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News Release

THE WILLIS COMMENTARY ON…

REAL ESTATE INSURANCE

New York, NY, February 17, 2004 – If you don't think that insurance is a critical factor in the viability of the real estate industry, think again. Most of the headline issues in the insurance world echo those that real estate concerns must address every day. Environmental exposures such as asbestos, mold and lead. Security issues, including terrorism. Spiraling Healthcare and Workers' Compensation costs. And out-of-control liability verdicts across the spectrum. The availability and pricing of coverage for all of these risk factors can contribute to escalating costs for risk transfer at a time when the vacillating economic climate means reduced revenues for many with real estate interests. The result? Those either owning or managing real estate are being squeezed from two sides.

Now for the good news: For most companies in real estate-related businesses, insurance market prices are going down and capacity is going up in 2004. This doesn't mean everyone. Risks must be well managed, and loss experience good. The insured properties must be outside of areas prone to catastrophic perils – Florida and California, for example. But for good real estate risks, Property rates may fall as much as 20 percent. General liability programs may see reductions up to 10 percent.

Real estate insurance buyers will note that while premium pricing may be easing, underwriters are generally holding firm on terms and conditions. In this respect, no return to a soft market is coming any time soon. Exclusions for mold, of particular interest to property owners, are for the most part a fact of life.

Improvements in market conditions, furthermore, do not apply across all lines of coverage. Directors & Officers and Workers' Compensation lines are posing difficulties to buyers, and savings in these areas aren't forthcoming. In terms of expense management, the biggest challenge facing the real estate industry today is managing the cost of employees, especially Workers' Compensation and Healthcare coverage. In a recent survey, hoteliers reported that Healthcare and Workers' Compensation costs represented the second biggest business problem they face (the first on the list was energy costs).

While the message of the moment is still positive, the improving market is quite precarious. A catastrophic loss – an earthquake, hurricane, terrorist incident – could have immediate and dramatic consequences. The same may apply to the question of whether the government's terrorism backstop, TRIA, is extended past 2005. If it is not – and current indications are that it is unlikely to be extended – repercussions will be felt in the Property markets. Capacity for risks in major US cities could be greatly restricted.

Given these uncertainties, real estate risk managers might want to consider long-term strategic moves – forming a captive, for instance – that are usually reserved for times of market hardening. Good deals may be easier to come by than stability these days, but stability may be the more prudent goal.

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