2023 Q2

State of the Property Insurance Market

James Rozzi
CPCU, ASLI
Area Executive Vice President
RPS San Francisco

THE 2023 PROPERTY INSURANCE MARKET SEEMS LIKE IT CHANGES WEEKLY. WE PROVIDE A BIT OF MACRO ANALYSIS OF SOME OF THE TRENDS WE ARE LOOKING AT AS THE YEAR CONTINUES TO UNFOLD.

A few expressions come to mind now that we've made it through the first quarter of 2023. I'm sure none of them will do it justice, but the market has gone from bad to worse, and given the amount of rain we saw in California this year, the one that sticks out in my mind is "When it rains, it pours."

There was a lot of talk at the end of 2022 about how much of an impact reinsurance renewals would have on the property insurance marketplace in the US Excess and Surplus (E&S) market. Despite all the chatter, I don't think anyone realized just how impactful it would be or could have predicted what has turned into a generational hard market. One industry veteran told me that this year seems a lot like a combining of post-9/11 and post-Hurricane Katrina market conditions.

It's safe to say that over the course of the first three months of the year, things have deteriorated at an accelerated rate, and capacity shortfalls are being seen on just about every major layered and shared account floating around the market trying to secure capacity from any channel possible.

As I write this, we just wrapped up March 31 and April 1 renewals, which are major dates for many programs and for a lot of carrier catastrophic insurance (CAT) treaties. If you made a phone call to any underwriter last week, two things were guaranteed to happen:

- It was a 50/50 whether they picked up the phone on your third, fourth or fifth call. A few of them even had the "this voicemail box is full" soundtrack playing.
- If they answered the phone, the conversation started with a major pity party and revolved around how many last-minute deals they're seeing; how much business they can't get to; and how much business they're quoting and binding at prices no one thought would bind because the rates and terms seemed so far away from what was requested when the submission went to market.

A TRYING TIME IN THE PROPERTY INSURANCE MARKET

When 2022 was wrapping up, we all knew things would be challenging, but there was a general feeling that capacity would still be available to clients rather consistently. Just 90 days later, the new feeling on carrier partnership from some underwriters is that "you were given capacity when others were not." I even had one carrier tell me that "something is better than nothing." Of course, I replied, "Tell that to the person paying the premium." The definition of partnership is going to be tested over the course of the year, and some will even question whether carriers are in fact, differentiating deal by deal.

I think it's safe to say that most clients continue to be in shock, and while almost all brokers certainly appreciate and understand the long list of events that got us here, they struggle with the day-to-day needs to fill capacity on programs for clients who, by any measure, have performed extremely well and weren't part of the problem.

When things get challenging I try to remember one of my favorite mantras from the legendary Michael Corleone, "It's not personal, it's business." When the year is over, I believe a lot of people are going to remember this year as a career-hard market. It will be taken personally by many. Some relationships will be tested and some will be fractured.

I think most underwriters are working very hard day in and day out to do the best they can, and I know many of them would like to offer more capacity and options to their clients; but due to increases in their cost structure and risk transfer processes, they simply don't have the ability to do so. At this point, it will be a wild ride to make it through the year. All we can do is wake up each day, work as hard as humanly possible and try to manage the process for clients as best we can.

Surprises don't foster good partnerships. Given how the market continues to rapidly evolve, carriers communicating their needs with enough advance notice allow us to better strategize with insureds and discuss possible outcomes. It's also important to remember that market cycles come and go. Someday, the market will change again and return to being a buyers' market. Carriers treating their customer base fairly now will go a long way when that day comes. I know that business is business and fair is a relative measure, but all clients really want is to make sure the words "partnership" and "long-term profitability" do in fact mean something on an individual risk level.

