Less Turbulence Ahead in the E&S Property Market

Following a year-long reset, a less turbulent property market is offering reasons for cautious optimism as capacity stabilizes across geographies and lines of business. While challenging conditions persist, a more targeted approach to further adjustments is anticipated in 2024.

Insureds are still dealing with sticker shock, but multiple years of rate increases appear to have brought prices to a more profitable level for carriers. Despite the potential for a gradual broadening of lines and increased willingness to take risks, insurers remain cautious. Recent significant losses from hurricanes, convective storms, and wildfires have left underwriters in a challenging position, balancing the need for expansion with the realities of battling natural disasters and unpredictable weather.

Valuations remain a key consideration due to inflation as well as catastrophe losses. In a market that can be as changeable as the weather, wholesale brokers with industry expertise, strong relationships, and the latest data and analytical tools can provide crucial guidance that helps improve outcomes for retail agents and their clients.

PROPERTY MARKET: CAUTIOUSLY OPTIMISTIC

While higher rates and improved profitability are drawing some interest from capital providers, heavy catastrophe losses are keeping them watchful. From hurricanes to hail, tornadoes, freezes, wildfires and other extreme weather, underwriters find themselves dealing with unsettled climate trends and higher losses from secondary perils. Overall, the marketplace suggests an uptick in profitability, with carriers indicating a readiness to embrace more risk. Markets that have seen a boost in profitability are poised to lead the way in expanding their capacity and growth in 2024. This willingness to increase risk appetite is expected to manifest in more measured increments. While carriers are keen to expand capacity, they remain cautious about writing full limits on single accounts.

- **The 2023 net combined ratio for the P&C industry was forecast at 103.8%.**
- **Net written premium growth was forecast at 8.3%.**
- **The net combined ratio for commercial property was forecast at 91.6% nearly identical to 2022.[1]**

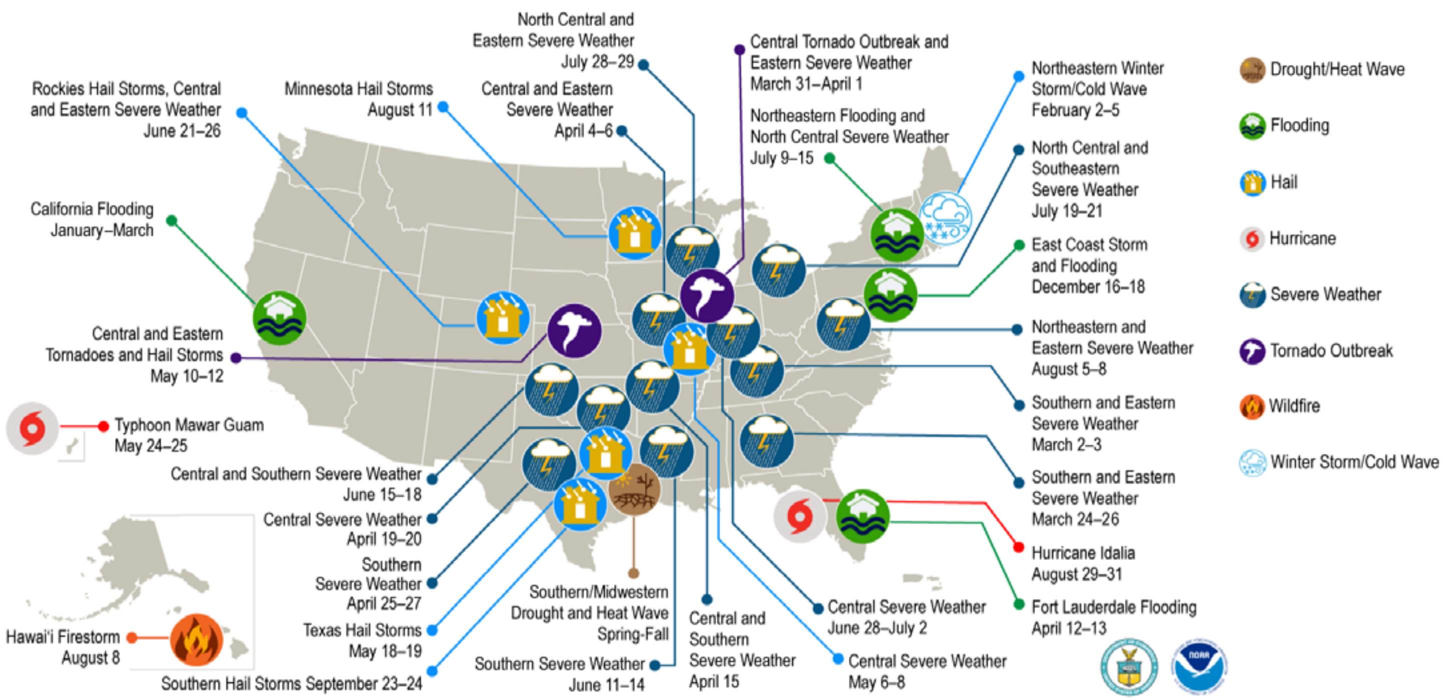
Overall, marketplace capacity is stabilizing after eroding over the last two years. In the London market, Lloyd's syndicates are raising stamped capacity and some global insurers have indicated a re-orientation toward growth. But carriers will remain conservative on limits, and location matters.

