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First the good news. Competition is driving down the price of property insurance for almost all market segments and classes. Accounts that saw significant reductions in price last year may have to settle for smaller discounts, but they will still come away from this year's renewal with a favorable price. The exception will be for those accounts that have had big losses. Those accounts may see no decrease or even face an increase in the price of their property program this year.

However, many insurance buyers are enjoying a favorable market, marked by appreciable price reductions, on nearly all classes of business.

Cash is king and insurers are choosing to lock in what business they can—even at a discounted price—rather than hold the line on price and lose good business to a competitor.

Natural catastrophes are, as always, the wildcard in this equation. A rash of natural catastrophes in recent months has the insurance market on edge. In just the first quarter, catastrophes have included earthquakes in Haiti, Chile, Turkey, and California, as well as a deadly windstorm named Xynthia in Western Europe.

Although the earthquake in Haiti did not result in any appreciable insured losses, insured losses from the earthquake in Chile were expected to range from about \$2 billion to \$8 billion. Losses from Xynthia, meanwhile, were estimated at \$1 billion to \$4 billion.

While these losses are sizable, they may not have been enough to drain the catastrophe and treaty reinsurance market of capacity.

But the frequency of these events is on the forefront of everyone's mind. There's an old insurance adage that captures the market mood: frequency breeds severity.

Some insurers, unwilling to put too much surplus at risk as they continue to rebuild after the 2008 economic crisis, have been watching this catastrophe activity with concern and are attempting to reduce exposures as well as accumulations to loss by constricting capacity.

As certain insurers reassess their risk appetites, they are cutting capacity primarily on accounts with exposure to natural catastrophes. New players have emerged in the primary property insurance marketplace to help mitigate these capacity constraints, and, so far there is still adequate capacity to complete renewals with favorable renewal terms and conditions.

For the moment, insurance buyers are able to obtain adequate property coverage at favorable prices. But as soon as there is a major catastrophe, insurers will move to protect their surplus and capacity will contract dramatically. This has the potential to drive prices sharply higher.

It is only a matter of time before a market-turning catastrophe hits. A new hurricane season is quickly approaching, and earthquakes have been taking place with alarming frequency. The insurance market knows that more catastrophes are brewing; it is just a question of when, where, and how much.

When the next catastrophe does strike, insurers will pull away from the market and will be reluctant to take risk. Those clients that are prepared will be in the best position to obtain coverage at a time when capacity will be scarce. Policy data will be a key to differentiating accounts.

Lockton advises clients to make sure that critical empirical information is both up to date and thorough. Lockton also advises clients to work with multiple insurers so that relationships are built and established when times are good. In times of crisis, insurers are much more likely to work with customers they already know as opposed to entering into new capacity relationships with an unknown client.

Catastrophes are both unpredictable and uncontrollable, but clients can exercise some measure of control over their insurance market destiny by preparing now. This is the time to get empirical construction and engineering data up to date and to broaden relationships with the insurance market.