

# State of the Property Insurance Market

## ACI-NA 2019 Risk Management Conference

Toby Roomets: Property Broking Leader: Atlantic Region  
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January 17, 2019



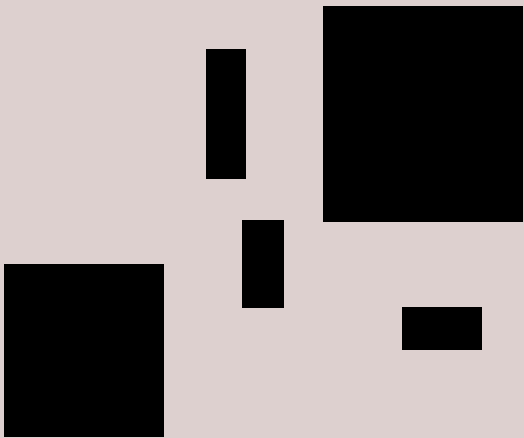
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# Seasons in Review



# It all started with “HIM”

- **Harvey**

- Insured Losses US\$16B

- **Irma**

- Insured Losses US\$18B

- **Maria**

- Insured Losses US\$22B and counting....

- **Other Nat CAT Losses in 2017**

- **Europe**

- Windstorm Zeus (France) Insured Losses US\$300M
- Windstorm Thomas/Doris (Belgium, Germany, Ireland, Netherlands and the UK) Insured Losses US\$260M
- Windstorm Herwart (Austria, Czech Republic, Germany and Hungary) Insured Losses US\$260M

- **Asia**

- Cyclone Debbie (Australia) Insured Losses US\$1.1B

- **Latin America**

- Earthquake (Mexico) Insured Losses US\$2B

# 2017 Global Insured Property Losses

US\$144B





# 2018 Hurricane Season

More Active than Expected

## 2018 Hurricane Season

- Quiet August, very active early September and October

	Expected	Actual
■ Named Storms	12	15
■ Hurricanes	6	8
■ Major Hurricanes	2	2
■ Florence		
■ Michael		



Source: nytimes.com

**Hurricanes Florence and Michael will not be significant market events.**

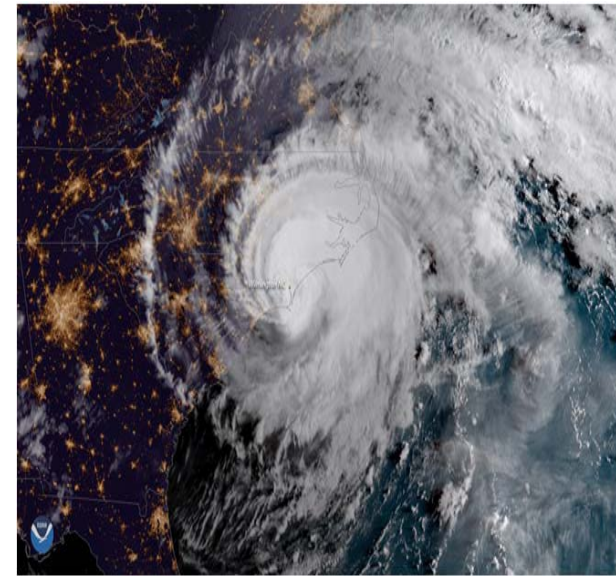
# 2018 Hurricane Season

## Hurricane Florence

- Estimated losses range from US\$1.7B to \$4.6B
- **Flood** rather than **Wind** were the main loss drivers
  - “Stalling” event over the coast of the Carolinas



Source: Gerald Herbert/AP



Source: NOAA

# 2018 Hurricane Season

## Hurricane Michael

- Estimated losses are as high as \$10B (AIR)
- Both **Wind** and **Storm Surge** damage.  
Wind speeds reached 120 mph to 170 mph
- Statewide Florida Building Code was implemented in 2002 but inland areas of the Florida Panhandle were exempt until 2007. This exemption was justified on the expectation that the inland region of the Panhandle could not experience major hurricane force winds.



