



SEPTEMBER 2022

US PROPERTY INSURANCE REVIEW

THE RT SPECIALTY PROPERTY COMMITMENT

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MARKET OVERVIEW

Overall pricing within the property arena has continued its upward trend, along with limited capacity offerings in certain classes of risk. These conditions are especially indicative within the excess and surplus lines property market in comparison to the standard property market, where premium increases have been moderating. In addition to the catastrophe-exposed regions that have traditionally been highly susceptible to coastal named storm, flood, convective storm, earthquake and wildfire, the geographical boundaries that require more underwriting scrutiny are expanding. Over the last year, areas throughout Florida, Texas and Louisiana have been most impacted, with more carriers declining risks or only writing business based on meeting rigorous underwriting terms and restrictions. Insureds with adequate protection features, a risk management commitment, a good loss experience and a location in a favorable loss-exposed region can differentiate themselves and achieve more favorable results. These overall market conditions are expected to continue throughout the remainder of 2022.

As reported in the prior [RT Property Insurance Review](#), insurers within the standard market segment continue to reposition their portfolios and reduce writings where losses have impacted results. This adjustment has fueled the surge in premium growth and expansion for the excess & surplus lines market. According to the [Wholesale & Specialty Insurance Association \(WSIA\) Stamping Office Premium and Transaction Report - Midyear 2022](#), for the first half of 2022, the total surplus lines premium reported to the stamping offices represented a 32.4% increase over the same period in 2021. Transactions increased by 9.4% during the year compared to the year prior. In addition, [AM Best Information Services](#) reports the "total US surplus lines direct premiums written (DPW) reached a record \$82.6 billion in 2021, with momentum continuing through mid-year 2022."

MARKET DRIVERS

Overall property insurance capacity remains adequate yet often requires additional markets

within a placement to meet the demand, especially for larger shared and layered programs. Pricing increases on non-CAT accounts has to some extent moderated within the single-digit range, yet tougher classes of business are still receiving significant rate increases. For certain geographically exposed areas such as Tri-County Florida (Palm Beach, Broward, Miami-Dade), Texas, Louisiana and states which are susceptible to wildfire exposed areas, carriers have reduced or even withdrawn their capacity.

Several key primary and excess markets are now only offering net line capacity. Among other reasons, this can be a result of reduced capacity available from facultative or treaty reinsurance markets. The average capacity line size, which may have previously been \$10 million, is now most likely reduced to \$5 million, with more distressed business possibly reduced to \$2.5 million. In addition, many excess carriers have increased scrutiny over attachment points. These reduced line sizes or changes of attachment may require the placement of shorter compressed layers or the need for additional buffer layers, which can drive total premium upward to complete account placement structures.

Excess and buffer layers have become more challenging to place on various accounts driven by reduced line size and the need for additional market participation. In contrast, primary layers have sometimes become more achievable with higher premiums driving participation from players such as London and other offshore markets, who have become more aggressive with the incentive to obtain higher rate levels.

In addition to paying close attention to geographically CAT exposed areas, many key carriers are closely monitoring portfolio growth and aggregation of risk based on type and class of business. Multi-family residential business remains in a tightening market, driven by various primary and excess markets reducing their writings in this space. Other challenging classes of business continue to be warehousing, complicated manufacturing and recycling

operations, especially those with a significant loss history. Detailed account information along with full loss inspection reports are often required for any consideration. In addition, with the increase in loss frequency and severity on water damage claims, we expect carriers will continue to focus on closely underwriting this peril, possibly placing lower sub-limits and higher deductibles on this segment of the account.

VALUATION SPOTLIGHT

Insurers have been scrutinizing and challenging property valuations for several renewal cycles due to COVID-19-related supply chain disruptions and skilled labor shortages, among other concerns. The [US Bureau of Labor Statistics August 11, 2022 Producer Price Index](#) reported a 25% increase in construction material prices in 2021, with additional increases shown through June 2022. Continued restoration of the supply chain has made some impact; however, it is offset to some degree by the recent uptake in new construction.

