Q1 2022 U.S. Real Estate Property Renewal Guide

A look ahead at pricing for challenging markets

As covered in our **newly released pricing guidance**, less challenging Real Estate accounts are likely to experience rate increases between 7.5% and 15% during the first quarter of 2022.

Very specific categories of Real Estate accounts, however, are likely to experience much more challenging renewal outcomes with rate increases in the 25% to 100%+ range. The increases are due to carrier actions such as addressing undervaluation, no longer writing a specific type of account or geography, or choosing to reduce their line size or increase their attachment point. Other market factors also play a part, for example, reduced PML available for certain MGAs to deploy, tightening underwriting guidelines and account-specific loss history.

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Q1 2022 Pricing Trends for Niche Markets

The marketplace remains particularly fluid right now as 2022 reinsurance results aren't yet final. Taking that into consideration (and keeping in mind that every account is underwritten by carriers based on the unique risk characteristics of the specific account and market conditions at the time the account is underwritten) outcomes for the first quarter of 2022 may trend as follows.

Single Carrier Non-Challenged Transactional Accounts are likely to see rate increases between 5% and 12.5%.

Large Risk Managed Layered Accounts (~$1B TIVs and greater) may see upward pricing pressure within buffer and excess layers as certain carriers reduce their line size, increase attachment point or exit the marketplace, leaving the need to infuse higher priced replacement capacity to fill such layers. Best in class accounts in this segment (flight to quality), and particularly accounts which achieve oversubscription as a part of the marketing process, will fare the best.

Accounts with high loss ratios (i.e., 75% to 100%+ loss ratios) are likely to see rate increases starting at 20% and trending upward depending on the specifics of the insureds' loss history.

PML Heavy Tier 1 & 2 CAT Exposed Accounts are likely to experience substantial rate increases as MGAs and certain carriers reduce line size or move from a full limit approach to either a quota share or primary layer approach. Additionally, some carriers and MGAs could decide to no longer quote TIVs above a certain threshold or they could decline to quote select geographies altogether. Some accounts will receive 35%+ rate increases along with an increase in named storm deductible.

- Houston/Galveston and Tier 1 Louisiana for example have become particularly challenging/ expensive geographies and will likely continue to be throughout 2022.

Stand-Alone Earthquake placements for small to medium sized non PML Heavy Accounts can expect to see rate increases between 5% and 7.5%+, while placements for large PML Heavy Accounts are likely to experience rate increases between 10% and 15%+.

The marketplace for **High California Wildfire Score Accounts** remains extremely challenging with rate increases in the range of 50% to 100%+ and, in some cases, much higher. Accounts which have been non-renewed by the standard market are likely to experience the greatest rate change, sometimes five to ten times expiring or more. Wildfire deductible levels are increasing simultaneously. Full limit programs are many times unavailable or cost prohibitive, and in select instances, only small loss limits will be available, or an account may possibly be uninsurable.

We anticipate that the **Florida condominium marketplace** will experience ongoing and meaningful changes throughout the remainder of 2021 and all of 2022. Retail direct markets continue to issue a significant number of non-renewals and certain E&S markets have either exited the space entirely or are tightening their underwriting guidelines substantially.

Other Factors Impacting Real Estate Pricing for 2022

Carrier closures, line size reductions and MGAs with less PML to deploy will complicate many Real Estate placements in 2022. For example:

- Several major carriers have closed their U.S. property operations or are non-renewing portions of their existing real estate accounts.
- Other major MGAs report having 20% less PML to deploy in 2022 as compared to 2021, and as a result will be increasing rates and tightening terms, as well as sometimes increasing deductibles.
- Several carriers have recently announced line size reductions, with some limiting their primary layer participation to just $2.5 or $5 million.

As a result of some of the carrier specific updates, buffer layers on heavily syndicated placements may become more costly to fill (i.e., less supply of available buffer layer capacity requires the next best layer price(s) to be used).

Carriers are also increasingly addressing issues with **Meaningfully Undervalued Accounts**. Certain carriers will require the undervaluation be corrected (with supporting appraisals) prior to quoting, while other carriers will internally rate to account for the undervaluation with no TIV change. The end result is amplified cost to the insured as a result of simultaneous upward rate movement and upward rating base adjustment. In the event blanket coverage is currently

Florida Condo Pricing Guidance Q1 2022

Construction Age Newer than 2002-2007:

Single carrier and layered placements can expect 25% to 35%+ rate increases, so long as the incumbent carrier(s) renew the placement. Carrier retrenchment within such placements will result in larger renewal rate increases.

Named storm deductible likely to be 3% to 5% depending on circumstances

Construction Age Older than 2002-2007:

Single carrier and layered placements can expect 25% to 35%+ rate increases, so long as the incumbent carrier(s) renew the placement.

Retail direct placements which are non-renewed and move to the E&S marketplace are likely to experience much more substantial rate increases.

Named storm deductible likely to be 3% to 5% depending on circumstances.

provided and valuation isn't addressed by an insured at renewal, some carriers may replace blanket coverage with a margin clause or scheduled limits depending on the magnitude of undervaluation. Implementation of coinsurance and/or SOV reporting at the building rather than location level are other methodologies deployed by certain carriers in select instances.

To avoid these issues, valuations should be scrutinized by the insured annually, especially in the current inflationary environment, as replacement cost and/or rents may have increased by a meaningful margin since the prior renewal.

How to Get the Best Rates Possible

With record submission volume coupled with unfilled underwriter positions at many E&S carriers, many accounts are being quoted closer to the effective date than normal. To ensure you get the best quote possible in these shortened timeframes, submission quality and risk characteristics matter more than ever.

As has been the case for multiple years running now, carriers continue to scrutinize deductibles/terms/conditions, tightening rather than loosening in most instances. Your submissions should make a case for your insureds that helps carriers identify them as best-in-class risks.

Further, rate reductions in the real estate space are achievable in select circumstances, usually specific to instances where:

- Accounts have not been properly marketed to the entire property marketplace.
- Competitive new capacity can be infused to reduce the cost of the primary, buffer and/or excess layers.
- Layer restructuring results in efficiencies.
- Average annual loss has decreased.
- Risk characteristics have improved (e.g., gut rehab, roof replacement, renter's insurance implemented, implementation of smart technology, disposition of catastrophic assets or improvement in geographic profile).
- Increased retentions.
- Reduction of named storm, flood and/or earthquake limits.

Takeaway

Understanding the nuances of the various segments within the U.S. Real Estate insurance market and the diverse factors that can impact pricing will help retailers better prepare insureds for potential rate increases and term changes at policy renewal.

About the Author

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