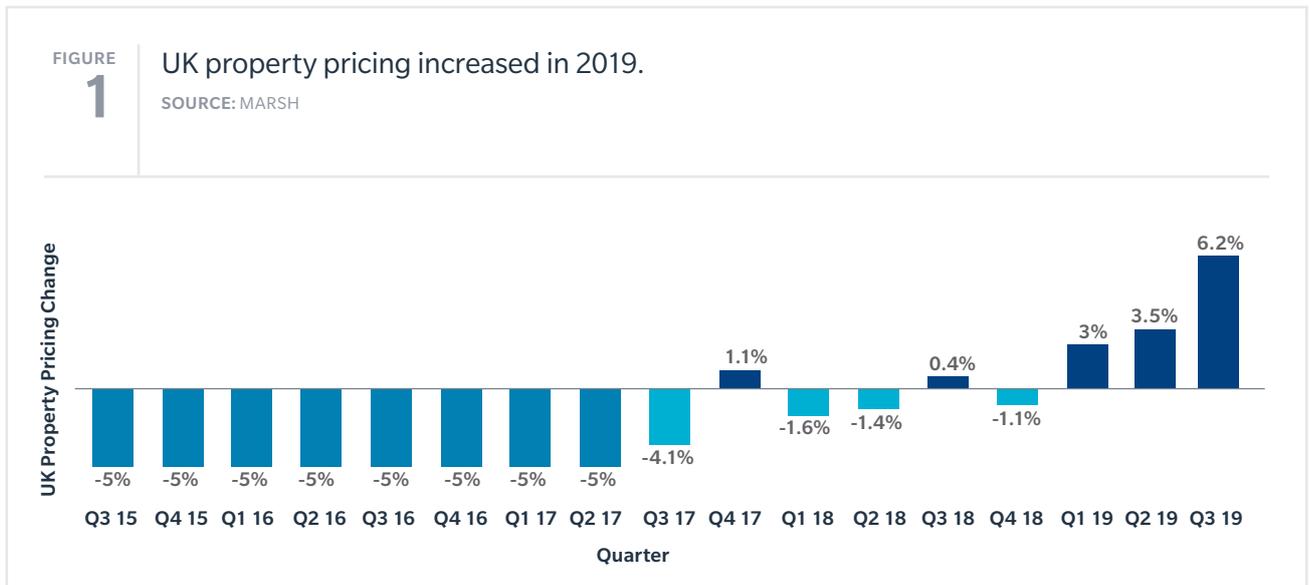


UK Property Insurance Market Update

The UK property insurance market is in transition and the pace of change is accelerating, indicates Marsh data. Rates are continually increasing, natural catastrophe (nat cat) exposures are under more scrutiny, and negotiations with insurers are taking longer.

Rates for multinational property and high-hazard UK risks have been subject to the highest increases (9.13% in the third quarter of 2019), although Marsh data indicates that the UK-only market is also changing. Rate reductions are increasingly unlikely for all segments of the market. Substantive changes in market conditions will likely continue for the next 12 to 24 months, after many insurers reported average rate increases in excess of 10% for 2019.



Transitioning Market

The UK property insurance market provided favourable conditions to buyers for more than 10 years, due to ample capacity and insurers focusing on top-line premium growth rather than profitability. Insurers deployed large amounts of capacity on single risks, provided additional nat-cat coverage at nominal additional cost, while there was less focus on risk quality information.

The environment is changing. Insurers have not been profitable for several years, with many property portfolios having combined ratios in excess of 100% for the last two years.

Nat-cat claims have been a cause of this change, with 2017 and 2018 nat-cat losses significantly above average. Although such losses are not a market driver by themselves, they contribute to a cumulative effect on insurer profitability.



Another factor has been changes to the facultative reinsurance market. Major insurers have judiciously bought facultative reinsurance for years, and have arbitrated reinsurance pricing to continue passing on rate reductions to insureds. However, as a result of the Lloyd's Decile 10 review — where property portfolios were among the worst-performing books to be scrutinised — facultative reinsurance capacity has reduced and pricing is increasing. Global insurers therefore have to rely on their own capacity, and are reverting to technical rating.

Natural Catastrophe Scrutiny

Underwriters are more focused on nat-cat modelling and pricing, due to increased nat-cat losses. Understanding your nat-cat exposures and providing good-quality information (including information on year built, construction code, and risk surveys) is more important, and will inform decisions around how much cover to buy. It will also help you to differentiate your risk to the market, and improve your risk management.

EXAMPLE OF MODERATE DATA:

- Postal district (DA1).
 - Unknown construction.
 - Warehouse occupancy.
- Results**
Flood average annual loss (AAL): GBP4556
Standard deviation: 144,544

EXAMPLE OF EXCELLENT DATA:

- Latitude/longitude.
 - Construction (steel).
 - Occupancy (retail).
 - Built 2009.
 - Two stories.
- Survey Info**
1. No basement
2. Flood wall
- Results**
Flood average annual loss (AAL): GBP104
Standard deviation: 10,425

Market Engagement

Amid the volatile market conditions, it is harder to anticipate insurers' market positioning. Insurers are pushing back, particularly on coverages that are driving unexpected claims, such as third-party cyber and contingent business interruption.

When engaging with the market it's vital to understand insurers' appetite and pricing drivers, and meaningfully invest in relationships. Transparency with all parties is crucial throughout the process.

Companies should work closely with their broker to "own the timeline" and pace of the renewal. Relationships on other classes of business should also be leveraged.

Companies would be advised to adopt a broad market selection, with a contingency plan on markets, and see a greater number of insurers. Consider what limits you buy and why, and programme restructuring (for example, layered programmes versus quota share). Considering coverage areas for proactive compromise can also make a big difference.

CONTACTS

CLARISSA FRANKS
Placement leader, Risk Management Practice
Marsh Ltd
clarissa.s.franks@marsh.com
020 7357 3309

SIMON JENKINS
Head of property placement, Risk Management Practice
Marsh Ltd
simon.jenkins01@marsh.com
020 7357 1671



This is a marketing communication.

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

Marsh Ltd is authorised and regulated by the Financial Conduct Authority for General Insurance Distribution and Credit Broking (Firm Reference No. 307511).
Copyright © 2020 All rights reserved. January 281393