Willis Towers Watson

Insurance Marketplace Realities 2021 – Property

November 18, 2020

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Rate predictions

	Trend	Range
Non-challenged occupancies	▲	+15% to +25%
Challenged occupancies	▲	+30% or more

Rate predictions: Property

Key takeaway

The current property environment is full of challenges, and we anticipate continued hardening into 2021. Until underwriting profitability returns, expect little relief in rate, with continued pull-back in sublimits and tightening of policy wordings. But be wary of the tyranny of averages — undue (or uncritical) attention to rate hikes can obscure the wide variation we are seeing in this marketplace.

Catastrophe losses and continued attritional losses amid uncertainty surrounding COVID-19 are just a few factors contributing to the sustained rate pressure buyers are experiencing. The level and magnitude of these increases varies greatly by the class of business, account loss history and perceived rate adequacy of the account.

- This continues to be a results-driven market turn and not one driven by capital depletion. Despite dramatic increases in rate levels, most property underwriters continue to experience dismal financial results due to continued frequency and severity of losses.
- The elevated frequency of events continues to put pressure on the marketplace; 2020 third quarter natural catastrophe losses for U.S. property/casualty insurance were the largest since the third quarter of 2017 when we experienced hurricanes Harvey, Irma and Maria.
- The Atlantic hurricane season has moved to the Greek alphabet for only the second time in history. As of late October, we have seen a record 26 named storms, with 10 making U.S. landfall.
- In addition to an active hurricane season, natural catastrophe losses have come from wildfires, flooding and severe convective storms, including a rare derecho in the Midwest.

The hard market has forced some clients to take larger retentions, self-insure a portion of their risk as well as reduce overall limits in order to manage costs. In these conditions, clients should review their risk tolerance and make more informed decisions to mitigate the impact of the property marketplace.

- Buyers are looking at risk transfer options, both traditional and non-traditional.
- Analytics provide important guidance as buyers align offerings in the marketplace and their rapidly shifting needs. The shift toward not only *collecting* data, but *structuring* the data to help deliver meaningful insights has moved to the forefront for insureds as well as insurers.
- Technological/analytic advances are helping determine where buyers will spend critical capex dollars as well where insurers will commit capacity — and how overall risk quality is presented and assessed.
- Capacity and wording restrictions remain a key focus. Most carriers are demanding company forms vs. broker and/or manuscript forms.
- Shared and layered placements have seen an increase in the number of markets needed to fill the program, making renewal negotiations more complex and take much longer to finalize.

- Insurers are attempting to apply hourly occurrence definitions to wildfires, strikes, riots and civil commotion.
- Due to COVID-19, infectious disease coverage has been extremely limited or outright excluded.
- Insurers are also pushing "occurrence limit of liability" or "scheduled limit of liability" clauses, as questions over valuations loom. If such clauses prevail, they can introduce significant uncertainty over insurance recoveries at the time of loss.
- Engineering is being heavily scrutinized, meaning buyers need to address any outstanding recommendations prior to renewal or be prepared to discuss specific plans to address those recommendations.
- We are seeing continued reduction in capacity for tougher industry classes as underwriters realign their books to meet corporate goals.
- Complexity of global programs has increased, with fronting carriers being inflexible about making any changes to reinsurance contract wording.
- Final decisions on pricing and capacity are being driven by home office. While relationships still matter, the quality of your data will impact how favorably you are considered versus your peers.

Risk managers need to set and maintain expectations with senior management. Buyers are challenged not only to fill out distressed programs which in turn garners more rate, but also to find creative solutions for managing the cost of overall risk.

- This is not a "one size fits all" market; carriers are carefully evaluating risks.
- Challenged occupancies and loss-impacted accounts have seen rate increases significantly outside the standard variance from the mean.
- Submission activity has substantially increased, especially for London and Bermuda markets.
- Demand surge has put pressure on quote dates and underwriter attention bandwidth.
- Ample renewal timelines are essential.
- The need to differentiate risk has **never been greater.**
- Insurers are underwriting on an account-by-account basis — offering opportunities for buyers:
  - Robust data is critical.
  - Underwriter meetings are encouraged.
  - Careful review of limits is crucial, including overall loss limit and critical cat limits.
  - Loss mitigation must be a focus, highlighting completed recommendations and disaster recovery/business interruption plans.
- Buyers need to consider options to mitigate rate: restructuring and re-layering, retention options, carrier selection and alternative risk transfer.