Hurricane Michael's eye evident far inland over the Florida Panhandle

Source: NOAA, Rick Kohrs, University of Wisconsin /SSEC.



## 2018 Hurricane Season

### Hurricane Michael: Before and After



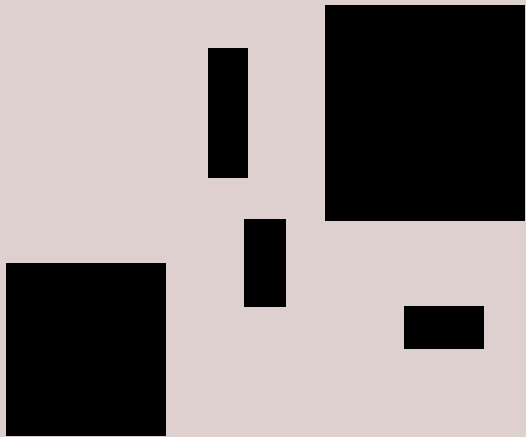
Aerial pictures of Mexico Beach before (top) and after (bottom) Hurricane Michael. Source NOAA

## 2018 Hurricane Season

Hurricane Michael: More than just a residential event

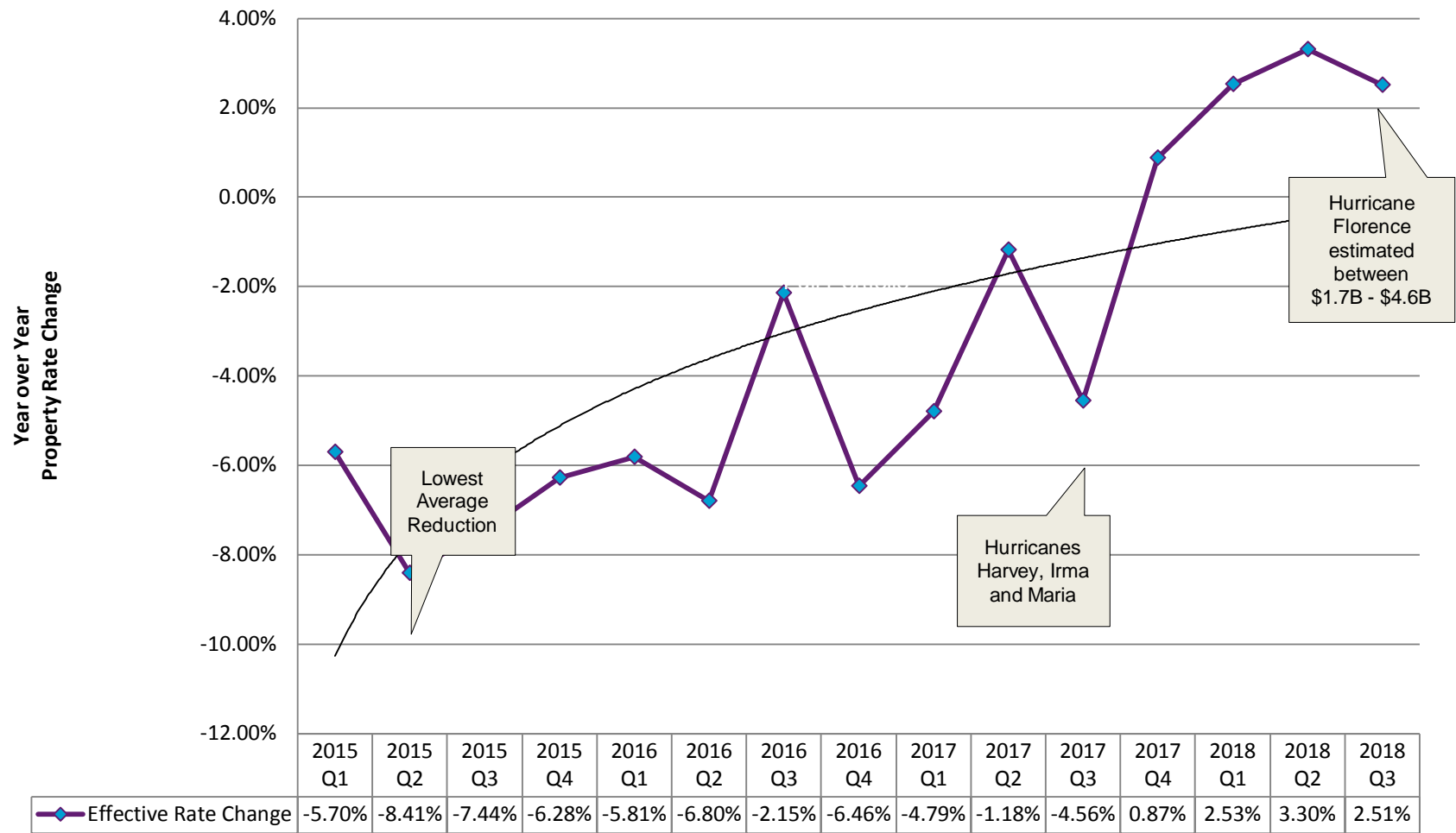


So, where to from there?



