AUGUST 2019

US PROPERTY INSURANCE OUTLOOK MID-YEAR 2019

MARKET OVERVIEW

As the mid-year property renewals draw to a close, there is clear consensus the property insurance market will continue to firm as many of the leading commercial insurance carriers have implemented aggressive re-underwriting plans across portfolios. Recent reporting from various market sources have average property rates up 20% to 25%, although a significant variance exists depending upon classes of business. The severely distressed accounts that are subject to higher catastrophe exposures or with a challenging loss history are renewing with significantly higher rate increases. On the other end of the scale, lighter classes of business with positive loss history may achieve rate increases with only single digits to lower teen levels.

This is in contrast to modest incremental rate movement reported in late 2017 and throughout 2018. The firming market may (in part) be a response to significant increases in catastrophe losses during that timeframe. From a wider viewpoint of industry observers, this market change is more likely linked with chronic underpricing of risks over the prior extended soft market cycle.

Other major drivers behind the firming property market and change of underwriting appetite include:

- Reduction of property capacity from several U.S. carriers. Prior to recent market developments, these carriers traditionally offered 100% capacity on a primary position and/or were capable of underwriting a significant quota-share participation on larger risks with a layered program structure.

- The Lloyd's of London performance management process, which began in early 2018 to improve profitability along with the introduction of risk-based oversight for underperforming syndicates, continued into 2019. In addition, several Lloyd's syndicates have recently resubmitted their business plans from earlier proposals in order to take advantage of this firming property environment. As a result, the London direct and facultative property market has been reporting upward rate adjustments on their renewal book in addition to having the capability to drive price with new business opportunities. Brokers in many cases are being forced to restructure placements to better suit a London subscription structure.

- In recent years, Insurance-Linked Securities (ILS) have impacted the property market by offering alternative capital to the global insurance market. This additional capacity lengthened the soft market cycle and was not a factor in previous soft markets. Following two years of much higher than average insured catastrophe losses totaling $140 billion (2017) and $80 billion (2018), the presence of non-traditional capital has decreased.

- Another significant driver has been continued loss development of major natural catastrophe events which occurred in 2017 and 2018. Based on current estimates from the Florida Office of Insurance Regulation (OIR), Hurricane Michael is estimated at $6.65 billion of insured losses as of June 28, 2019. However, as of December 28, 2018, the Florida OIR had previously reported Michael at $4.5 billion of insured losses. The California Department of Insurance (DOI) recently reported the November 2018 Wildfires at $12.04 billion in insured losses, representing a $614 million increase in the first three months of 2019.

See page 2, Figure 1 for significant insured losses from 2011 through the second quarter of 2019 (Source: Guy Carpenter's "gccapitalideas.com", July 18 publication)

CATASTROPHE ACTIVITY

The traditional Atlantic hurricane season began with subtropical storm Andrea making an appearance two weeks prior to the official start of the season. It should be noted that 2019 represents the fifth consecutive year a Named Storm developed prior to the June 1 start date. Forecast updates in the first week of August by two independent forecasters, both predict a near normal Atlantic Hurricane Season. Then on August 8, the National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center (CPC)

THE RT PROPERTY COMMITMENT

With the current property market status, the flow of property accounts entering the Excess and Surplus (E&S) market is at an all-time high.

The RT Property team continues to provide incredible support and creative solutions for our retail broker partners and their insureds.

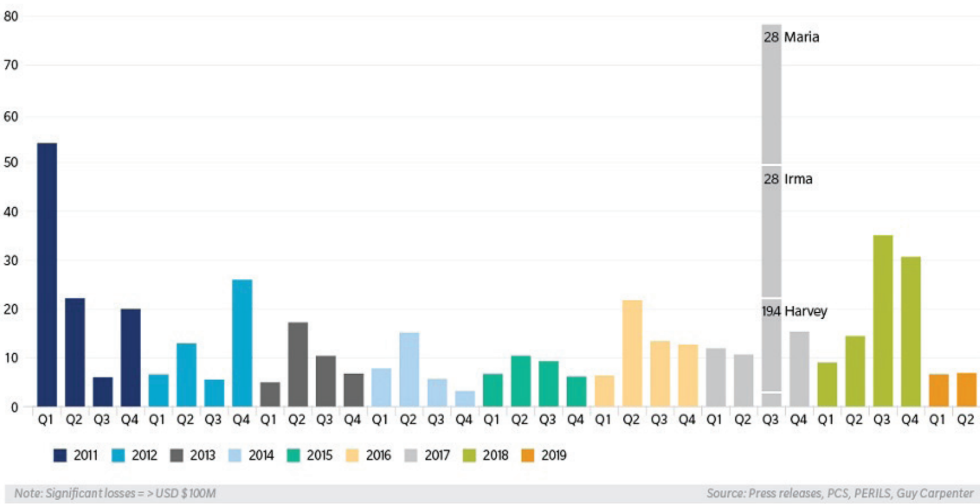
We continue to invest and acquire the best talent in the industry and support our front line efforts with deep resources including complex modeling capabilities along with the strongest claims team in the country. The RT Property team combines experience, expertise and a proven track record of leading the way through any and all challenges and stands ready to assist at all times!" says *Brenda (Ballard) Austenfeld, President of National Property and Managing Director of RT Specialty.*

