount of time needed to process submissions, and responses from carriers are delayed. In this current environment, it is critical to provide complete exposure data in a clear and concise format and to choose a wholesale broker that has the experience, resources and creativity to provide a more favorable quote.

"While it's challenging, capacity can still be found in the marketplace, and our brokers are working incredibly hard to optimize each placement," Tucker says. "Some markets have pulled out, while others have already reached or are approaching premium caps set by reinsurers. This is happening much earlier in the year than anticipated, and unless markets can replenish that reinsurance, there will be a further constriction of the market."

Despite the turbulence in the marketplace, AmWINS has been able to successfully add additional capacity to it's in-house MGA (SRU), which is only accessible through an AmWINS broker.

"Several Lloyd's syndicates have refiled their 2019 business plans to allow additional premium writings," says Tucker. "Although we anticipate that a number of these syndicates may have more capacity in the third and fourth quarters, pricing for that capacity will be at a premium."

BUILDER'S RISK

Builder's risk is a tale of two very different markets. Wood-frame construction reflects the difficult conditions in the overall property sector, while CAT-exposed construction is still a buyers' market.

"In CAT property, we are still enjoying a comparatively soft market, with favorable capacity and policy terms, at least domestically," says Grant Chiles, Executive Vice President at AmWINS Brokerage of Georgia. These counter-market conditions are attributed to the fact that most of the builder's risk space has reinsurance agreements not tied to the overall property book.

"CAT builder's risk has also performed substantially better than CAT property due to better building codes and simply the nature of construction," Chiles says. "If a hurricane were to hit Miami and a carrier had multiple projects insured, those projects may be in different stages of construction – some of which may not be affected significantly by wind."

In contrast, wood-frame construction continues a correction driven by large fire losses. "We are at $600 to $700 million in severity losses over the past three years or so," says Chiles. "Everybody sees the fires on the news, which tends to drive a bit of fear."

The market has spiked upwards of 30 percent from earlier lows, although it has levelled out slightly over the past six to eight months. "Additionally, we are seeing a few underwriters looking to push water damage deductibles rather than increased rate on frame, since roughly 20 percent of builder's risk losses involve water damage," says Chiles.

An interesting scenario exists where these two markets intersect: CAT-exposed frame risks. Running counter to expectations, this business is being underwritten and priced relatively aggressively. "A lot of markets appear to be comfortable using CAT premium to subsidize the fire risk on the frame," says Chiles.

REAL ESTATE

The overall real estate market has been hardening in response to general conditions in the property marketplace, as well as the loss of numerous Lloyd's syndicates, Swiss Re E&S' recent exit from the multifamily space until 1/1/20, and the loss or risk appetite adjustment of numerous buffer layer markets.

(continued on next page)

(continued from previous page)

"Conditions in the real estate sector have only become more challenging since earlier this year," says Bob Black, Executive Vice President – Property at AmWINS Brokerage of Georgia. "Particularly for larger and complex real estate and multifamily placements ($500M - $1B+ TIV), there may be a challenge with filling the first, second or third buffer layers. It's a supply and demand phenomenon that we haven't seen since late 2005 or early 2006. Over the last 12 to 18 months, seven or eight buffer layer markets have permanently or temporarily closed, while very little new capacity and capital has entered the space. Placements are generally filling in the end, although often right before the effective date."

At the same time that capacity has decreased, demand has increased, driven by continued multifamily construction, which saw eight percent growth in 2018 and is on track for five percent growth this year.

"The marketplace as a whole struggled with the massive account volume contained in the second quarter. With 7/1 in the rear-view mirror, and the third quarter much slower than the second, we anticipate carrier responsiveness to improve dramatically for the remainder of Q3", says Black.

RAILROAD

The market constriction in the railroad space mirrors that of the overall property sector, with diminishing capacity and hardening conditions. The added complication is that railroad is a much more limited marketplace.

"Not every market can write rail – some may lack the reinsurance coverage, while others simply don't have an understanding of it. With less capacity to start with, any pullback has a more noticeable impact," says Darron S. Johnston, Vice President at AmWINS Brokerage of Georgia. With 15 years of experience in the rail space, AmWINS writes five of the seven Class 1 railroads, as well as hundreds of smaller companies and railroad-related businesses.

In addition to being impacted by the overall property market, the railroad sector has been affected by loss severity, including two large floods that will likely reach policy limits due to business income payments.

"These losses brought new scrutiny to a coverage that some companies thought they understood," says Johnston. "It showed that the larger concern in property for railroad is the business income loss, which is a much more difficult coverage to evaluate in terms of limit and exposure than buildings and trains themselves."

As a result, property rates are increasing 20 to 30 percent on clean accounts, and capacity is substantially reduced. Markets that had been willing to quote $10 million of capacity are often dropping to $2.5 million of capacity. Troubled accounts are having an extremely difficult time and are forced to purchase reduced program limits. "It's becoming worse by the week," says Johnston.

Despite difficult market conditions, AmWINS has found additional and new capacity in this space and is continuing to seek alternative markets. "We have been able to successfully offset capacity that's leaving and deliver solutions to brokers and clients," Johnston says. "It's important to work with a wholesaler that can do this, because the railroad market is not going to improve any time soon."

SUMMARY

With market conditions continuing to harden across property as a whole, it is essential that retail brokers partner with a wholesaler that has full market access in order to optimize insureds' placements and effectively predict and manage rate increases in a dynamic and challenging marketplace.

ON YOUR TEAM.

(continued on next page)

(continued from previous page)

“Retailers who are not closely managing their insureds’ expectations during this time of market change are the most susceptible to losing clients,” says Black. “AmWINS brokers have tremendous insight into current market conditions as a result of the magnitude of renewal and new business accounts which have been bound so far this year. This knowledge, combined with our breadth of expertise and depth of specialization, enables us to deliver innovative solutions to the challenges that retailers are facing in this market.”