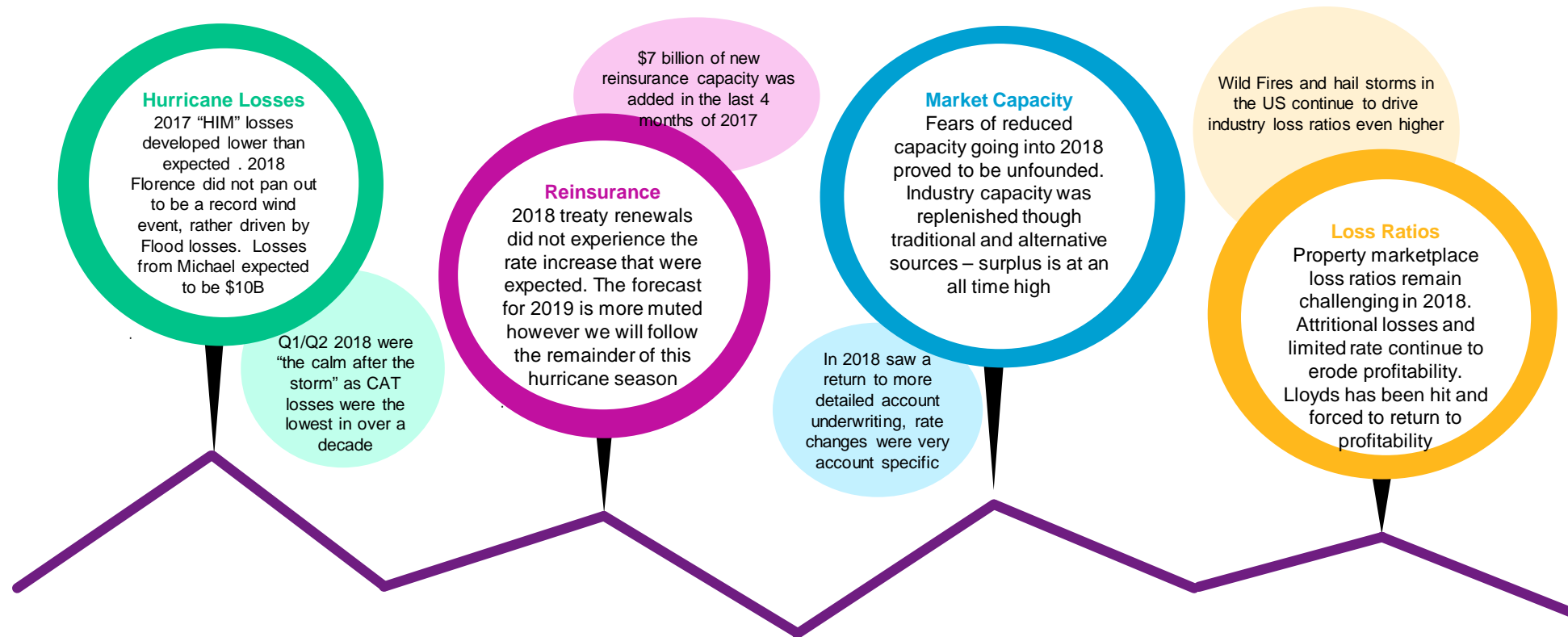
# Property Rate History

## September 2018 Property Update





# Factors