2020 Property Market Dynamics

Q3 2020 Update

Empower Results®

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Executive Summary

For the second quarter of 2020 (Q2 2020), the property insurance market continued to see upward rate pressure and more cautious underwriting by most insurers. Q2 2020 represents the 11th consecutive quarter of increasing property rates. More pointedly, Q2 2020 is the first time since 9/11 that we have witnessed five consecutive quarters with property rates averaging above 20%.

The average property rate increased to 26.3% for Q2 2020 from an average rate of 20.2% in Q1 2020. Based on Aon's proprietary data, we are now in the most prolonged period of increased property rates since Aon began officially tracking property market analytics in 2001.

Over 98% of clients that renewed programs in Q2 2020 realized a property rate increase. Most clients, approximately 81%, continued to purchase the same limits and 84% the same deductibles/retentions. Broad coverage is still available in the insurance market, however, more underwriter scrutiny is being placed on manuscript forms, pandemic/COVID-19 exclusions, convective storm deductibles/retentions and business interruption coverage extensions. Complex shared and layered programs are struggling with more coverage non-concurrencies as many underwriters are pushing their own wordings, particularly with regard to pandemic/COVID-19. Consequently, complex shared and layered global property programs that utilize a global fronting carrier have the potential for non-concurrent terms and conditions if agreement on COVID-19 and other non-physical damage coverages can't be reached between the reinsurance panel and fronting carrier.

Clients with a favorable loss experience are not immune to the challenging market and have experienced an average rate increase of 26%. This increase represents not only a broad approach by the market but a downstream impact of increased pricing emanating from the reinsurance market. Clients with loss ratios eroding insurer profitability – generally those with loss ratios greater than 49% – are experiencing rate increases greater than 30%. Clients that are coming out of long-term agreements (LTA's) – many of whom are renewing for the first time in three years – are witnessing severe pricing and capacity pressure. The occupancies facing the greatest challenges continue to be segments of habitational real estate, hospitality, pulp and paper and heavy manufacturing. These segments are witnessing the greatest rate and terms and conditions pressure.

During this period, in addition to seeking rate increases, underwriters are working to reduce their exposure to maximum foreseeable loss events (MFL), as well as probable maximum loss (PML) events. There is a renewed focus on the implementation of Risk Improvement Plans, including the completion of open or outstanding "mandatory" loss improvement recommendations. We recommend that any outstanding loss control recommendations be addressed when possible, and if not resolved, establish a proactive approach and sound narrative around a Risk Improvement Plan.

Clients with single carrier programs, where more emphasis is placed on loss control efforts, are now facing challenging renewals, as well as limited options in the market for 100% limits. Alternative shared and layered programs are more expensive options for these clients, but they are often deemed necessary to address shortages in critical capacity.

As we approach year end, market capacity is beginning to tighten. Many insurers have met 2020 budget goals or exhausted their aggregates for critical catastrophe perils. Consequently, many insurers are very judicious in extending available capacity on new business opportunities.

With the ongoing uncertainty related to the COVID-19 pandemic and continued, higher than expected risk/attritional losses, we expect the challenging market conditions to persist through 2020. The Atlantic Hurricane season continues to produce a record number of named storms and storms have already begun to revert to Greek Alphabet names after exhausting the list of named storms for 2020. Insured losses from Hurricane Laura are estimated at USD10 Billion and with Atlantic Hurricane Season not officially scheduled to end until November 1, we expect market pressure to continue into 2021.

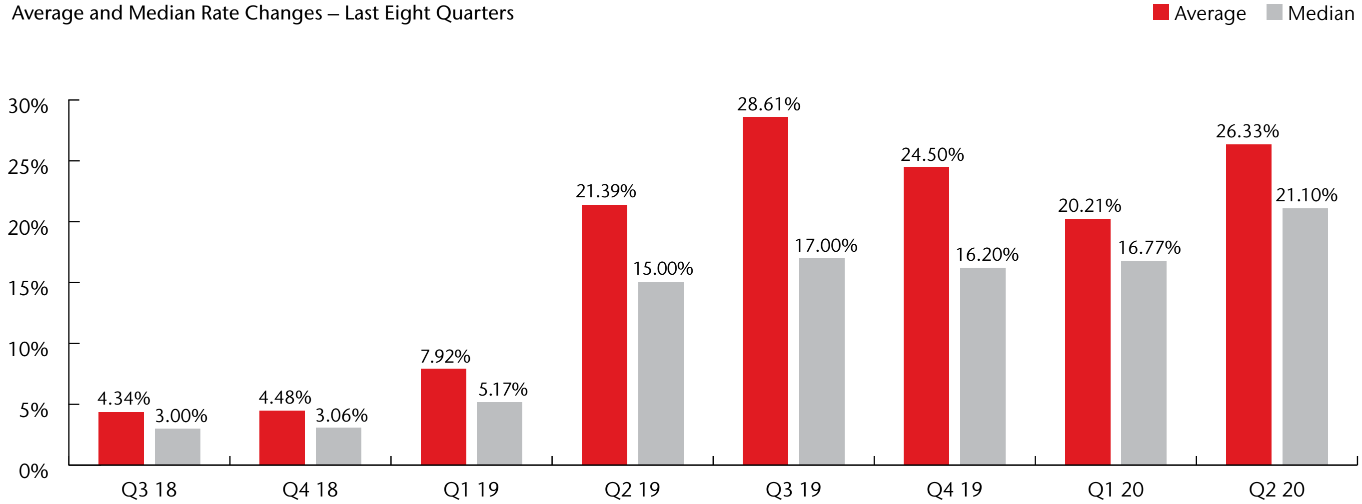
As you move forward to program renewal, sound advice for clients that are looking to obtain competitive pricing and terms and conditions is to ensure that your risk and loss data is accurate and up-to-date, your risk story is sound and aligned to current and market-sensitive continuity plans and you are committed to starting the process early.

