AmWINS Group, Inc.

STATE OF THE PROPERTY MARKET - Q4 2019

The current conditions in the property market are expected to continue well into 2020.

The property market continues to harden, and carriers continue to look for increases, particularly on cat-exposed business. Rates are expected to maintain their climb through the first quarter of next year, as many feel the Q1 2019 accounts did not receive the full correction as those in later quarters, especially in tougher exposures.

When it comes to forecasting the future of property, weather is always the wildcard. “We dodged a bullet with Dorian, and we still saw rate increases,” says Harry Tucker, AmWINS Executive Vice President and National Property Practice Leader. “Also, while we still see Florida catastrophe capacity accessible, we anticipate that will tighten up over the course of the next 12 months.”

Additionally, we cannot diminish the effects of increased attritional losses. Hailstorms in the South and Midwest, water damage; CA wildfire; etc. are all adversely affecting the property market. The result appears to be significant rate and deductible increases, as well as a tightening of terms and conditions.

Property market factors:

- Conservative limit deployment
- Likely increase in reinsurance pricing
- Trapped ILS capacity
- Attritional Losses
- Loss creep on prior year losses
- Valuation
- Carrier De-Risking

Overall, there has been a decrease in property capacity. Carriers are being more conservative in deploying limits on any one risk. While theoretically their capacity may not have changed, their working limits have. This strategy is in line with the overall objective of returning property books to an underwriting profit.

The lack of inexpensive reinsurance is a secondary factor. Carriers are not as willing to deploy their own capital where they once used inexpensive reinsurance. Reinsurance costs have increased, and less limit purchased means less working capacity.

A third factor is the decrease in capital allocated to insurance-linked securities (ILS). “The ILS market has shrunk modestly in 2019 after over 10 years of strong growth, largely due to ‘trapped capital’ and the aftereffects of the large storm seasons of 2017 and 2018,” says Tucker.

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CONTACT

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"The 'trapped capital' phenomenon is due to the fact that capital cannot be fully released from collateralized ILS vehicles until there is a level of certainty around the ultimate claims payments; thus, during large loss seasons, investors have to hold capital back to pay potential claims rather than rolling this capital forward into the next year's placements. While this has created a headwind on the ILS market during 2019, we still expect to see growth in the ILS space over the long term."

UNDERWRITING'S ULTIMATE IMPACT

A new phenomenon which is causing strife within the underwriting world is public adjustors reopening closed claims (including closed no pay) resulting in loss creep. Public Adjustors are suing in order to renegotiate outcomes regardless of merit. Recently, an excess claim was closed, and then the carrier was sued, which resulted in a multi-million-dollar payout for what was initially declined. This practice has potential to escalate, much like assignment of benefits (AOB) did in Florida, and will require legislative action to rectify.

Property valuation is an item of discussion among underwriters, with many carriers taking a hard look at what they had agreed to over the past ten years. We expect this issue will persist and there will be a push for higher replacement cost figures as well as evidence of how values were determined. The consequence if one is not careful is a greater cost differential for the client: new higher TIV x new higher rates = greater premium increase.

Finally, standard lines carriers are de-risking certain exposures, causing more business to migrate from retail to the wholesale channel. Fewer standard carriers are offering large ground up limits, forcing agents to build capacity through multiple carriers on these tougher classes.

For tougher classes, the market is especially dynamic. This includes but is not limited to:

- The habitational property marketplace, particularly in Texas and Florida
- Undervalued accounts and accounts with a poor loss history
- Wood-frame Builders Risk
- Risks with significant exposures to convective storms
- Woodworking operations

Gone are the days of an indiscriminate shotgun approach to marketing. There is a strong flight to quality. Quality of data, submissions, brokers with expertise, a strong team and market knowledge will be critical for clients' positive outcomes.

SEGMENT SPOTLIGHT

Within the property market, some classes have seen notable challenges. In this edition of AmWINS State of the Market, we are focusing on three: Recyclers, Motor Truck Cargo and Dealer Open Lot.

RECYCLERS

Recycling operations have been plagued by property losses, primarily fires related to the storage and processing of scrap. As a result, rates have skyrocketed. "We've seen rates go from 18 to 60 cents and deductibles more than double. Even operations without losses will still see noticeable rate increases," says Tom Cesare, Executive Vice President, AmWINS Brokerage.

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MOTOR TRUCK CARGO

Motor Truck Cargo has seen notable movement by carriers both entering and exiting the space. However, pricing has remained competitive overall. Many accounts are loss rated, so rate increases are hitting the accounts with tough loss experience the hardest. Incumbents are still typically the most competitive on tough renewals and are pushing for higher retentions in many circumstances.

Many markets are pulling back on motor carriers with fewer than three years in business. Commodities commonly targeted for theft, such as pharmaceuticals, auto parts, automobiles and heavy equipment, are also harder to place, requiring more excess policies to be written.

The additional challenge for brokers is that loss-distressed motor carriers, already struggling with thin margins and an experienced driver shortfall, struggle to absorb any increase in insurance rates. “We are seeing a significant uptick in consolidation and downsizing of our trucking insureds. The good news is they are putting a much heavier focus on safety, which is an investment but will significantly improve the performance of the class,” says Judd O’Neal, Executive Vice President, AmWINS Group.

DEALER OPEN LOT

This class has always been subject to convective storm and hail. With increased storm activity and ever-increasing equipment values (new tractors can be worth $200,000 today versus less than $100,000 just 10 years ago), loss severity has skyrocketed, and the insurance market is becoming more distressed. Banks, which had often offset insurance losses with profits from vehicle financing, are seeing margins become thinner, driving more business to the E&S marketplace.

SUMMARY

The pace of hardening in the property market, expected to continue well into 2020, will present an ongoing challenge for retailers. Additionally, increased submission volume in E&S property is allowing underwriters to be more selective in their risk selection and large loss limits have become less attractive. It’s imperative that brokers partner with a wholesaler that has broad market access and the ability to structure deals as they become more complex.

“If there’s one upside for brokers in this tough market, it’s that customer acquisition and retention should increase,” Tucker says. “As long as you’re getting a deal done, nobody will come and take it away from you.”

RENEWAL PRICING TRENDS—PROPERTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS property lines account data