LOCATION MATTERS: CAPACITY, APPETITES, & PRICING

Capacity remains constricted for some Gulf Coast states, particularly in Louisiana. Standard carriers are increasingly reluctant to write wind and hail risks in high convective storm areas, from Colorado across the plains and Texas to the Southeast. In California, insurers are seeking to limit their overall exposures due to wildfire as well as regulatory issues that make it difficult to write business profitably.

Based on reinsurance treaty renewals, insurers are expected to at a minimum maintain current pricing levels or seek targeted price increases over the coming year. In Texas and the Southeast, a trend towards stabilization is evident, but rate hikes may be expected, influenced by previous loss experiences. The Northeast and Midwest are likely to see somewhat smaller increases on general renewals. However, insureds in California, Hawaii, and other West Coast states should anticipate more significant increases.

U.S. 2023 BILLION-DOLLAR WEATHER AND CLIMATE DISASTERS[7]



*This map denotes the approximate location for each of the **28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.***

For large accounts featuring manufacturing, real estate, and municipal organizations, capacity is adequate to meet demand and pricing should stabilize. Habitational continues to be a challenged class where pricing and rate may exceed single digit increases on renewals. Older, pre-1995 apartments remain challenging as different generations of habitational accounts present various issues.

Carriers have also been trimming coverage that had previously been included, such as smaller limits for flood and quake, and sub-limiting some associated perils, such as coastal wind-driven rain, earthquake sprinkler leakage, and water damage. For convective storm coverage, insurers are seeking minimum 1% to 2% deductibles, and 2% to 3% in higher risk hail areas of Texas, Oklahoma, and Colorado.

Some standard markets continue to strategically non-renew business, sending it into the E&S marketplace where insureds can expect significantly higher prices and less favorable terms. Medium-size and small accounts may opt to purchase less coverage due to pricing and a lack of willing markets.

National average construction labor costs were up 2.4% year over year in November 2023, while construction materials costs were down 6.2%.[4]

VALUATIONS

Faced with larger-than-expected claims to repair and replace property, particularly in recent years, reinsurers and insurers alike are demanding more accurate and updated valuations, which will remain a significant factor in placement. Inaccurate valuations may leave insurers in buffer and excess layers exposed to unexpected losses. From a terms standpoint, carriers will be reluctant to extend blanket limits unless they are very comfortable with the valuation.

CRC Group's Property Analytics features within the REDY platform, including enhanced Valuation Tools, now backed by a renowned valuation provider, can assist brokers and agents with generating even more accurate property valuations. Though it does not replace a formal appraisal, the REDY platform's valuation tools provide three views of insurance to value, from low to high, as well as insights into deviations from the medium valuation estimate. More precise estimates can be gained with construction, roof, and wall data to offer a directional understanding of a property's valuation based on key characteristics. These analytics significantly enhance understanding of clients' property valuations, empowering well-informed decisions about insurance coverage and placement strategies.

