Limited Capacity, Climate Change and Valuations Further Harden the CAT Property Market

The property market remains challenging and we are seeing an ongoing hardening trend, especially in difficult geographic areas, as carriers continue to de-risk their portfolio by limiting their exposure to high-risk perils.

With the impact of 5/1 domestic reinsurance treaty renewals now being felt, we're reiterating some key points from our recent State of the Market report and bringing you a deeper look into the current conditions of the property market.

CAT Capacity Crunch

We are seeing between a 15% to 30% reduction in capacity with at least one major reinsurance carrier cutting domestic CAT property limits by $500 million. These cuts are not a result of lack of capital, but instead strategic deployment of limits in a bid to reduce volatility in carrier portfolios.

In April, the capacity crunch in CAT-prone areas was further exacerbated by AM Best's withdrawal of its credit rating to a commercial property carrier with business primarily in Florida, Texas and South Carolina. The downgrade unexpectedly left many insureds seeking coverage in an already strained market.

Obtaining coastal and/or wildfire capacity continues to be especially difficult and accounts with less geographical dispersion are more prone to aggressive pricing and capacity pullbacks due, in part, to changes in catastrophe risk models. Louisiana in particular is seeing increases between 50% and 300%.

CONTACT

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

Changes in Catastrophe Risk Models

Over this past year, carriers have been testing and implementing the updated version of RMS. These changes, combined with efforts noted above, are having a significant effect on the CAT market.

As climate change continues to alter risk maps, the zone designation of a geographic location has become more of a variable than a constant in risk calculations. The physical location of an insured's building hasn't changed, but the risk of that location experiencing wind, flood or wildfire damage has increased substantially.

For example, RMS calculates raises to the Medium-Term Rates (MTR) based on the increased frequency of event occurrences in different regions.

A more nuanced change is the "Florida Alternative Vulnerability" assumption. This optional feature can have a significant impact on residential structures in Florida as it takes into account new Florida building code updates, including that roofs with 25% or more in damage must be fully replaced. There are also a number of other vulnerability changes using loss results from Hurricane Irma that are also more localized to Florida residential, particularly condo business.

Line Size and Layering

Small to medium non-problem accounts with a good loss history are likely to continue to experience controlled rate increases as primary layers remain oversubscribed.

First and second buffer layers for large accounts, however, are likely to be the most challenging to fill as carriers limit line size to protect against large losses in these layers. As a result, U.S. agents and brokers are now less likely to find a solution with a single domestic carrier and will need to consider stretching the primary layer or using London syndicates to fill towers.

In London, some syndicates are willing to negotiate a deal to help fill buffer layers for the opportunity to write either their preferred shares on the primary or larger excess limits higher in the tower.