Property Market as of Q2 2020

Rate Changes

Exhibit 1

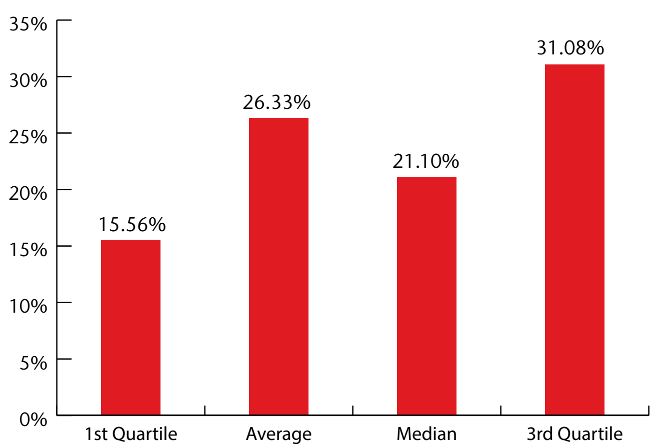
Average and Median Rate Changes – Last Eight Quarters



Source: Aon Data

Exhibit 2

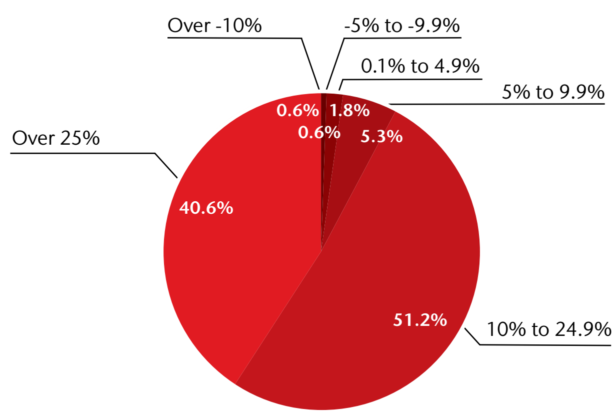
Year-Over-Year Rate Change – Q2 2020



Source: Aon Data

Exhibit 3

Distribution of Rate Change by % of Programs – Q2 2020



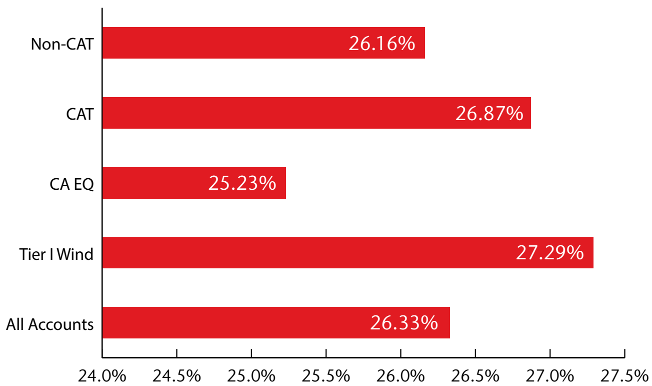
Source: Aon Data

Property Market as of Q2 2020

Pricing

Exhibit 4

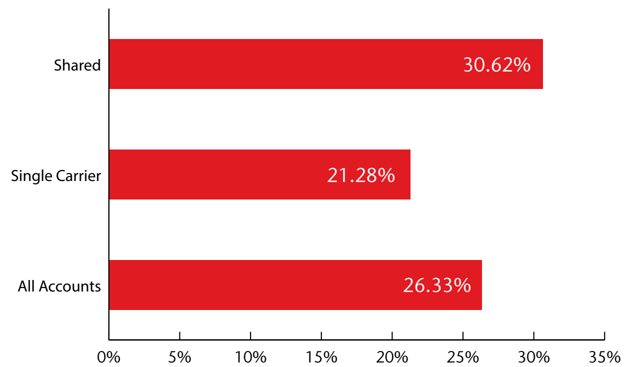
Year-Over-Year Rate Change CAT vs Non-CAT – Q2 2020