Affecting Rate



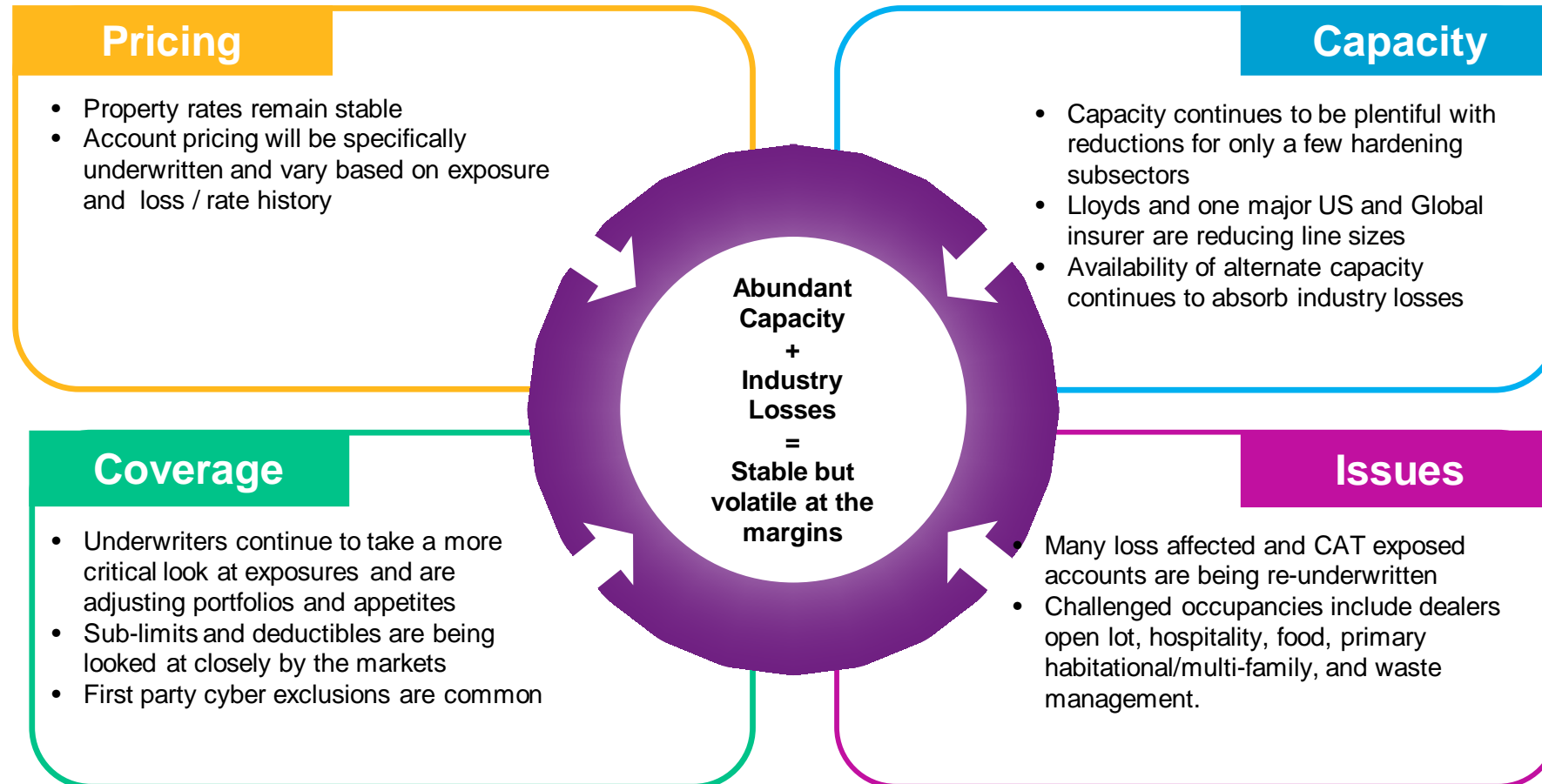
# Willis Towers Watson Marketplace Realities Report 2019

