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Property View from London

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What's London?

London and Continental Europe is an excess and surplus lines marketplace which looks to provide clients with capacity in areas where the domestic market is unable to provide all of the capacity that they require. This can either be on a subscription basis in conjunction with the USA and global marketplace or, an entire client program placement within the London, Continental Europe and Bermuda marketplace and/or any other combination thereof. These markets are comfortable with providing coverage on made-to-measure manuscripted wording basis to suit individual client requirements. The core strength of the various Insurance carriers' individual business plans are based on a stable long-term client base. This can be broken down into a number of categories, which have remained relatively the same for the past twenty years:

- Large Limit Client requirements for schedules with locations concentrated in areas of high critical catastrophe exposed areas from the perils of Earthquake, Windstorm or Flood.
- Large Limit requirements for specialty areas such as Religious, Public Entity, Real Estate, Scholastic, Hospitality, Retail, Agri-Business, Railroads and Transportation, Ports, Energy, Natural Resources, Manufacturing and Industrial.
- Specific facilities, either in the form of in-house London broker binding authorities or MGA-backed facilities. These can be either of a general nature or niche-orientated.

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Our main insurance carriers include the following (all of which have a minimum credit rating of A- with credit rating agency, A.M. Best (we have also included individual S&P credit ratings in brackets):

- Syndicates at Lloyd's (S&P A+)*
- Chartis Insurance Company (S&P A+)
- Axis Specialty Europe (S&P A+)
- Houston Casualty Company (S&P AA)
- Lancashire Insurance Company
- Tokio Marine Global Europe (S&P AA)
- Munich Re (S&P AA-)
- Swiss Re (S&P A+)
- Hannover Re (S&P AA-)

**There are 84 syndicates at Lloyd's in 2010, of which approximately 35 underwrite open market property.*

Net line underwriters and treaty reinsurance

Whilst Munich Re, Swiss Re and Tokio Marine Global Europe consider themselves to be net line underwriters, i.e., they don't purchase any (or significant) amounts of treaty reinsurance, these carriers are also some of the largest reinsurers in the world. Most other insurance carriers in the world, including FM, Allianz, Zurich and those carriers listed in the above, purchase significant amounts of treaty reinsurance. The treaty reinsurance market is fairly limited compared to Insurance, in terms of the number of carriers that are actively involved. This means that Insurers have more limited options in whom they can partner with in the reinsurance arena. Moreover, when there is a major catastrophic event, it affects the same reinsurers whether it is an earthquake in California, a Hurricane in Florida or a major earthquake in Mexico City or Chile. It also means that their treaty reinsurance terms imposed post a major loss event are fairly restrictive in terms of pricing, aggregate and/or coverage. The effects for clients can be quite dramatic due to these factors but in turn can be favourable in other circumstances where reinsurers and insurance companies alike have profitable underwriting years.

2008-2011

It is now estimated that 65% to 75% of major London clients renew their Insurance between 1st January and 1st July each year, so that they are not negotiating their insurance renewals during the main Hurricane season months. During 2008, a series of events, not all entirely Insurance related, resulted in the Insurance market seeing increases for some clients during the first six to nine months of 2009. The major insurance-related causes of this were a series of large and frequent global industrial, manufacturing and natural resource risk losses combine with Hurricane "Ike." The non-insurance elements related primarily to loss of investment income caused by the banking and economic crisis with the revenue from many company stocks held by insurance and reinsurance companies being severely hit.

So, the market became more expensive in 2009 for clients buying large limits in critical cat areas. Major clients who had losses in 2008 also saw premium increases. Insurance companies saw significant investment gains beyond that which would normally be expected due to the low base value of their investments and the subsequent recovery in the stock market. These factors coupled with a benign 2009 loss year from both a natural catastrophe and an individual risk perspective meant that most Insurers had very healthy 2009 financial underwriting results. For example, Lloyd's of London had excellent results reporting a profit of US $6.227 billion based upon a Gross Written Premium of US $34.499 billion and an 86.1% combined ratio resulting in a 23.9% return on capital.

The first half of 2010 has been a different story. The market began to improve for clients, and we have seen the market gradually accelerate in terms of premium reductions as the first half of the year has developed. It is estimated that the Property & Casualty market is only 10% higher than in 1999, the year which is considered the historical low for the market in recent times. During 2010, we have seen major natural catastrophe events such as the earthquakes in Chile and New Zealand, floods in Pakistan and "Deepwater Horizon" in the Gulf of Mexico. Has this affected the market? – Revisiting Lloyd's, their first half-year results are not as good in 2010 as they were in 2009. Losses for the first six months of 2009 were US $500 million compared to losses of US $2.5 billion reported and estimated thus far for the first half of 2010. In the absence of a major industry changing event in the second half of 2010, the market is set to experience another profitable year for the majority of insurers and reinsurers, although profit-level predictions would not appear on the surface to be near the same levels as 2009.

Post-losses, increases in rates are being seen in Chile, New Zealand and for Energy related customers in the Gulf, but elsewhere conditions continue to improve for clients.

There is currently estimated to be in excess of US $10 billion of excess capital in the market and it is felt that a net loss to the Insurance market in 2010 would need to be upwards of US $50 billion in order for the market to change from a reducing premium market to an increasing one. So, in the absence of a major industry changing event, we should see property rates and other coverage terms and conditions improving for our clients in 2011.

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An electronic copy of this can be found in the "Keep Posted" section (Real Estate) of the Post.

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