State of the Property Market

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It's a magical time of year. Football season is in full swing, "College GameDay" kicks off every Saturday, baseball playoffs have begun, and hockey and basketball are kicking off their seasons. On a global level, top soccer is on full display every weekend, the Ryder Cup has finished off golf season, and Max Verstappen is likely to solidify another F1 victory and maybe another record-setting year.

Even if you're not a sports fan, it's still a magical time of year. The weather is changing, the leaves are turning bright colors, and Halloween candy is everywhere.

I am a big fan of the fall because it leads to three of my favorite holidays — Halloween, Thanksgiving, and Christmas — and I thoroughly enjoy the crisp air that signifies the year is coming to an end.

From a property insurance perspective, I think we'll all be happy that this year is ending. Carriers weathered unexpected and unprecedented adverse treaty reinsurance renewals, while brokers did everything in their power to manage client expectations. Buyers held on to what little hope they could while facing another year of large rate and deductible increases among uncertain economic times.

Before we put the year behind us, to make this year a learning experience for us all, let's remember some of the challenges we overcame. These past few years are being called a generational hard market cycle; regardless of what the future holds, we're proud to work in a market that challenges us daily, making us work harder and become better at what we do.

As I write this and look ahead to 2024, there are signs that, much like fall colors in New England, the market is about to turn. It won't be an abrupt change, but if the wind continues to be quiet, all the feedback and expectations we've discussed with carriers at meetings and conferences lead me to believe calmer waters are waiting.

A SLOWLY IMPROVING PROPERTY MARKET

At the Wholesale & Specialty Insurance Association (WSIA) conference in San Diego in September, many markets discussed increased appetite, healthy balance sheets, and books of business and treaty protections that are well positioned. If you translate those discussions, it means that buyers will have more carriers eager to expand their offerings and effectively increase competition on a deal-by-deal basis. If you translate increased competition to a greater supply of capacity, then by default, the supply will have an impact on pricing that should be favorable for clients.

Some of you with selective hearing may take these last few comments to mean rate decreases, but nothing would be further from the truth. I stress that while there are signs of market improvement, improvement will be slow, and I suggest you embrace the idea of rate stability versus taking an overly optimistic outlook.

In the absence of a major hurricane making US landfall in the remainder of 2023, the market will likely yield an environment where carriers go from needing 25% average rate increases to increases in the low- to mid-single digits. If low- to mid-single-digit increases are

the average, then any math professor would tell you that some clients might see flat-to-slight reductions, while other loss-averse or high-hazard customers will see more severe changes in their programs and rates.

Any rate reductions markets offer next year will be on a select basis and will likely be on the heels of years of great performance or because of massive increases tied to past losses where reductions might now be warranted.

The last five years have created some immense challenges for the excess and surplus (E&S) property insurance marketplace and, year after year, those challenges have changed a bit. The one constant, however, was that carriers weren't making a profit consistently and, in fact, many were losing money consistently. Increased weather activity throughout the US presented a new normal that carriers had to account for, which magnified the difficult underwriting decisions that carriers had to make.

What's optimistic about the look ahead is that we may have finally turned the corner; carriers are making a profit, rates are at healthy and acceptable levels, and carriers feel their respective books of business are finally where carriers aren't concerned that one storm or weather event could have a material impact on their underwriting profit. It's a cliche, but there's more light at the end of the tunnel than there was the last few years and, to me, that is a welcome relief.

Geography and asset class will always play a major role in the forward outlook. The next sections break down what we can anticipate if market conditions remain constant to finish the year.

VALUATION ISSUES/INSURANCE TO VALUE

Builders will argue that construction costs are coming down and labor costs have stabilized in the post-COVID-19 world, but most insureds are a few renewal cycles away from proper insurance to value (ITV) because they started a decade or so behind where they should have been.

Most industry professionals agree that the need for clients to continue increasing their replacement cost will continue to push rate and premium across every account nationwide. Even if you achieve a flat rate renewal, the premium will have likely gone up, as carriers push clients to raise values at a consistent 5% to 10% per year.

ITV may be the one issue we as an industry fail to solve in the coming years and will be the one we always talk about. We all get it; carriers are tired of seeing a $20 million building be replaced at $30 million after a major claim. But the other side of that equation is that there are far too many factors for clients to account for that can inflate a claim

but have nothing to do with replacement cost. Easy examples are code upgrades, debris removal, and surcharges on resources in a post-catastrophe (post-CAT) climate.