## Our Views

### Headlines from the forward-looking report on the North American marketplace in 2019 are:

- Despite ongoing M&A activity and continued push for optimal use of capital, overall industry capital remains strong.
- We have seen only small segments of hard market activity driven by a few loss-sensitive occupancies and cat-exposed geographies (Caribbean and Gulf Coast).
- Heavily loss-impacted regions such as the Carolinas, Florida, Georgia and Texas are likely to see tougher renewals, especially buyers who experienced losses in 2017 and 2018.
- Global aggregate nat-cat events of 2018 have been comparatively light, and despite setting records, Hurricanes Florence and Michael will not be significant market events.
- Property underwriters are expected to continue to take a more critical look at exposures, adjusting portfolios and appetites accordingly, especially in more challenged occupancies or catastrophe-exposed portfolios
- Overall industry surplus hit a record high of US\$752.5B, and the infusion of capital hampered insurer's efforts to impose across-the-board rate increases following the 2017 catastrophes.
- Reinsurance underwriters are much more focused this year on applying rate increases or decreases based on experience, Willis Re said at the U.S. Property Casualty Insurers event.

# Property Market Current State and What Does it Mean to You?



## Expected Rate Trends into 2019

Retail Markets:	NA	London	Bermuda	Europe	Asia	Lat-Carib'
Non Catastrophe Exposed	Flat to +2.5%	Flat to +5%	Flat to +5%	-2.5% to +2.5%	Flat to -10%	-5% to +2.5%
Catastrophe Exposed Without Losses	+2.5% to +7.5%	+5% to +10%	+2.5% to +10%	Flat to +2.5%	Flat to Down	-2.5% to +2.5%
Catastrophe Exposed With Losses	+10% or more	+10% or more	+10% or more	+5% to +10%	+15% or more	+2.5% to +8% or more

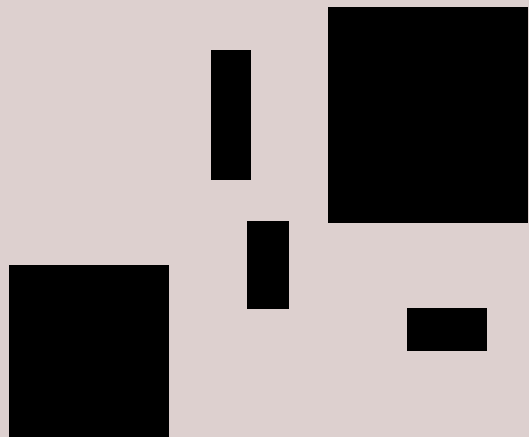
**Key:**

Increase  
 Flat  
 Decrease

- Market pressures affecting the averages above:
  - Lloyd's of London reduces 2019 market capacity by 10%
  - California Wildfire insured losses mount
    - Catastrophe risk modelling specialist RMS estimates that insured losses from The Camp and Woolsey wildfires in California are expected to reach between \$9bn and \$13bn and likely to shift further towards the upper-end of that range
    - There is growing hope among reinsurers that the combination of California wildfire losses and signs of contraction in retro capacity, in a delayed response to the 2017 catastrophe losses, will push cat reinsurance pricing higher at 1 January
  - Construction has recently suffered a string of severe losses, including the largest-ever construction claim to hit insurers and with several high profile insurers recently exiting the class, capacity and rates are likely to be adversely affected.



