Property—International

Market Update Spring 2010

Contact

Brendan Scofield
Regional Managing Director
Global Property
London, U.K.

Telephone: +44 (0)20 7933 2192
E-mail: brendan.scofield@uk.lockton.com

Domestic Placements

The property market remains relatively soft as competition for market share remains fierce. All across Europe and in the U.K. the domestic placements are extremely competitive.

For clients with very small critical catastrophe exposures, rates are reducing by a significant amount as underwriters are looking to grow their portfolio and maintain their income. The food sector remains the exception to this rule as flat renewals are considered to be a good result.

Global Placements

The large Global placements provide a different challenge. There are very few insurers capable of issuing paper in multiple territories. Fronting multiple territories, leading risk management programs, and offering suitable catastrophe limits for any major clients provides a number of different challenges when designing program structure. Often clients have been together with their lead insurance partner for many years and remain reluctant to move.

The best results are often achieved by finding ways to minimize reinsurance costs to key carriers; this savings can then be passed on to the client. Reductions are still available; however, they are often single-digit.

Catastrophe Capacity

The capacity in the marketplace for both earthquake and windstorm exposures remains much as it was in 2009. There are pockets of increased capacity if the price is acceptable, but not enough to create significant competition. The results from the latest catastrophe model mean there is more aggregate available. Markets were able to obtain a small savings when finalizing their treaty renewals. This is partially because the price was increased significantly in 2009 and also because the loss experience has been positive.

As a result, the direct market continues to soften, and some clients are obtaining reductions of 10 percent to 15 percent where the loss experience remains positive.

Earthquake

Underwriters have been carefully modeling their exposures for earthquake in recent years and use various tools to monitor their aggregates. Pricing tools and underwriter business plans are based on a significant market event occurring once every 50 years. The cost of Earthquake capacity is down approximately 10 percent on last year.

Recent events in Chile have yet to have a clear impact on the market. Renewal business in these territories might expect increases of 25 percent to 50 percent. Any new business from the region might be expecting increases of beyond 100 percent as markets in Lloyd's will try to gain the maximum returns for the aggregate offered.

There is also a lot of concern about possible aftershocks in the region. Some markets have decided not to offer any capacity in the region until the losses in the region have been assessed. The top insurer in Chile is RSA.

The events in Chile and Haiti serve as a reminder of the devastating impact of a major catastrophe. The London market has been carefully managing its aggregates in recent years to ensure that any one event does not overexpose any individual company or syndicate. There have been no major earthquakes in California or Japan for many years now, and the impact of an event in these territories will have a much greater impact on the London market.

Windstorm

The windstorm season in 2009 again passed without major incident. The pricing tools and underwriter business plans assume a major wind event occurring every ten years. Premiums for wind-exposed risks were significantly increased following Katrina and Rita. The cost of treaty protection still remains high when compared to other perils. Underwriters are carefully managing their aggregate exposures to ensure their treaty reinsurance costs are kept to a minimum. Therefore, competition for aggregate is fairly limited and pricing remains fairly stable.

Conclusion

Overall, the global property market is soft with plenty of capacity available, but recent events such as the earthquake in Chile and European windstorms have reminded us of the power of nature to undermine the best-laid plans of individuals and corporations. Consult with Lockton to stay ahead of the risk management knowledge curve and to obtain the best specialist advice.