Disclaimer

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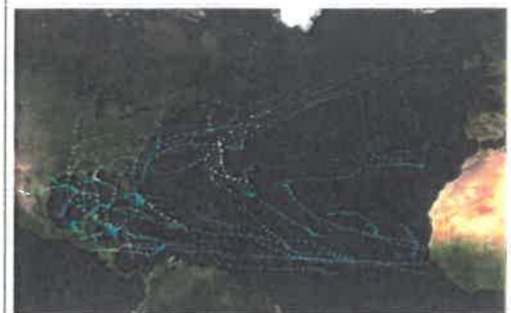
2020 Atlantic hurricane season

The **2020 Atlantic hurricane season** was the most active and the fifth costliest Atlantic hurricane season on record. In addition, it was the fifth consecutive above average Atlantic hurricane season from 2016 onward. The season featured a total of 31 (sub)tropical cyclones, all but one of which became a named storm. Of the 30 named storms, 13 developed into hurricanes, and six further intensified into major hurricanes, with one, Hurricane Iota, attaining Category 5 strength on the Saffir–Simpson scale.[nb 1] It was the second season to use the Greek letter storm naming system, the first being 2005. Of the 30 named storms, 12 of them made landfall in the contiguous United States, breaking the record of nine set in 1916. The season was also the fifth consecutive season in which at least one Category 5 hurricane formed. During the season, 27 tropical storms established a new record for the earliest formation by storm number. This season also featured a record 10 tropical cyclones that underwent rapid intensification, tying it with 1995.[2] This unprecedented activity was fueled by a La Niña that developed in the summer months of 2020.

2020 Atlantic hurricane season



Season summary map

Seasonal boundaries	
First system formed	May 16, 2020
Last system dissipated	November 18, 2020
Strongest storm	
Name	Iota
• **Maximum winds**	160 mph (260 km/h) (*1-minute sustained*)
• **Lowest pressure**	917 mbar (hPa; 27.08 inHg)
Seasonal statistics	
Total depressions	31 (record high, tied with 2005)
Total storms	30 (record high)
Hurricanes	13
Major hurricanes (Cat. 3+)	6
Total fatalities	≥ 431 total
Total damage	> $51.146 billion (2020 USD)

Related articles

- Timeline of the 2020 Atlantic hurricane season
- 2020 Pacific hurricane season
- 2020 Pacific typhoon season
- 2020 North Indian Ocean cyclone season

The season officially started on June 1 and officially ended on November 30. However, storm formation is possible at any time of the year, as demonstrated in 2020 by the early formation of Tropical Storms Arthur and Bertha, on May 16 and 27, respectively. This marked the record sixth consecutive year with a pre-season system. Tropical Storm Cristobal caused 15 deaths across Louisiana and Mexico. The first hurricane, Hurricane Hanna, made landfall in Texas. Hurricane Isaias formed on July 31, and made landfall in The Bahamas and North Carolina in early August, both times as a Category 1 hurricane; Isaias caused $4.8 billion in damage overall.[nb 2] In late August, Laura made landfall in Louisiana as a Category 4 hurricane, becoming the strongest tropical cyclone on record in terms of wind speed to make landfall in Louisiana, alongside the 1856 Last Island hurricane.[3] Laura caused at least $19 billion in damage and 77 deaths. September was the most active month on record in the Atlantic, with ten named storms. A slow-moving Hurricane Sally impacted the US Gulf Coast, causing severe flooding. The Greek alphabet was used for only the second time, starting with Subtropical Storm Alpha, which made landfall in Portugal. On the last day of October, Hurricane Eta formed and made landfall in Central America at Category 4 strength on November 3.[4] Eta ultimately led to the death of at least 189 people and caused $7.9 billion USD in damage. Then, on November 10, Tropical Storm Theta became the record-breaking 29th named storm of the season and, three days later, Hurricane Iota formed in the Caribbean. It rapidly intensified to Category 5 intensity on November 16, the latest Category 5 hurricane on record in the Atlantic Ocean. This also made 2020 the only recorded season with two major hurricanes in November.[5] Iota ultimately made landfall in the same general area of Central America that Eta had just weeks earlier and caused catastrophic damage.

Early in the year, officials in the United States expressed concerns the hurricane season could potentially exacerbate the effects of the COVID-19 pandemic for U.S. coastal residents.[6][7] As expressed in an op-ed of the *Journal of the American Medical Association*, "there exists an inherent incompatibility between strategies for population protection from hurricane hazards: evacuation and sheltering (i.e., transporting and gathering people together in groups)," and "effective approaches to slow the spread of COVID-19: physical distancing and stay-at-home orders (i.e., separating and keeping people apart)."[8]

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