**And you don't believe me?**



## What others are saying ...

### Brokers

#### Marsh

#### Global Insurance Market Index, November 2018

- Average commercial property rates in the U.S. increased by 3.1% during Q3'18, the fourth consecutive quarter of low-single digit increases following the natural catastrophes in 2017
- Cat-exposed risks & large-layered programs at +4 to +5% drove much of the rate increases
- Market capacity remains strong in most product areas and geographies, limiting overall price increases

# What others are saying ...

## Brokers

### Lockton

### Market Update, December 2018

- Within the P&C marketplace, commercial property experienced premium pricing increases that outpaced most other lines of business. According to CIAB, *commercial property had the second highest increase, behind commercial auto, at 2.9% for 3Q2018*
- However, *capacity in the property marketplace remains high, which has helped mitigate some of the price increases and is leading to rate stability for accounts without significant losses*. For accounts with loss history, there is account-specific underwriting and a constriction of terms and coverage limits.
- *Natural disasters, including wildfires, floods, wind and hail, continue to drive carriers to seek higher premiums and wind and hail deductibles in CAT-prone areas*. This is especially true for places that experienced high catastrophe losses such as the US Gulf Coast, Caribbean, Japan and parts of Europe such as Germany and the Netherlands.
- Looking ahead to 2019, with healthy competition in the marketplace, property rates will likely remain stable even though there have been industrywide losses.

# What others are saying ...

## Brokers

### AON

### 2018 Property Market Dynamics, 3Q2018

- 2017 was the second costliest year on record for losses insured and uninsured, and the costliest on record for weather-related losses, but the insurance industry was well positioned to handle the high volume of claims payouts. For the first three quarters of 2018, global natural disaster losses remained below a 10-year (2008-2017) baseline average, with global insured losses preliminarily estimated at USD 31.4 billion; down nearly 52 percent from the 10-year average of USD 56 billion. However, these figures do not include recent estimates for insured losses, particularly those resulting from Hurricanes Michael and Florence, which have now gravitated to insured loss estimates of USD 8 billion and USD 2.5 billion or more, respectively.
- After 17 quarters of rate decreases through 3Q2017, 4Q2017 saw the first portfolio-wide, average complex property rate increases since 2Q2013. 3Q2018 represented a continuation of the rate increases that began in 4Q2017, but rate increases have begun to slow for non-catastrophic, single carrier placements with rate increases growing for catastrophic exposed, loss sensitive accounts. Larger, more complex accounts witnessed an average rate increase for the 3Q2018 of 4.34% with nearly 78% of accounts seeing flat to increasing rate pressure. This is down significantly from 2Q2018 average rate increases of 11%, the first quarter of double digit rate increase witnessed since 3Q2006, based on Aon Property Broking statistics.



# What others are saying ...

## Markets

### Lloyd's

- As part of the 'Performance Management Directorate' established to improve cost & underwriting performance, Lloyd's completed a review of all 80+ syndicates' plans for 2019, with hard-line focus on improved underwriting performance
- The performance improvement process was instigated on the back of poor 2017 results, with a loss of £2bn
- Whilst 11 syndicates increased capacity, the overall market capacity for 2019 at £32bn was down £1-2bn on 2018 levels
- Particularly hardest hit lines were non-US open-market property direct & facultative (D&F) and non-US binder property D&F, which were the worst and third worst lines respectively in a market-wide analysis of underwriting performance
- Despite 13 London-based markets either withdrawn from or cut back substantially on their exposure to property D&F risk, the London market is yet to see significant rate increases in property D&F business

# What others are saying ...

## Markets

### Bermuda

- Rate was pushed early on in 2018 from the Bermuda markets but the increases tended to settle in between the domestic US markets and what Lloyd's was offering. The Bermuda market does not typically write Caribbean and habitational business so did not experience the same level of losses as Lloyd's.
- Markets aren't offering rate reductions at the moment and are seeing high rate increases for loss affected clients. Non-loss affected business is coming in on average of flat rate to high single digit increases.
- Been very competitive on excess layers.
- New market could be opening soon, waiting on regulatory approval.