The other major issue is that carriers need to educate clients on claims costs so everyone can be on the same page.

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

As we finish the year and look to 2024, Florida will continue to be a distressed market. Rates are going to rise above the market average in Florida, and insurance buyers are going to continue to grapple with costs that any normal person would deem exorbitant.

Tier 1 exposures outside of Florida will ease a bit, but carriers aren't jumping into the Tier 1 market with larger lines. If anything, carriers will manage their book to maintain balanced exposures and renew accounts they want to renew, while losing interest in those accounts that don't generate the right return on capital. The availability of capacity and the ability to purchase more limit will improve in 2024, but when it comes to Tier 1 wind business, a major market shift is likely a few years away.

CAT aggregate for earthquake

The large-account earthquake (EQ) market saw its own pain and frustration this past year. Several accounts saw increases ranging from 25% to more than 100%. Because EQ is more of a luxury buy, many clients trimmed their limits or exited the market.

In the past few months, rates have still trended upward, but have done so below the broader 2023 market average. Middle-market accounts have started to see increased competition, and more carriers offering options to them.

The hardest challenge for the EQ market is ascertaining whether buyers that lowered their limits or cut back capacity will look to get back into the market when rates are more

favorable. I would venture to say they won't look to make any changes to transfer more risk in the future and may have left the market for good.

HOSPITALITY AND MULTIFAMILY CHALLENGES

As always, and likely in perpetuity, hospitality and multifamily business will be among those asset classes that markets will watch closely and underwrite with increased discipline. I predict that these two asset classes will hover just above the 2024 market average because of their propensity to deliver outsize losses to the marketplace when there's a CAT.

Hospitality

Hotels — especially resort brands — are in geographic areas that will always present challenges to insurers. The CAT exposures will drive the rate change, and clients will be forced to balance limits and deductibles against premium spend. Travel and leisure remain high, which should help client balance sheets as expenses continue to rise.

Multifamily

Multifamily continues to be a fast-growing part of the US real estate economy, with housing needs in almost every major hot spot. One underwriter put it best when he alluded to the fact that the risks multifamily faces are next to impossible to underwrite because they contain both acts of God and acts of human nature.

The human risk element coupled with the geography risk makes this asset class a challenge. Underwriters are constantly applying strict deductibles and terms and conditions to better navigate the exposures the multifamily world creates. Hopefully, this stability will help habitational clients better manage their own expectations and make more calculated risk transfer decisions.

With the past few renewals, you got the sense that most multifamily owners and operators were reacting to the changing insurance market. Now, however, clients seem to be much more proactive in their approach to creating better partnerships with their insurance providers, and I'm confident this trend will continue.

EXCESS VERSUS PRIMARY CAPACITY

A major theme that continues to unfold in the market is that primary layers are the most attractive and continue to be oversubscribed. We're seeing rate increases already stabilize in primary layers when accounts are loss free, and more carriers are competing for those layers. The buffer layers aren't lagging far behind, but the higher excess layers are still presenting major challenges.

In many of our recent renewals, we've seen primary and lower buffer layer increases average 10% to 15% up, but some higher layers are still seeing swings north of 50%. In many cases, these layers are also going from being subscribed by two to three carriers to needing more than 10 to fill the same amount of capacity.

I expect this trend to continue in the earlier part of 2024, but to correct itself as we finish off next year. The driving factors behind the correction are changes in carrier appetite and the closer tracking of aggregate exposure in key areas. Convective storm areas seem to be hit the hardest because carriers are still conservatively underwriting the exposures and not putting a lot of faith in the models.

LOOKING AHEAD

It's nice to finally have a more optimistic outlook ahead and, while we're a long way from a truly soft market, I think we all would appreciate one with a few less surprises and a lot more consistency. As we saw with Hurricanes Ian and Nicole last year, the market can change for the worse in the blink of an eye.

My fingers are crossed for a coming year of stabilization and consistency as we wrap up a challenging year. Risk Placement Services greatly appreciates your support, and we're always here to find solutions for our clients. We'll continue to advocate for you, and deliver the best and most creative results we can.

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