

REAL ESTATE & HOTELS

The tale of two markets continues. For risks with limited or no catastrophe exposure, the market remains soft, with year-over-year declines, albeit moderating somewhat, for virtually all lines of coverage. For those with CAT exposures, the market can be tough.

The price you pay for insurance depends on a variety of micro and macro economic factors. The micro factors tend to be more under your control: your loss experience, overall risk quality, the quality of your underwriting information, your relationship with your carrier and, of course, the ability of your broker to achieve the optimal price and broadest cover.

The macro forces are out of your hands. These are based on industry surplus and demand, which are largely a function of economic conditions.

The recession is cutting demand, as companies slow production, cut back on expansion and development, reduce staff and, in some cases, simply buy less insurance to save money. Surplus, or supply, is impacted by underwriting profits and losses and investment income. In 2008 the Property and Casualty industry saw a deterioration in the combined ratio to 105.1 – up from the 95.5 mark in 2007.¹ Investment losses exceeded underwriting profits.

Despite the deteriorating results reported by many carriers, MarketScout recently reported that “the average rate for property and casualty insurance fell 5% in August compared to a decline of 10% a year ago.”² Rate decreases continue for many clients. Why? Despite a drop of about 10% in surplus from 2007 to 2008 (due largely to investment declines), “after several years of strong surplus growth the industry can handle it,” according to Andrew Colannino of A. M. Best Co.³ While investment losses have increased significantly for Property and Casualty insurers, the industry overall “is not in trouble by any means,” Calonnino said.

Robert Hunter, a former federal insurance administrator and Texas insurance regulator who was quoted in the same article, said, “...the financial meltdown happened at a very good time for the property casualty industry with many, many companies enjoying a string of profits going back several years.” Hunter went on to say, “Due to strong balance sheets and generous reserves the industry’s cycle has, for the most part, yet to grind the other way.”

Another factor is reinsurance. The hardening of the reinsurance market in 2009, which many expected to raise costs for insurers and in turn push up premiums for insurance buyers, did not materialize. Now it appears the opposite may be in the works. According to a Moody’s Investors Services report, “Global reinsurers have more capacity than the demand can absorb, which could mean greater price competition in 2010.”⁴



That being said, the tale of two markets continues. For risks with limited or no catastrophe exposure, the market remains soft, with year-over-year declines, albeit moderating somewhat, for virtually all lines of coverage. For those with CAT exposures, the market can be tough. Many are reporting that risks with catastrophe exposures can expect to see higher premiums. It remains to be seen what impact a relatively quiet (to this point) 2009 hurricane season will have on rates for CAT-exposed properties. Some are predicting a softening for these risks, which, up to this point, have not experienced much in the way of rate relief. Barring a significant surplus-depleting event, we expect the total cost of risk for most insurance buyers will decline when the numbers are tallied for 2009, and that the trend will continue in 2010.

As for real estate and hotel companies, the news is particularly good as more carriers have expressed interest in expanding their writings in these industries. This is especially true for companies that carefully manage their risk profiles.

Our advice is to start the renewal process early, meet underwriters and work with your Client Advocate to tell your story. Provide the underwriters with as much engineering data as possible (especially for risks with CAT exposures) so underwriters can properly assess the Property PMLs, review reserves prior to the renewal process and request quotes well in advance of the renewal date. In other words, take control of what you can control, and keep a wary eye out for the rest.

This analysis updates our market review from the July issue Views, the newsletter of the Willis Real Estate & Hotels Practice.

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¹ "U.S. P-C Industry Surplus Dropped 12%," *National Underwriter*, April 13, 2009.

² "Property/casualty rate declines moderate: Report," *Business Insurance*, September 10, 2009.

³ "P&C Survives the Storm," *CFO Magazine*, April 2009.

⁴ "Reinsurance rates for 2010 could be competitive: Moody's," *Business Insurance*, September 4, 2009.