THE 2023 PROPERTY INSURANCE MARKET SO FAR

2023 seems like it changes weekly, but below is a bit of macro analysis of some of the trends we are looking at as the year continues to unfold:

VALUATION ISSUES AND INSURANCE TO VALUE (ITV)

Valuation has been a talking point for as long as anyone can remember, but the chickens have come home to roost. Today, markets are now mandating more adequate valuations, and many are declining to participate in both new and renewal business if clients don't meet minimum cost per square foot metrics. Marshall & Swift metrics are no longer satisfying carriers consistently, so clients need to do more due diligence to convince carriers their values are adequate. Clients who are ahead of the curve and have good values are getting on better than others, but most clients are seeing many programs get completed with margin clauses or scheduled values regardless of whether or not their ITV is adequate. Some carriers have simply mandated that all new business will have a scheduled limitation. I suspect that as market cycles evolve, ITV will always be a talking point in our business and frankly, it's one of the key reasons the market is the way it is today. It was a problem that was neglected for a decade, and then inflation and supply chain issues put a spotlight on how out of touch clients and carriers were with post-loss replacement.

NAMED WINDSTORM (NWS) CAT AGGREGATE IN FLORIDA AND TIER 1 WIND

Right now, Florida aggregate is a hot commodity, and I dare say it's a bit like finding a needle in a haystack. We have seen just about every client with meaningful Florida exposure buy less limit based on necessity and sheer lack of options. Stories floating in the market lead us to believe that many clients are suffering the same fate: they're paying the same they paid last year for half the limit they bought last year and in many cases, at increased deductibles.

Florida rates have quickly notched up well north of $1.50 and $3.0, and most clients can't get enough limit to satisfy lenders even if they wanted to or could afford to. As a general rule, rate increases on Tier 1 heavy business are hovering around 35% to 50% for best-in-class clients with no claims, and those that have had a loss or two and need to adjust excess layers significantly will easily see 100%+ increases.

Florida, Louisiana and coastal Texas are among the areas where carriers need to desperately shed aggregate, so clients with exposures in those areas are dealing with some serious challenges. We have even seen a few customers look to sell off assets in these areas because they can no longer operate those properties at a profit based on rising insurance costs.

CAT AGGREGATE FOR EARTHQUAKE (EQ)

We've not seen a major earthquake on the West Coast since the Northridge earthquake hit Los Angeles in 1994. So any market who opted to write Difference in Condition (DIC) EQ and Flood business in the western US has likely made a massive profit for 30 years. Despite that, reinsurance capacity works like a pyramid, so whether it be EQ, Flood or NWS, all CAT capacity is treated more or less the same—and the West Coast is now feeling the pinch.

One of the largest writers of earthquake business in the market is being forced to do a major overhaul; and much like Florida Wind, that overhaul is cutting limits in half and pushing costs north of 100%. Right now, the larger earthquake insurance buyers who have total insured values over $1 billion are seeing more challenging renewals compared to their peers with more middle-market type risks. As a whole, the EQ market is up 20% to 30%, but if your program is placed with a market or two that's going through a major overhaul, be prepared for increases well above market and likely less capacity available to you.

REINSURANCE

The feeling in the market is that the 1/1 CAT treaties caught the marketplace by surprise, and then the 4/1 CAT treaties got exponentially worse. This is year six of carriers pushing increases on insureds, and these increases are the worst we have seen thus far. Carriers have dealt with CAT treaty costs that have averaged 40% up, and many are closer to 70% or 80% when you do a risk-adjusted analysis tied to CAT event attachment. Many of the largest buyers of reinsurance are seeing the same thing that many of our large real estate clients are seeing: they simply cannot get enough reinsurance to support their writings. As a result, we have a capacity supply and demand issue.

The past five years was all about rate change but was never about capacity. The fact that we saw increased named storms, polar vortex losses, convective activity in the Midwest, wildfires out west and increased extreme weather patterns all made for a really challenging five years where carriers struggled to make a profit. Many of the largest carriers in our business posted massive underwriting losses year over year, and just when they thought they would catch a break, Hurricane Ian hit.

Year six is both a rate and capacity problem, and to have that problem on the tail end of the last five years has taken out any sense of stability we thought we might have before Hurricane Ian wreaked havoc in Florida. One can only hope that the market will catch a break in 2023, the weather will miraculously work in our favor, and carriers will be able to bank a meaningful profit to start affording some consistency and stability to our clients going forward. I'm not one to believe in wishful thinking, so you can call it what you want, but I certainly can't imagine a scenario where the market gets much worse.

ASSET CLASS BREAKDOWN

Asset class and type of assets remain important to carriers, but the theme thus far is that the market cares a lot more about geography than it does about asset class. Capacity and CAT aggregate are the most important items that carriers need to watch and manage, making the asset class discussion a bit less relevant. Despite that, the feeling amongst the E&S markets is that they're in a position to be very selective, which means that less desirable asset classes will be impacted the most.

