CRC Group
Wholesale & Specialty

Prepare for Property Renewals in a Transitioning Market

Transitioning markets make for tougher renewals. Rising prices, carrier repositioning, and stricter underwriting are combining to make this year's renewals more challenging. Seeking to tame natural catastrophe losses, carriers are changing appetites, scaling back capacity in some markets, and exiting others. Those changes have helped drive submission activity to levels not seen since 2005 and are further exacerbated by new market entrants that are causing a movement of underwriting talent not seen in recent times. In this market, communication is critical for successful renewals. Experienced brokers can make the difference by helping clients put together more compelling submissions with the best available data and provide up-to-the-minute guidance on market moves.

As renewal season gets underway in earnest, here are the top considerations for today's market.

ICE, FIRE, WIND, AND FLOOD

Nature seemed to step up the pace of catastrophes in 2021, after a record-breaking 2020 hurricane season. First, a severe winter storm that brought prolonged freezing weather and widespread power outages to Texas. As spring turned to summer, massive wildfires burned across California, including the nearly-million-acre Dixie Fire. Next came Hurricane Ida, which ravaged the Gulf Coast as a Category 4 storm before inundating the Northeast with deadly floods. As a result of these increased events, many probabilistic modeling services have updated their models to reflect the increased frequency and cost, which may have an impact on a carrier's view of a risk and result in changes to placements.

Rising losses from attritional or traditionally non-modeled perils, such as convective storms, tornado/hail, and wildfire are continuing to put pressure on both rates and capacity. That's led carriers to place greater emphasis on using newer models to manage those risks, for instance, avoiding areas seen as having high potential for catastrophic hail across the Plains states or properties in wildfire-prone areas on the West Coast. Mounting losses from these attritional perils helped spur the market buyers are facing today. Carriers are adjusting and adding a component to rates and deductibles to account for the non-modeled loss.

CARRIER REPOSITIONING

A significant re-underwriting effort is also creating market uncertainty as carriers change strategies, exiting certain classes of business or perils that continue falling short of profit targets. Carriers that had been willing to take on larger positions in shared and layered programs are often opting for smaller tranches. While new capacity has been coming into the market and is helping to dampen the push for increased rates, the newer participants are also taking a more selective and disciplined approach.

REINSURANCE RENEWALS

The upcoming 2022 reinsurance renewals will impact property renewals, to what extent is still unclear. If insurers face increased costs for capital and capacity, they will look to pass those costs onto the buyers. As traditional natural catastrophe losses mount, reinsurers are seeking higher returns. Reinsurers are also concerned that recent increases in non-modeled losses such as convective storms and wildfires may be part of a longer-term trend. Early indications suggest reinsurance renewal rates are headed higher amid above-average losses from European flooding, the Texas Winter Freeze, and Hurricane Ida in the U.S.[3]

SUBMISSION QUALITY

Amid rising prices and repositioning by carriers, more buyers are looking for alternatives to their incumbent insurers, whether out of necessity or because of costs. That has spurred a flood of submissions to underwriters. In this environment, submission quality is key. Clients need to understand their exposure and their risk profile and provide to fullest and highest quality information to underwriters. Brokers with in-house modeling expertise can help clients provide more in-depth data and a better understanding of their risks and alternatives.

CATASTROPHE LOSSES HIT A 10 YEAR HIGH

Insured natural catastrophe losses hit a 10-year high of around $40 billion in the first half of 2021, the second-highest for the six months after 2011, Swiss Re estimated. The insured losses included $15 billion from winter storm Uri that froze Texas in February and losses from West Coast wildfires that flared up amid record-breaking heat. Overall losses were up sharply from the 10-year average of $33 billion.[1]

While modeling technology has given insurers a better understanding of how to manage hurricane risk, losses are piling up from convective storms, floods, and wildfires. In 2020, so-called secondary perils accounted for 70% of insured natural catastrophe losses of $81 billion in 2020, Swiss Re reported.[2]

VALUE PRICING

Rising property values are likely to be reflected in rates. Faced with higher attritional losses, insurers are placing a much greater focus on property valuations to avoid surprises from claims. Wary of rising inflationary costs, uncertainty in the labor supply, underwriters are scrutinizing property values much more stringently. In some cases, insurers may tie limits to reported property values. Amid supply chain logjams, clients should review how rising building costs, and the availability of materials, may impact them in the event of a claim. Clients should also review their business interruption values to account for potential delays in repairs or re-building.

FLEXIBILITY

Along with a thorough understanding of their risk profile, clients need to explore how changes in terms and conditions may impact their business. For instance, higher retentions can bring premium savings, but clients should understand the impact that might have on their business in the event of a major loss. Deductible buydowns and single peril placements may provide an attractive option, but clients will want to work with a broker that understands how best to structure those.

COMMUNICATION

In a highly fluid market, communication is indispensable. Brokers need to manage client expectations, and clients need to provide as detailed information as possible. When carriers are actively changing appetites, finding the most appropriate coverage depends on being aware of where the markets are moving, which requires frequent communication between brokers and wholesalers. A wholesale broker with strong relationships with markets can provide guidance and develop strategies best suited to changing market appetites.

BOTTOM LINE

Renewals are likely to remain challenging this year. Clients should be prepared for changing rates and retentions and understand how different scenarios may impact their property programs. To get a better reception from underwriters, submissions should provide the most detailed data available. A wholesale broker that has in-house modeling capabilities can develop more thorough evaluations of potential losses and a better understanding of a client's exposures. The expertise and relationships that a wholesale broker brings can prove a crucial asset in a more difficult market. A wholesale broker with strong market relationships and data technology can streamline the process. Underwriters will respond quicker and more favorably if the situation is presented concisely. Contact your CRC Group producer for more information.

Contributors

- Chris Carlson is the Director-Property Practice located in CRC's Norcross, GA Office.

END NOTES

1. Severe weather events drive global insured catastrophe losses of USD 42 billion in first half of 2021, Swiss Re., Aug. 12, 2021. https://www.swissre.com/news-release/Severe-weather-events-drive-global-insured-catastrophe-losses-of-USD-42-billion-in-first-half-of-2021-Swiss-Re-Institute-estimates/c2a6e1c8-cd8f-4592-94cb-bc3c58ba2e4d
2. Sigma 1/2021- Natural catastrophes in 2020, Swiss Re, March 30, 2021. https://www.swissre.com/institute/research/sigma-research/sigma-2021-01.html
3. Hannover Re sees continuing trend towards rising prices in property and casualty reinsurance, Hannover Re, Sept. 13, 2021. https://www.hannover-re.com/1792477/hannover-re-sees-continuing-trend-towards-rising-prices-in-property-and-casualty-reinsurance