Source: Aon Data

Exhibit 5

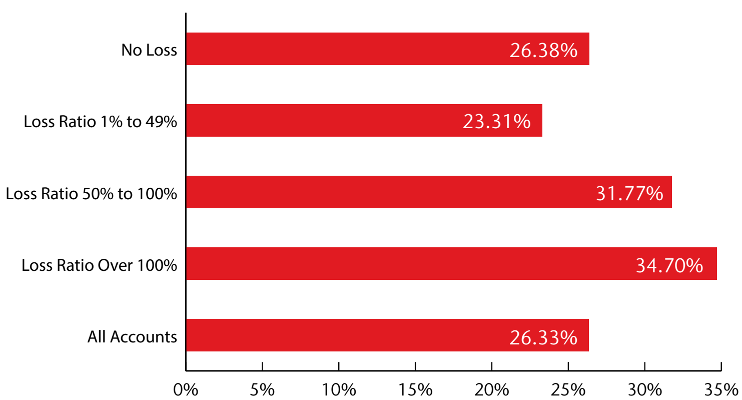
Year-Over-Year Rate Change by Program Type – Q2 2020



Source: Aon Data

Exhibit 6

Year-Over-Year Rate Change by Loss Ratio – Q2 2020



Source: Aon Data

Current Market Conditions

Category	Q2 2020	Comment	2020	Comment
Pricing	↑	Larger and more complex accounts experienced increased rates on average for the quarter of 26.3%. This represents an increase compared to the prior quarter of 20.2%. Shared & Layered and Quota-Share Programs experienced an average rate increase for the quarter of nearly 31% exceeding the average of 21% for Single Carrier Programs. The quarter represents an increased firming in the market predominately due to the significant number of catastrophe prone accounts renewing in Q2 2020. Accounts with difficult occupancies such as food, habitational frame real estate, and hazardous occupancies are experiencing significantly higher rate increases.	↑	Accounts with poor experience will continue to experience significant rate pressure. Many insurers are continuing to push rates higher toward what they believe are sustainable levels to address increased risk and natural catastrophe losses. Increased Treaty and Facultative reinsurance costs are being passed along to Insureds. In some cases, insurers that have reached or exceeded their 2020 premium goals may only seek opportunistic pricing prospects.
Limits	↔	Majority of clients purchased the same limits, however, we are seeing an increase trend in clients electing to purchase lower limits.	↔	Clients with single carrier policy limits, some to reported total insurable values, may be forced to consider a lower loss limit. Contingent Business Interruption and any indirect Business Interruption coverages, such as Civil or Military Authority, Ingress/Egress, Service Interruption are likely to be reduced.
Deductibles/ Retentions	↔	Most insureds are renewing the same deductibles/retentions. Many insureds are considering higher deductibles/retentions to offset upward rate pressure.	↔↑	We expect carrier scrutiny around catastrophe percentage deductibles, particularly with deductible caps and more focus on hail deductibles.
Coverage	↔	No material change in traditional "all-risk" property coverage and broad "all-risk" property coverage is readily available in the market. Coverage extensions are being further scrutinized especially communicable disease, loss of attraction, contingent time element and cyber.	↔↓	Insurers are mandating COVID-19 exclusions to clarify their intent to not cover losses from it and other pandemics. Also, there is renewed scrutiny on Contingent Time Element coverage with underwriter questions around supply chain and business continuity management. Cyber Property cover will continue to be underwritten carefully as uncertainty in the space continues. The widespread riot activity across the US has caused reinsurers to look to limit exposure to Strikes, Riot and Civil Commotion exposure with focus on loss occurrence definitions.
Capacity	↑	Capacity levels remain stable, but carriers remain conservative deploying capacity. Within certain problematic, loss-driven classes of business, retraction in capacity is still occurring.	↔	We have seen some insurers moving from higher maximum lines to lower working lines due to poor experience. Some carriers have exited specific occupancy classes which have proven unprofitable or moving away from primary layers. A dichotomy is developing on Shared and Layered programs with carriers flocking to primary/first excess capacity for sufficient return on their capital or participations excess of the Client's Maximum Foreseeable Loss. Thus, mid-range layers are challenging to fill.
Losses	↔	Property catastrophe losses through the first half of 2020 maintained near median levels of activity with global property CAT insured losses year-to-date at approximately USD54 Billion.	↑	As of September 15th, we have exceeded Colorado State University's (CSU) prediction for 18 named storms. There are 45 days remaining in the official period for Atlantic Hurricane, and CSU is now predicting 24. Double the average between 1981-2010.

Source: Aon Data

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