- Multi-family, as always, seems to be leading the charge, and if you have multi-family in heavy CAT areas, many clients will likely have a hard time buying coverage that would allow them to sleep easy. If you get a multi-family renewal done this year with a rate increase in the 20% to 30% range, I consider it a home run. That level of increase is going to be reserved for well-valued properties with clean losses and minimal CAT exposure.
- Lagging not too far behind multi-family is hospitality. Most people don't vacation in the middle of Iowa or North Dakota. Many vacationers go to the coast, and these days, insurance on either coast is getting harder to come by. It's also worth noting that due to COVID-19 and the last few years of increased hurricane activity, many larger hospitality programs have been loss leaders for the market, making these risks increasingly hard to insure for a long-term profit. Most hospitality clients are likely seeing increases in the 40% to 55% range, but those will be heavily predicated on losses and geography. Many are going to see changes that will push rates closer to the 100% level purely based on losses, availability of capacity and CAT footprint.
- Higher education and municipal business is going to be heavily dependent on geography. Non-CAT accounts with clean losses will likely see rates trend north of 15% to 20%, but those with CAT heavy exposures might see the same as others with rates that could move to the 100%+ level.
- Office Real Estate Investment Trusts (REITs) and General Real Estate always perform better than these other major asset classes, and if standard markets are involved and will renew, I would expect rate increases to be tempered a bit. On the E&S side, clients who have heavily bifurcated layered and shared programs should beat the market by way of rate change, but it will again depend heavily on CAT makeup and losses. I expect most clients to grapple with less limits and higher retentions as they work their way through renewals in this space, which will ultimately make for some interesting conversations with lenders.

JUST KEEP SWIMMING

I'm sure that if you read this entire update you're wondering when the good news kicks in. The short answer is that there isn't much good news to be had these days. The market is very challenging, and we expect it to remain that way for the bulk of 2023.

No one likes giving these kinds of updates and this kind of news, but I try to be as realistic as possible with all our customers and clients. The market will change in time and when it does, I'm sure there will be one major sigh of relief from everyone. Many underwriters and clients that I work with are good friends, and you can hear the frustration in their voices when they have to deliver another tough renewal or new business quote. Many underwriters are drowning in submissions and having to re-underwrite numerous options on various deals, and there's simply not enough time in the day to get that done.

Right now, everyone is working overtime and trying to make lemonade with lemons. We have some very talented people at Risk Placement Services who are here to help you and will do everything we can to get you the best possible outcome. We already know the result is less than ideal, and we'll work tirelessly to make sure every option has been evaluated, pursued and presented to you. I try to treat every client renewal as if it were my own, and trust me, I'd be just as irate as many of my clients if someone told me I get to pay double for less limit and more restrictive terms.

As the year plays out, I ask everyone for a bit more understanding and a bit more time. Understand the market conditions that got us to where we are today and appreciate that many of these renewals take a lot more time and additional markets to get together, which is why many of these renewals will come down to the wire despite everyone's best efforts. Also, try to remember that this too shall pass. In the words of Dory from *Finding Nemo,* "Just keep swimming."

[1] https://www.rpsins.com/learn/2023/mar/2023-us-property-market-outlook/?imp=hp_fc_p2_learn_property_13
[2] https://www.rpsins.com/learn/2023/jan/2022-q4-state-of-the-property-market/
[3] TBA – link to the 2023 Q2 Umbrella Excess Update

RPS® RISK PLACEMENT SERVICES

The information contained herein is offered as insurance Industry guidance and provided as an overview of current market risks and available coverages and is intended for discussion purposes only. This publication is not intended to offer legal advice or client-specific risk management advice. Any description of insurance coverages is not meant to interpret specific coverages that your company may already have in place or that may be generally available. General insurance descriptions contained herein do not include complete Insurance policy definitions, terms, and/or conditions, and should not be relied on for coverage interpretation. Actual insurance policies must always be consulted for full coverage details and analysis. DBA Risk Placement Services Insurance Brokers. CA License No. 0C66724.
Copyright © 2023 Risk Placement Services, Inc.

RPS44485 0423