2024 Q1

Property Market Update: The Trends I'm Seeing

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Welcome to the new year! I trust everyone enjoyed their holidays and is starting to settle into 2024. My holidays were loaded with various professional and social parties, and it was really nice to see everyone out celebrating the season and enjoying the company of family, friends, and colleagues.

2023 was a challenging year for insurance buyers, brokers, and underwriters, and I think that part of the celebrating was in anticipation of a better trading environment for all. Buyers certainly have borne the brunt of the hard market these past few years, and that has made brokers' lives anything but easy. I know everyone thinks underwriters have consistently enjoyed a better rate environment, but the boots on the ground have had to deliver tough messages over and over again. Meanwhile, carrier product line leaders have had to manage relationships while cutting back capacity and repositioning books of business. I don't envy anyone in the property insurance market these last few years.

Most buyers and brokers would say that the carriers were out to get their pound of flesh simply because the trading environment allowed them to do so, but those that feel the way are ignoring the fact that carriers needed to replenish their balance sheets after having paid record losses over and over again since hurricanes Harvey, Irma, and Maria made US landfall and started turning the market. No matter what side you're on, everyone in the property insurance community has been in desperate need of more stability and more consistency, which has been absent in the marketplace since late 2017 and early 2018.

Based on my book of business and discussions within the industry, following are the key themes I'm keeping an eye on in the property market.

MORE OPTIONS FOR BUYERS ON THE HORIZON

As I write this, all signs are pointing toward more options for buyers and, dare I say, a much more fair approach to renewals by carriers for their long-term clients. I would suggest that people don't read the tea leaves too much, because there's been a lot of chatter about capacity and carriers wanting to grow, which would imply that rates might even trend in a negative or downward direction. I think this is a false hope because, while the market is poised to deliver a consistent year, I can assure you that every major carrier isn't looking to slash pricing after one or two years of profitable underwriting. I believe we will see a plethora of flat renewals, but don't count on every deal seeing the same result.

Treaty renewals to start the year still averaged increases in the mid- to high-single-digit range, and in some cases they were flat. Excess carriers are still being conservative with their line size, and all carriers believe that inflation and replacement cost metrics will continue to push the market up in 2024 from a premium spend standpoint.

I believe that the property insurance marketplace is finally operating at healthy levels. If carriers can sustain current rates, terms, conditions, and capacity levels, they'll be able to operate profitably while weathering anticipated catastrophic (CAT) losses and still providing clients consistent renewals that are far removed from the double-digit increases clients had to grapple with for the last five years.

NOT EVERY PROPERTY ACCOUNT IS THE SAME

To figure out where you're headed, sometimes the best thing you can do is remember where you came from and how you got where you are today. As the market evolves, we need to remind ourselves that not every account is the same. In 2024, I anticipate we will see some decreases, some relatively flat renewals, some slight increases, and many accounts still taking large increases because of losses or geographic exposure. I'm sure you're probably thinking that this assessment lacks any definitive assessment of the market, but the reality is that in 2024, we're going to see a bit of everything.

I'm not going to go back all the way to Hurricane Katrina in 2005 but, for discussion purposes, we saw a really tough rate environment immediately following 2005. Then the market began to turn in early 2007, and clients were consistently offered rate decreases and broader terms and conditions until 2017. We can call this period a decade of bad underwriting, capacity surplus, and a very relaxed approach to risk management on the client side. There's no need to blame anyone other than to say there were a lot of options for buyers, and carriers were happy to write deal after deal below technical pricing because we also saw a prolonged period of less-than-active CAT losses.

Since 2017, just in the US, the industry subsequently sustained north of $600 billion (adjusted to 2022 dollars and as tracked by the Insurance Information Institute) of insured losses from hurricanes, wildfires, convective storms, and freezes. This figure is astronomical — and doesn't even account for floods and other global exposures, especially COVID-19, which crippled businesses and severely impacted the economy in every way, shape, and form. During this period, underwriters exercised a lot of discipline in their underwriting approach, started raising deductible levels, increased rates year after year at well over a 20% clip, and started recovering from their past sins during the previous decade of soft market conditions.

On top of all the changes carriers had to make, they also got hit with very adverse treaty reinsurance renewals at the beginning of 2023, which caused them to severely rethink their deployed capacity, their attachment on various programs, and the replacement cost discussion that has become the new norm in just about every insurance transaction. Since 2017, we have seen rates rise over 100% for most buyers, and we are now finally seeing things move toward a new normal of stability.

Updated modeling and better actuarial data suggest the property insurance marketplace is averaging above $100 billion in losses per year. This number is important because it tells us that, while the market may improve and get more competitive, outside capital may not come rushing into the carriers' back pockets, and the market is likely to only improve slowly.

Even if capital does enter the market, we anticipate it to be much more controlled and disciplined, which will help things remain more constant compared to how capital effected our business during past soft market cycles. Also a multitude of outside global economic factors, including current interest

rate levels, could hold the market in this stabilization period rather than kick it into a full-blown soft-market cycle.

