SOMPO INTERNATIONAL

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Property – The Perfect Storm?

For more than a decade, property insurance has generally been considered a buyers' market. Competition amongst insurers has created a positive rating environment for insureds who have also been able to access increasingly wider coverages. However, in 2020, the property market finds itself at a tipping point. Going forward, a combination of dramatically changing risk profiles and contracting underwriting capacity means that risk managers will be working in a new world order.

The dynamic face of risk

Buyers of property insurance are facing a future which holds an increasingly complex and evolving set of risks, including new perils emerging from the COVID-19 pandemic and its aftermath. In global terms, the large property loss events that have made the headlines in recent times have been largely driven by natural perils – especially in 2017 and 2018 with a particularly active Atlantic hurricane season. We are starting to see a marked increase in the frequency of losses from natural events, including what have traditionally been viewed as lesser perils such as hailstorms, tornadoes and floods. For example, in the first half year of 2020, there were 140 tornadoes reported in 10 states across the southeastern United States and a major US$1 billion hailstorm loss in Calgary, Alberta. It is likely that ongoing climate change will mean that these risks will continue to be a significant threat for businesses in the future.

The global spread of COVID-19 and the actions taken by governments to contain it have had huge impacts on the property risks that businesses face and at the top of any list will be business interruption. For many sectors – travel, leisure and hospitality in particular – the closure of buildings for an extended period has serious consequences for cash flow and business revenues. Asset management is also an area of concern, specifically an insured's ability to maintain pre-COVID-19 levels of investment and risk management standards. For example, failure to invest in property maintenance is likely to see the quality of the asset degrade and exposes the business to possibly greater risk in the future. Understanding the true value of those new exposures is going to be a top priority for risk managers going forward.

For many industries, supply chain management has been a serious issue over the last six months, and with uncertainty about further lockdowns as the northern hemisphere winter approaches, it is a risk that will continue. There is also a debate around redefining property risks in changing sectors such as retail and logistics. For example, business interruption exposures will evolve as we see an increasing shift to online transactions and a greater need for logistics hubs versus a decreased reliance on physical points of sale. Businesses will need to adapt and, as they evolve, they will need to review their resilience to risk.

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The challenges of risk transfer

Against this backdrop, as risk management professionals look at their risk transfer needs for the coming year, what are they going to find in the international insurance market? In summary, a very altered marketplace – characterised by higher prices and a more limited choice of carriers.

The combination of keen pricing and large losses over the last ten years has taken an inevitable toll on many property carriers' appetite for risk. The number of carriers re-evaluating their available capacity for certain classes is growing, leading either to sharp reductions in the size of risk they will accept or, in some cases, a complete withdrawal from certain industries and geographies.

In this more cautious environment, there will likely be an overall reduction in capacity that will exacerbate price rises and we may see a trend towards higher retentions or reduced policy limits. Risk managers may have to work harder with their brokers to find insurers that can offer long-term stable partnerships. It will be more important than ever for risk managers to re-appraise their insurance

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programmes in the face of a contracting market and ensure that they still have the coverage they need.

Insurers are looking more closely at coverage, some taking an evolving stance in areas like silent cyber and infectious disease, as well as changing their view on certain exposures such as unoccupied buildings. In some territories, insurers are reviewing specific coverages in generic property policies such as strikes, riots and civil commotion, especially in countries that have seen a lot of civil unrest in the last year. The net impact will be that coverage is going to be harder to find and more expensive to buy.

As long-term business partners for our insureds, there are a few recommendations that we would make for risk managers to help navigate the changing insurance landscape:

1 – Take a meaningful interest in your risks by deploying active loss prevention and risk management.

2 – Be prepared to carry risk, e.g., via increased risk retention, so that there is a greater alignment between insurer and insured. This breeds good risk management and strong long-term partnerships.

3 – Gain a detailed understanding of the true value of your business interruption exposure as well as the impact of any interruption to your business, be it direct or indirect.

4 – Gather a maximum amount of risk data and provide full transparency to insurers to better assist them with their evaluation of your risk. This data benefits insureds and insurers alike. Real estate companies are using similar datasets to insurance companies when doing their due diligence on prospective property portfolios. How exposed to flood or natural perils are the properties, for example? How will those exposures affect the asset's performance/ return on capital over time? From an insurance standpoint, this can lead to better decisions around risk mitigation from the outset rather than treating insurance purely as an annual transaction.

The next 12 months and beyond will see significant shifts in both the profile of existing risks and the emergence of new risks. This dynamic risk environment is occurring against the backdrop of an insurance market that is under stress following a prolonged period of softening rates. Understanding how risk and insurance capital will work together in an increasingly volatile world will be vital for risk managers and insurers alike.

LEARN MORE

Our specialised underwriters, claims professionals and risk control specialists can help you address the exposures created by today's rapidly changing marketplace.

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