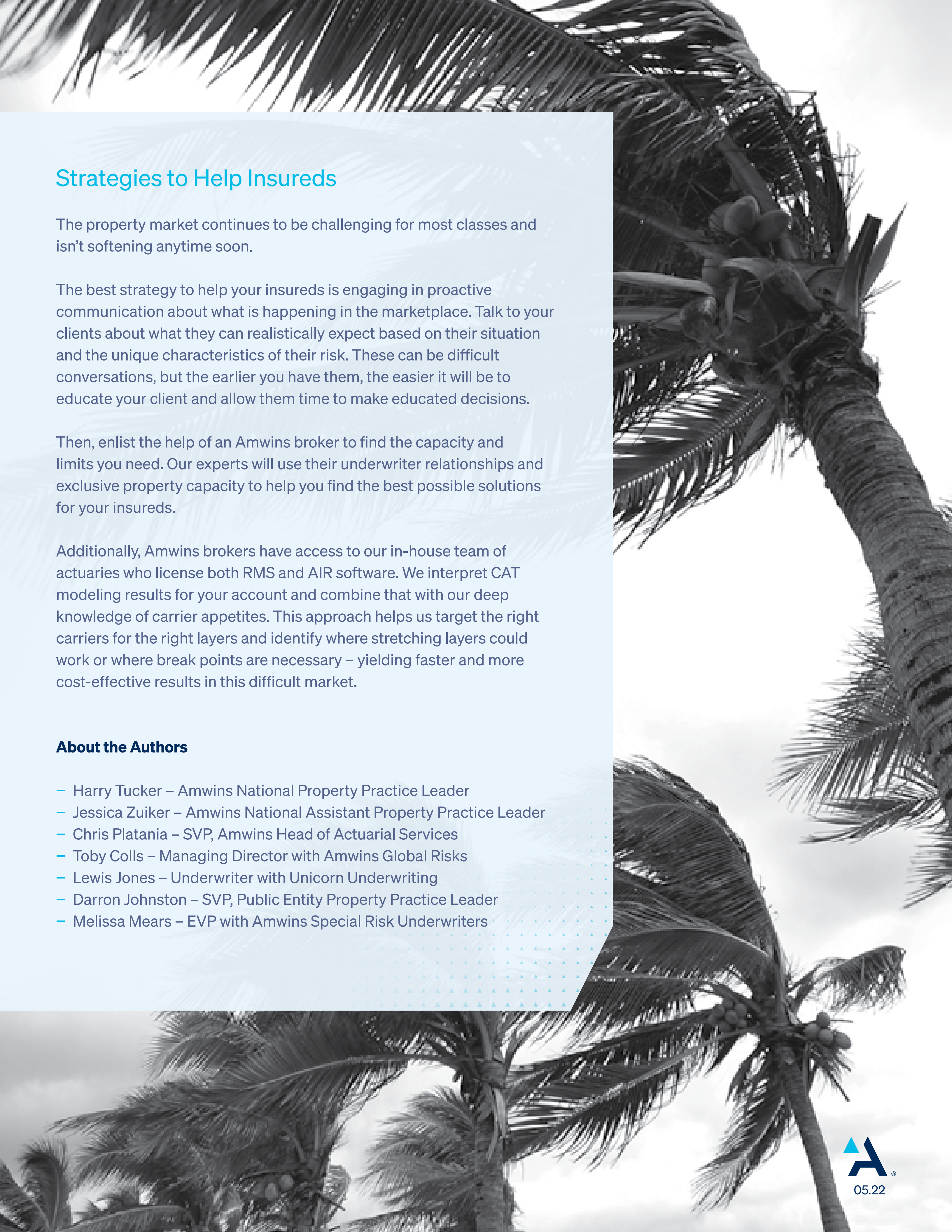
Inflation and Valuation

Increased inflation has only added to the already vexing issue of valuation across all property classes in both the U.S. and London. Carriers have become much more aggressive in their demand for valuations to be properly increased.

Habitational and middle market accounts especially are under the magnifying glass for valuations with some carriers looking for a minimum of $100 per sq. ft. for frame structures.

Other carriers will ask insureds to show valuation over the history of an account. For example, have the values been increased year over year; why or why not? Any new additions, selling of assets, etc. need to be addressed to avoid potential cutbacks in capacity or more restricted terms and conditions.

How the industry deals with valuations going forward will likely contribute significantly to how long the hard market continues.



Strategies to Help Insureds

The property market continues to be challenging for most classes and isn't softening anytime soon.

The best strategy to help your insureds is engaging in proactive communication about what is happening in the marketplace. Talk to your clients about what they can realistically expect based on their situation and the unique characteristics of their risk. These can be difficult conversations, but the earlier you have them, the easier it will be to educate your client and allow them time to make educated decisions.

Then, enlist the help of an Amwins broker to find the capacity and limits you need. Our experts will use their underwriter relationships and exclusive property capacity to help you find the best possible solutions for your insureds.

Additionally, Amwins brokers have access to our in-house team of actuaries who license both RMS and AIR software. We interpret CAT modeling results for your account and combine that with our deep knowledge of carrier appetites. This approach helps us target the right carriers for the right layers and identify where stretching layers could work or where break points are necessary – yielding faster and more cost-effective results in this difficult market.

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