# What others are saying ...

## Consultants

### Deloitte

### 2019 Insurance Outlook

#### Where do Insurers stand as they enter 2019

- Sustained economic growth, rising interest rates and higher investment income are amongst the positive factors that appear to be bolstering insurer results in 2018, setting the stage for enhanced top- and bottom-line growth in the year ahead.
- In the P&C, US premiums written grew by 4.6% in 2017, the highest percentage in the past decade, before jumping by 12.7% in the first half of 2018.
- US P&C carriers have seen their insurable exposure base continue to expand for both personal and commercial lines, thanks partly to faster GDP gains, a shrinking unemployment rate, and higher consumer spending. But there has also been some luck behind improving results, as insurers enjoyed a welcome first-half respite from record natural disaster losses – down globally by one-third to \$17B USD compared with the same period in 2017.
- This should cushion the financial hit from second-half catastrophes, such as Hurricane Florence, which caused major flood losses but perhaps \$5B USD or less in insured damages, and Hurricane Michael, where insured loss estimates ranged between \$4.5B and \$8B USD as this report was compiled.
- Reinsurers in particular seemed to have regrouped, with the Reinsurance Association of American reporting first-half net premiums up by one-third and the combined ratio a profitable 96.1

# What others are saying ...

## Consultants

### Deloitte

### 2019 Insurance Outlook

Where do Insurers stand as they enter 2019

#### 2018 First-half US P&C Industry Results

P&C insurer benchmarks improving in first-half

Metric	P&C sector, 1H 2018 results
Net premiums written	↑ Increase of 12.7%
Underwriting results	↑ 300% turnaround, from a \$3.7B 2017 loss to \$6.7B gain
Combined ratio	↑ Improvement from 100.8 to 96.4
Net investment income	↑ Grew 12.2%
Net income	↑ More than doubled to over \$34B
Consolidated capital and surplus	↑ Rise of 6.5% to \$772B

Source: Deloitte analysis of consolidated industry results from S&P Global.<sup>a</sup>  
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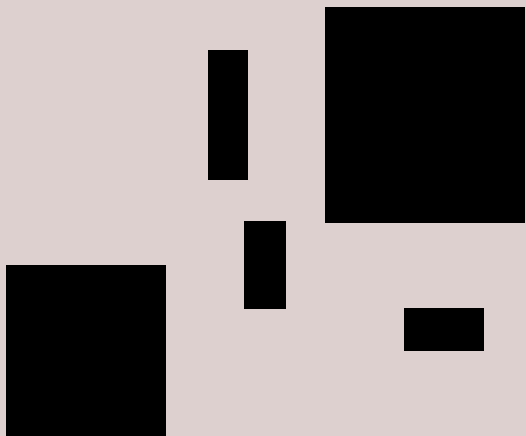
“Looking ahead to 2019: While improving economic conditions this year may have brightened the short-term outlook for insurers in 2019, for many Insurers, a rising tide won’t necessarily lift all boats equally.

There are still plenty of challenges to overcome in the year ahead as well as opportunities to improve carrier’s competitive position and bottom line.

Perhaps the biggest determining factor will be how committed and prepared each insurer is to adapt quickly to a rapidly changing economy and society.”



**Now a time for a reality check ...**



# Many Major Airports Are Near Sea Level. A Disaster in Japan Shows What Can Go Wrong.

New York Times article dated September 7, 2018

- A quarter of the world's 100 busiest airports are less than 10 meters, or 32 feet, above sea level.
- 12 of those airports – including hubs in Shanghai, Rome, San Francisco and New York – are less than 5 meters above sea level.
- Low-lying areas along water have long been seen as ideal sites because there are fewer obstacles for takeoff and landing and less potential for noise complaints.
- Coasts also provide few natural protections against flooding and high winds.
- Extreme weather and rising sea levels today pose one of the most urgent threats to many of the world's busiest airports

## Many Major Airports Are Near Sea Level. A Disaster in Japan Shows What Can Go Wrong.

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Kansai Airport was built on an artificial island in 1994. Because the site is built upon compacted fill, it suffers from subsidence, sinking 2-4 centimeters per year. Some predict at least one of the two runways will be under water by 2058 or sooner.

Four months after opening, the airport was severely tested by the magnitude 6.7 Kobe earthquake; it survived with only minor damage, and provided continuous operation during the relief efforts.