Higher valuations are driven by inflation and rising property values, particularly in higher-growth areas, as well as rising construction costs. Carriers are looking more closely at their own claims data to assess what repairs are likely to cost. While higher values go hand in hand with higher premiums, even if rates remain unchanged, more accurate valuations can help insureds manage insurance costs. Brokers with access to leading edge modeling capabilities can help insureds make informed choices about their exposures and the most appropriate level of coverage.

Non-residential construction spending was up 19.0% year-over-year in October 2023.[3]

Globally, natural disaster losses for the first half of 2023 reached $110 billion. Insured losses hit $43 billion, both above the 10-year average.[2]

CAT PROPERTY: FLIGHT TO QUALITY

Markets continue their flight to quality in cat property, centered around newer and better construction risks. In Florida, newer interest centers on accounts that are $25 million or lower in total insured value, rather than bigger line sizes. No matter the class of business, older accounts remain tougher, particularly for frame and jointed masonry construction as well as older structures within 10 miles of the Gulf, Florida, and Southeast coasts. After Hurricane Ian ravaged Florida in 2022, the lighter 2023 hurricane season may draw more interest for better risks.

Overall, pricing has started to level out from increases of up to 100% early in 2023 for challenging areas, to 30% - 60% later in the year. That deceleration trend is expected to continue into 2024. Insureds should still expect rate increases, but they should be more moderate. However, there is no sign of deductibles easing. Cat wind and hurricane deductibles hover around 5%, with some reaching higher. Last year, there were carriers seeking 15% to 20% named storm deductibles in higher risk cat wind areas. The steep insurance cost increases across the hard market mean some insureds can no longer afford wind insurance or must purchase lower limits for much higher prices than they were paying over the last five to 10 years.

The updated North American hurricane model in the RMS Version 23 catastrophe model, certified by Florida in June 2023, may exert some upward pressure on rates going forward and constrict capacity on certain accounts.

The 2023 Atlantic hurricane season brought 20 named storms, ranking it fourth for number of named storms since 1950.[5]

BUILDER'S RISK

While builder's risk has avoided the full brunt of catastrophe losses in the property market, it still has an impact on capacity and appetites. The market has also been hit with some very large losses in recent years on podium style mixed-use projects, which may be valued in the hundreds of millions of dollars. Rates are still rising as little new capacity is coming into the marketplace even as construction continues at a rapid pace. Besides multifamily housing, demand for builder's risk remains robust for industrial or government projects and offices in faster growing areas such as the Southeast. Outside of coastal areas, the builder's risk market has stabilized with adequate capacity.

Projects in catastrophe-exposed areas should expect higher deductibles a well as lower limits, generally requiring more quota-share participation on placements above $25 million. Appetite for frame and jointed masonry construction remains low in Florida. In California, extensions on builder's risk are very tough to place and can be very expensive. Appetite remains muted for new, environmental projects such as mass timber or panelized and modular construction as underwriters lack data on loss expectancy and how such projects perform during construction.

About 1 million apartment units were under construction in late 2023, and 2024 apartment deliveries were expected to reach a multi-decade high of 600,000.[6]

BOTTOM LINE

The property market is in transition. It will continue to offer challenges alongside opportunities. Discussions about renewals and valuations should start several months ahead to lay the groundwork for better and more predictable outcomes. Proactive preparation also enables brokers to leverage the correct tools to identify the best markets for each risk. Gathering the best data for submissions opens up more avenues to develop successful outcomes. It is critical to have an accurate view of the insured's exposures, including updates such as new roofs and other renovations. That is particularly true for risks that may be coming into the E&S market for the first time as admitted markets back off certain classes or areas.

While likely still necessary to pull several carriers onto risks at higher prices, it may be possible to create tailored, one-off solutions, or program add-ons, such as deductible buydowns, but preparation and adequate time are key. Underwriters need more time to work through a higher submission load and to obtain internal approvals. CRC Group brokers have deep market relationships, industry expertise, and the latest tools and data that can help you navigate the unique challenges presented by an evolving market. Reach out to your local CRC Group producer today for assistance with your next property renewal.

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END NOTES

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