AMWINS

State of the Market: Personal Lines

Insurer Exodus Creates Crisis in Homeowners, Small Commercial

In 2022, admitted carriers began pulling back on homeowner and small commercial property coverage in distressed markets, California and Florida in particular. Today, many insurers have ceased selling new policies or exited those states altogether, while remaining carriers have raised rates, tightened terms and cut capacity.

As homeowners and small business owners struggle with the fallout, the opportunity exists for retailers to capitalize on increased underwriting appetite in the E&S market to provide the protection customers need.

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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What's Driving the Market

Admitted carriers have struggled to achieve profitability for the past half decade, particularly in the California and Florida home and small commercial property markets. On the claims side, increased frequency and severity (including record-setting wildfires), high inflation and construction prices, and soaring litigation costs have driven up loss ratios. Additionally, unfavorable reinsurance pricing and terms have put further pressure on the bottom line.

Unfortunately, admitted insurers have not been able to adapt coverage and/or pricing quickly enough to achieve profitability in the face of an evolving landscape of shifting peril of risk and the associated frequency and severity. The regulatory approval cycle is still behind due to the pandemic and moves more slowly than the pace of economic change that carriers are forced to contend with. Additionally, state regulation often presents further obstacles to achieving rate adequacy.

For instance, **California, Prop 103** requires insurers to submit rate increases to the state Department of Insurance for approval. Given the slow rate of regulatory approval—and the potential activity of legally allowed "intervenors" who provide technical expertise on rate filing requests—insurers can assume rate increases of less than 7% are approved if they don't receive approval within 60 days. Therefore, most insurers tend to keep increases under that percentage for practical purposes.

Insurers also cannot incorporate wildfire modeling into actuarial analyses and are limited to using historical data on wildfires, despite the more recent increases in realized insured loss of the multitude of influencing factors and the real empirical evidence that expected loss costs have grown to record levels. They are also prohibited from issuing a cancellation or nonrenewal to a homeowner in an affected area for a period of one year following a governor-declared state of emergency.

Additionally, state insurance pools have had the unintended consequence of creating artificial pricing and coverage competitive barriers making it more difficult for admitted insurers to remain in a market where pool use is increasing. These pools are financially supported by private carriers based on their market share which creates an incentive for carriers to reduce their premium volume to lessen their plan assessment.

Coping With Change

To say that it has been difficult for homeowners and small business owners—and retail agents—to cope with market changes is an understatement. Due to the admitted carriers' inability to set adequate rates, nonrenewals are increasingly commonplace, and book retention rates in the 30% range for retailers are not unheard of. And beyond the question of rate adequacy, the fact that insured building values keep increasing means that homeowners are consistently looking at significant, often double-digit premium rate increases.

In some cases, building owners are insuring properties at less than full value (if allowed by the carrier) or choosing to self-insure entirely due to unaffordable insurance premiums. In fact, reports of premiums costing up to 20% of a home's value have been reported. Additionally, $1,000 or even $2,500 deductibles are a thing of the past, with $25,000 not uncommon today. More simplistically, insureds are taking more risk today in an effort to offset meaningful premium increases.

There is also a fundamental insurance availability challenge, which is particularly acute in the high net worth segment. Whereas five years ago there were a half dozen carriers aggressively underwriting in this space, finding a single carrier today to insure a $10M or even $5M home is increasingly difficult. Creative approaches including ventilated coverage towers—previously only seen on larger middle market and technical commercial property risks—have made their way into the consideration for homeowners and, to a lesser degree, small business insurance solutions. Purchasing a low-limit, bare-bones primary policy (even through a state insurance pool), followed by a supplemental or difference-in-condition policy to cover additional perils, followed by one or more excess layers, is becoming more common. In these situations, it is essential to carefully review policy language to prevent gaps in coverage between layers.

For their part, regulators are aware of the troubled property market, and changes have been proposed or initiated. In Florida, the legislature approved updates to home insurance laws that are designed to keep carriers in the state, including requirements for flood insurance, reinsurance changes and efforts to curb lawsuit abuse. This year in California, while legislative efforts stalled, the governor issued an executive order calling for regulatory action to improve the "efficiency, speed and transparency" of the rate approval process.

However, regulatory changes (if they do indeed happen) will take time to implement and even more time for their impact to be felt. Therefore, difficult market conditions in personal lines and small commercial are expected to continue through at least 2024.

Key Takeaways

As admitted carriers flee troubled states, the volume of business moving to surplus lines (E&S) insurers has increased. E&S carriers are increasingly interested in this market, and are able to navigate profitability expectations due to the more favorable rating and coverage environment they can operate within. More broadly, several admitted carriers are also starting to lean into their E&S papers as well to realize the same flexible underwriting benefits.

For retailers, there are keys to success in the E&S market. First, because submission volume and underwriting workloads have increased, sending business that matches a company's appetite is important, as are complete applications. "Shotgunned" submissions will go to the bottom of the pile, while applications that are built on and include effective communication are more likely to receive timely, competitive offers.

Retailers should also evaluate the capabilities of their wholesale partners. Seek companies that have developed positive, long-term relationships with underwriters, deliver technology capabilities and online tools that make it easy to do business, and consistently find innovative solutions to coverage challenges.

As the largest wholesale broker in the U.S., Amwins provides access to best-in-class and exclusive personal lines markets to help retail partners gain a competitive edge for clients. Our unparalleled team of local underwriters are dedicated to personal lines insurance. They have access to both admitted and non-admitted markets, as well national and international carriers, and the ability to place policies as either standalone coverage or part of a larger package.

With established credibility and trusted relationships, Amwins is able to get things done that other wholesalers cannot. Contact your Amwins underwriter to learn more.

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