The data available to carriers is better than ever, and the cost of capacity has a much harder floor than it used to. My best assessment tells me that carriers will happily offer slight decreases or increases where it makes sense to do so, but they won't chase accounts downward to levels that project their inability to make a profit at those premium levels; we have already seen this trend at the end of 2023 and to start the new year. We've delivered renewals anywhere from 3% down to well over 20% and up by way of rate change; some carriers are happy to walk away from accounts they "rented" for a year or two as a result of opportunistic underwriting. The rate decreases we have seen to start the year have been few and far between, and have their own set of unique circumstances.

A LOOK AHEAD

As we look ahead in anticipation, here's what we expect by asset class, geography, and some other factors that will have a material impact on renewals and the overall property rate environment.

Named windstorm (NWS) CAT aggregate in Florida and Tier 1 wind

Capacity will still come at a premium, and building large limits will remain a challenge. Carriers are using strict minimum premiums per million of capacity deployed, and long gone are the days where you could procure significant limits inexpensively once you got above a likely probable maximum loss based on modeling. Anticipated rate or premium increases will hover in the flat to 15% range but could be a touch below that or well above that, depending on concentrations of exposure in key markets like southern Florida, coastal Texas, and New Orleans.

Valuation issues/insurance to value (ITV)

As I have said before, this talking point is no longer a talking point but a reality. I know clients are going to tell underwriters that construction costs in the post-COVID-19 world are coming down. While that might be true, you simply cannot build a wood-frame apartment in America for $115 per square foot, and everyone knows it.

We also know that when a claim occurs, a lot of costs aren't true rebuild/replacement costs that go into a claim, and those need to be accounted for. This reality is going to leave clients a few options, which include raising their values year after year to keep up with inflation and rising labor costs that impact construction, or leaving their values as is and having markets impose scheduled limits or margin clauses that may cause the client issues with their lenders.

By not taking the valuation conversation seriously, clients are also going to have a far less receptive underwriting community that will rate based on higher values, which will inflate the level of increase to account for the valuation concern underwriters will have on a particular risk.

Wood-frame construction
I believe this market segment is finally making a turn. I am seeing rates are down slightly. On top of that, several new markets have shown up with increased capacity and the desire to lead programs. Ground-up builds in desirable low-crime areas will likely see capacity surplus, which will translate to rate relief, but the mega-projects and high-crime-area urban development will remain extremely challenging.

CAT for earthquake (EQ)
Carriers seemed to make the necessary corrections in 2023, and we anticipate this market having a lot more competition in 2024. I'd be cautious about translating this comment to rate relief on every deal, but I feel that carriers will have increased appetite for CAT EQ in 2024 that will allow clients to secure more capacity and see pricing remain relatively flat for limits they secured in previous renewal cycles.

As a further point of caution, the competition will be felt mostly among the middle-market risks. Larger clients with billion-dollar schedules that drive carrier aggregate use are still going to have a tough time securing large limits at a reasonable cost and will likely see increases a bit above the market because of the impact these clients have on carrier reinsurance programs.

Multifamily housing
This market segment is always a bit perplexing, and I expect it to be all over the map in 2024. Like the broader market, the general theme will still be consistency, but not a lot of new markets are entering the space, and the valuation issue is magnified in this market.

There are going to be deals in 2024 that have had the same markets on them for 10-plus years and have grandfathered-in rates. These accounts are already priced well below the market, so I would expect that, even though they are profitable and have had some long-term carrier partners, they're still likely to see increases a bit above the market, because their rates aren't remotely close to what carriers would charge them today.

On the opposite side of the coin will be some really tough schedules that are riddled with historical losses or older vintage units, or that are in less-desirable areas — these schedules will see flat renewals and slight decreases because these accounts had major rate increases in past renewal cycles, and likely are carrying better-than-market deductible levels. Because the rates on these accounts seem so healthy, carriers are likely to compete for them, and savvy brokers should be able to make some changes on these risks that help these clients see much-needed relief.

Between the first and second examples are going to be the bulk of the accounts in the market that will see stable renewals if all capacity renews. They may see less-than-desirable results if a lot of capacity is needed to replace carriers that no longer wish to participate.

CLOSING THOUGHTS

When all is said and done, the market will be eventful in 2024 and is sure to keep us all on our toes as conditions continue to evolve. It was another banner year for RPS and many of my colleagues; we're acutely aware of how this market will change as one month leads into the next, and we're fully committed to staying ahead of it for our clients.

Our goal is to secure the best result possible in the market and ultimately make sure our clients' expectations are met. RPS is constantly at the top of every carrier's list in terms of how carriers measure their trading partners, and our strong market relationships have us well positioned to have another great year in 2024. Please be sure to reach out to anyone at RPS with anything you may need. I'm confident my colleagues and I can deliver a solution to even the most complex client needs.

To wrap this up, I hope you all survived 2023. It may go down in the history books as the last year of a generational hard market. We can all hope so, but don't get too comfortable — if CAT events plague 2024, the one or two years of profit carriers have enjoyed could quickly disappear.

While I'm very optimistic about 2024, the fragility of the market is very much like walking on thin ice in early winter.