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The global marketplace for large property has held a generally steady course over the last six months—with the exception of the energy sector—in spite of our concerns regarding prospects for capacity and pricing. The market is now in what might be described as “the calm before the *potential* storm.”

But at the start of the year the market was facing uncharted waters. In March, we warned that a combination of big catastrophe and energy losses in 2008, rising reinsurance costs, and capital market instability could lead property insurers to hoard capital, cut back capacity, and raise prices on large property programs, particularly those with CAT exposures.

In 2008, insured losses in the U.S. totaled \$27 billion, the highest since 2005, the year of Hurricane Katrina. On top of that, a stunning meltdown of world markets that year drove down the value of investment portfolios, negatively affecting surplus.

Even so, premium increases were not as bad as we first feared. Premiums were up for large property clients with catastrophe exposure for both wind and earthquake and for clients with excessive losses. Clients that were not exposed to catastrophes and had minimal losses generally saw only flat to moderate increases in their premiums.

The exception was in the energy sector, which included, but was not limited to, companies in the oil and gas, petrochemical, mining, and utility industries. These companies were hit with significant premium increases at their renewal as a result

of losses totaling about \$5 billion in 2008—none of which were catastrophe-related. The premium increases were sharp because the insurers that provided the market for this sector saw a significant increase in their reinsurance costs, resulting in a sharp drop in capacity.

In the coming months, the trend in premiums will be very much influenced by any losses arising from the 2009 hurricane season and any other catastrophes. While hurricane losses have been minimal so far this year, September and October are often the most active months, and an industry-changing loss could happen at any time.

Any sizable loss, whether from a hurricane, an earthquake, or any other catastrophic event, could lead to a dramatic shift in the market, prompting insurers to pull back from the market to protect capital and write new business only at sharply higher prices—especially for those clients with catastrophe exposures. As it is, insurers have been trimming their participation in some programs, which has forced clients to reach out to new insurers to complete their programs.

A big loss in the second half of 2009 also could reawaken insurers' concerns about their ability to “reload” or replenish surplus through offerings in the capital markets. Although the capital markets are more stable now than they were in 2008, concern remains about the economic outlook and the potential for a double-dip recession. A catastrophic loss at a time when capital markets are shaky and volatile would force insurers to put a much higher value on their surplus and make them less willing to gamble with it.

Although the insurance markets may be calm now, it can all change in an instant. Lockton recommends that clients be prepared to present the insurance market with detailed, up-to-date empirical construction and engineering data to support their renewal efforts.

In today's market, where insurers are nervous about the potential for a sudden catastrophic loss, policy data will be key to differentiating accounts, setting apart the good risks from the poor ones, and will play an important role in maximizing premium reductions.

Lockton also recommends clients work with as many markets as possible to reduce their dependence on any one market. Capacity may be adequate at the moment, but any shift in market conditions could force insurers to reduce capacity or exit markets, leaving clients with few choices at a difficult time. By establishing strong relationships with insurers during untroubled times, clients improve their chances of maintaining those relationships during a crisis.

The global property insurance markets have emerged from the last six months in generally stable condition. But the heavy catastrophe losses and economic turmoil of 2008 have not been forgotten. With the 2009 hurricane season still unfinished and the potential for other catastrophes possible at any time, clients need to position themselves now, while they can, to be ready for when the market shifts.