CONTACT

For more information, please contact your local RT Property broker.

Figure 1

Significant Insured Losses: 2011 – 2Q 2019 in USD Billions



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issued a press release stating that their forecasters "have increased the likelihood of an above-normal Atlantic hurricane season to 45% (up from 30% from their outlook issued in May). The likelihood of near-normal activity is now at 35%, and the chance of below-normal activity has dropped to 20%." Additionally, NOAA announced that the current El Niño in the Pacific Ocean has ended and neutral ENSO conditions have returned. El Niño typically suppresses Atlantic hurricane activity, so its absence, and other conducive conditions, are cited by the CPC as reasons for the increased likelihood of above-average activity.

Hurricane Barry was the first hurricane of the 2019 season, which intensified as a Category 1 hurricane shortly before reaching landfall along the coast of Louisiana on July 14. The storm weakened to a tropical depression quickly, yet heavy bands of rain continued inland and affected other states. Rainfall in New Orleans did not meet earlier predictions. The storm surged reached 7 feet in isolated coastal areas along the Louisiana coast, yet away from New Orleans.

At the time of Hurricane Barry's landfall, the Mississippi River was already experiencing very high water levels. This increased water level was the result of unusually heavy rains across its basin throughout late spring and summer. May 2019 capped the wettest 12-month span in the U.S. on record, bringing flood exposure concerns to the forefront.

Two major earthquakes struck Southern California within the same vicinity with magnitudes 6.4 on July 4 and 7.1 on July 6, which were the largest in the region in 20 years. The earthquakes affected several counties northeast of Los Angeles. Binding moratoriums were issued for a period of time from most insurance markets as a result of awakening concerns of earthquake exposures.

In early June, President Trump signed into law the disaster aid package that included authorization for the National Flood Insurance Program (NFIP) to continue through September 30. It is now in the hands of Congress to create a bipartisan package offering reforms to the program, which is currently over $20 billion in debt. Without the reforms, the package could be difficult to pass by the fall deadline.

MARKET IMPACT

The U.S. property and global (re) insurance market remains adequately capitalized, yet the recent June 1 and July 1 insurance treaty renewal season has generated both price increases and tightening in terms and conditions. The July 2019, "Willis First View" publication recently stated, "Non-marine retrocession coverage saw the greatest price increases of up to 35% for loss-hit programs, while loss-hit Florida and U.S. nationwide property catastrophe and per-risk exposures saw prices rise by up to 25%. However, there was a significant range in pricing achieved depending on the quality of the company."

LOOKING FORWARD

In this firming property insurance environment, underwriters are being directed by their executive teams to apply discipline in their evaluation of risk. As a result, insurance carriers will continue to push for higher rates and seek tightening terms. Expect current conditions to continue for the rest of 2019 and at least into the first half of 2020. Continued challenges in specific industry classes remain more affected by rate increases and reduced capacity including habitational, dealer's open lot, recyclers, food accounts, foundries and wood product industry classes.

A clear differentiation of risk to the underwriting community is key to maximizing results in the current property market. This starts with transparent communication of market conditions, establishing specific goals and targets supported by well thought-out renewal strategy. Insurance carriers will rely on their own data and make assumptions for the risk which might take on a worst case scenario. Developing critical underwriting data and applying advanced modeling techniques is essential to counterbalance an underwriter's view, especially if the best features of a risk are not fully understood or properly emphasized. At RT Specialty, we offer these services.