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Kansai Airport DURING Typhoon Jebi (September 2018)

## Many Major Airports Are Near Sea Level. A Disaster in Japan Shows What Can Go Wrong.

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Kansai Airport AFTER Typhoon Jebi (September 2018)



# Kansai Airport: Lesson's Learned

- Date of Loss: Sept 4<sup>th</sup>, 2018
- Terminal serves 400 flights/ day, 29.2M PAX
  - Kobe and Itami airports only able to pick up an additional 44 flights/ day
- Storm broke a tanker from its moorings that crashed into the Skygate Bridge
  - Stranded 8,000 passengers and staff
  - Flooded No. 1 Terminal Building
  - Multiple language barriers
    - English, Japanese, Korean, Chinese (various dialects), Arabic (various dialects)
    - Only Japanese and English used to communicate – caused frustrations
- Operational update
  - Sept 4 - Airport Closed
  - Sept 7 - 20% initial flight restoration
  - Sept 13 - 50% flight restoration
  - Sept 17 - 100% flight operations



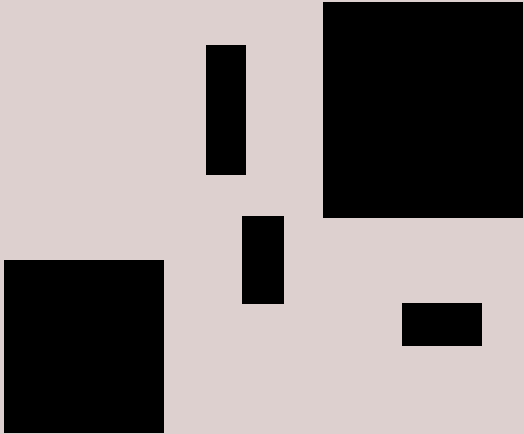
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What are airports doing?

- St Paul Downtown Airport: has a portable flood wall that can be erected if the Mississippi starts to overflow
- La Guardia Airport: adding flood wall, rainwater pumps and a new drainage system for the airfield as well as upgrading emergency electrical substations and generators
- Are you prepared to accept additional aircraft at your airport?

Take it home

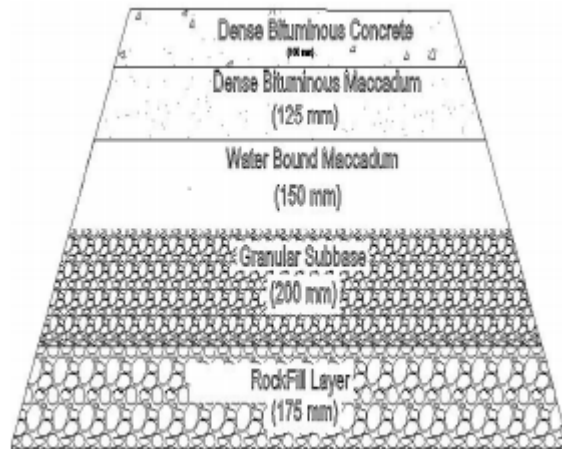


# Property Insurance Challenges for Airports in 2019

- **Cyber**
  - Property Insurers are reducing limits and increasing deductibles/ waiting periods
    - FM Global reported US\$120M cyber losses in past 2 years
  - Need for appropriate coverage study between property policy and cyber policy to identify gaps
- **Insurance to Value**
  - Do your values truly represent your replacement cost
  - Incorrect values impact:
    - Pricing/ rating
    - Statistical Limit Setting
    - Your integrity in the market
- **Business Interruption**
  - To buy or not to buy?
    - San Juan 3 day closure after Hurricane Maria
    - Kansai 13 days to full flight operations
    - Brussels' Zaventem 12 days closure
    - FAA regulations?
    - Check your loan covenants: they may override everything

# Property Insurance Challenges for Airports in 2019

- Should we insure runways/ taxiways/ apron?
- Food for thought:
  - How is a runway built?
  - Each layer is a designed layer that has value



- Consider exposure to Flood and Earth Movement
  - Flood erosion to base layers etc.
  - Man made Earth Movement?

Thank you

Questions?

