# 2022 Q1: State of the Property Market

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Charles Dickens said it best in "*A Tale of Two Cities*" when he wrote, "It was the best of times, it was the worst of times." We just concluded the first quarter of 2022 and just as we're starting to return to normal and put COVID-19 behind us, the world gets engulfed in war between Russia and Ukraine. It is hard to imagine that in this day and age we would be on the edge of WWIII on the back end of a global pandemic, but here we are.

Resilience is a funny thing and I am a "glass half full" kind of guy. While I have not had a chance to find the silver lining in current events, I am sure in time we will all come out of this stronger and more united; at least that is my hope. For the time being, I would simply say that my thoughts and prayers are with the people of Ukraine and I hope that the leaders of the free world around the globe find a way to bring peace and unity back as quickly as possible.

It is clear that things have not been easy in our lives lately and they have been equally challenging in the insurance business. Gallagher's CEO once told a group of conference attendees that "insurance is like air" in that is necessary for just about everything we do in the world. The challenges of business today that are a result of the pandemic, war, and now soaring inflation are trickling over into the insurance world.

## LOOKING AHEAD TO THE 2022 PROPERTY MARKET

From a property perspective, today's challenges are arriving on the back end of several years of firm market conditions that have been fueled by increased CAT activity and secondary peril losses. Weather patterns have changed and they may change again but for now, underwriters are trying to find their footing while dealing with record hurricanes, deep freezes, long-lasting tornadoes, severe hail storms, wildfires, inflation, soaring construction costs, non-modeled/unforeseen costs, and the list goes on.

As a result of the last few years, all underwriters and property carriers would agree that rates are better and terms and conditions have put them in a position where they feel they can get better return on their respective books of business. But like everything else, their costs are going up with increased rates on the reinsurance side. This has a trickle-down effect to buyers who are struggling with year after year of increased insurance costs on top of all the increased operational costs the insureds are dealing with in an effort to run their businesses profitably. While 2021 ended up yielding a profit for a lot of property carriers, it by no means covered the losses they took in years prior, so while the market is in a better position to start 2022, I certainly cannot say that the first quarter is leading anyone to believe that we are anywhere close to a buyers' market.

I just returned from London after having not been over to Lloyds for almost two years. While the good news is that the market is stabilizing, there are still several areas of distress which will prolong the firm market through most of 2022 and beyond depending on how loss activity develops throughout the year. The first quarter of 2022 has played out quite like we expected and good clients who are not in distressed pockets of our industry are seeing mid- to high-single-digit increases and in some very rare cases, clients are seeing relatively flat renewals.

The end of the first quarter is usually very indicative of how the rest of the year will play out, so while I don't want to say we should expect more of the same we certainly can appreciate that the pace at which the year has started means that we have a lot of hard work and challenging conversations ahead.

On April 1, reinsurance treaty renewals have now been completed and most carriers saw increased retentions and rates that were up on average of 7.5% to 12.5%, which is a cost that will be borne on buyers and distributed through carrier books of business. The first quarter has also continued to prove that each account truly does stand on its own and the market we find ourselves in now is very hard to predict.

Each customer has a different story and a different history with how that risk navigated the last few years of firm market conditions. If we had to generalize the market, we would be doing a bit of a disservice to insurance buyers and not properly managing expectations. Instead, I think we can break the first quarter results and trends into the below tranches that should help shed some light on the road ahead.

- **Valuations/Replacement Cost** - This continues to be the number one issue on carriers' minds and clients should heed brokers' advice to take this very seriously. There continues to be too many "stories" about massive losses at locations that had low insurance to value figures. Underwriters are acutely aware of soaring construction costs and inflation driving the costs of all services up and are pushing clients to take values seriously or lose the benefit of blanket limits.

  Showing up with the same values as expiring will shed a negative light on an account prior to renewal and underwriters are also routinely increasing clients' value prior to modeling risk, which will push up the overall rate increase. The valuation issue is causing massive headaches in excess layers where carriers continue to push up their attachments, trim their line size, and the end result of this could have a major impact on the overall rate increase.

  Throughout the first quarter we saw several accounts with very competitive and favorable primary renewals with rate increases that were flat to 5% up but building new excess layers to satisfy an increased attachment by a large line carrier added north of 15% to 20% more rate to several deals.

- **MGA and Program Business** - During the first quarter we saw some multi-family programs get non-renewed and MGAs have had to make meaningful changes to their insurance capacity. As a result, middle market clients in FL, Texas and LA are seeing really challenging renewals and in some cases, costs are up over 100% and deductibles are doubling.

  The Florida condo market is seeing rates rise to unsustainable levels for clients, and many buyers simply cannot afford to buy adequate levels of insurance. Insureds in LA who are still recovering from hurricane Ida are seeing increases north of 25% with further changes to T&Cs and increased CAT deductibles. Middle-market Texas hab business also continues to see rate pressure with markets still trying to make corrections after Winter Storm Uri. Texas has always been one of the most challenging places to write multi-family business profitably due to attrition, convective losses, historically low building valuations, and hurricane activity. Take that and add that one of the large multi-family programs that wrote Texas has non-renewed and you essentially have a perfect storm for increased rates in the Texas hab market. I would anticipate Texas hab to get more challenging before it gets easier. Rate increases will likely be well above market, especially for clients who are leaving shared limits programs and entering the open market for the first time.

- **CA Wildfire/Brush Zone Business** - After several years of horrific wildfires plaguing the western U.S., standard markets are continuing to get more and more conservative with their ability to write business in areas with moderate and high brush zone scores. E&S carriers are also continuing to watch how much of this business they write and many carriers are now tracking accumulations of exposure in various geographic concentrations.

The end result is that the market has limited capacity for clients with brush zone exposures and rates continue to rise. For many customers, the rates are becoming a major affordability issue and some clients are being forced to self-insure over rising premium costs.

Unfortunately, there is no light at the end of the tunnel in this space and I suspect it will take several years of less active wildfire seasons before markets start viewing this business differently. Clients need to spend time and energy focusing on creating the best wildfire mitigation plan they can to make their risk more attractive to markets and look for ways to protect their properties by clearing brush and having on-site water defense systems.

- **Builders Risk/Wood Frame Construction** - This space is seeing similar issues to other distressed parts of the E&S space because of the risk to catastrophic loss when one of these projects has an issue. Carriers continue to see wood frame projects go up in flames on the news on a far-too-regular basis and with rising construction costs and housing shortages in many major urban environments around America, these projects are only getting larger. Rates continue to rise in this space but certainly have been a bit more stable the last few years. The focus on larger projects continues to be around security and water damage.

## A TALE OF TWO CLIENTS

As I said before, I am a "glass is half full" kind of guy so while the outlook will be harder for some and easier for others, there is no major shortage of capacity and options for clients in the market. I wholly appreciate that some clients will struggle with the options presented and my hope is that clients do appreciate that this is a function of the market and simple economic principles.

The most important commitment all of us at RPS will make to our customers is that we will work with you to find the best possible solution available in the market to suit your clients' needs. The ask we have of you is to help us understand what items your insured can be flexible on by way of limits and deductibles to better mitigate insurance costs while still protecting their assets for the times when they need protection the most.

Now I know some of you probably would have preferred I got right to the point, so in an effort to generalize a very complicated market I will leave you with this: rates will continue to rise on average between 2.5% and 12.5% for accounts that don't need to be restructured, are not loss-affected, and do not have meaningful exposure to some of the industry hot spots. Clients who do not fit this demographic are likely to see increases north of 20% and it will require a lot of time and hard work to reposition them for future stability.