With generally high inflation in the US economy, it is important for properties to be accurately valued. Several carriers are taking an aggressive stance against perceived undervaluation by adjusting rates. Policy limits on undervalued properties (particularly as inflation drives up the cost of post-loss repair) might be inadequate in the event of a significant loss. Other actions being taken by carriers to ensure adequate Total Insured Values (TIV) include establishing minimum thresholds and adding policy language regarding coverage being restricted to the declared values shown on the insured's statement of values.

REINSURANCE

Reinsurance treaty renewals for the first half of 2022 continued with tightening conditions within the property arena. In order to obtain favorable renewal terms, cedent insurers must differentiate their positive underwriting results from others who have been impacted by poor loss results. Reinsurance rates continue to rise, a trend continuing from the sharp jump in pricing seen earlier on the January 1 treaties. Nearly all companies, regardless

of profitability, will likely experience increases in reinsurance pricing. Profitable companies will receive more favorable terms, yet the degree of the increase will be based upon additional factors that offset profitability.

In addition to claim performance of the underlying portfolio, the strength of carrier management, business strategy and adequacy of pricing structure, additional key parameters include underwriting guidelines on a go-forward basis and engineering expertise. Reinsurers are looking to support companies who can also demonstrate proper insurance to value within their portfolio, show expertise in loss control and assure that current challenges (such as climate change, supply chain issues and inflation) are proactively being addressed.

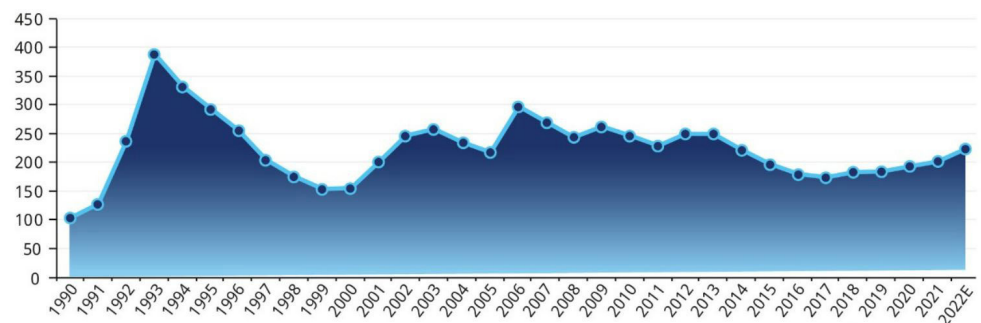
Current high inflation and supply chain disruptions have created additional strain on the reinsurance market. As a result, reinsurers are assessing the impact it represents with their cedent portfolios and making appropriate adjustments to pricing models. Coverage clarity remains a focus with reinsurance renewal negotiations. The emphasis has shifted away from the pandemic after two years of modifications to property policy forms, the crisis in Ukraine and the minimization of any unexpected coverage of risks.

Named windstorm (NWS) in particular has been a big driver of shrinking reinsurance capacity, with increased pricing year-over-year for July 1, 2022 treaty renewals within this segment. Overall, all sectors of property reinsurance pricing have accelerated because of less dedicated capital and few newer entrants. Guy Carpenter estimates a rise of 15% for its catastrophe rate-on-line index as of mid-year 2022. This rise represents the largest increase for this index since 2006. The continued volatility with property catastrophe exposures in recent years has also driven reinsurers to begin repositioning their portfolios towards other classes, such as casualty lines. Property reinsurers have been in a prolonged period of lackluster results, even when their cedent clients are making money. As an industry, it is important to remain attractive to capital providers. Therefore, results will need to continue to improve through enhanced pricing and client selectivity.

See Figure 1 below for the Guy Carpenter graph which illustrates their updated global Catastrophe Rate-On-Line (ROL).

Guy Carpenter and A.M. Best recently released a report which evaluated the global reinsurance marketplace and has projected a possible capacity crunch for property CAT business. The latest forecast for dedicated global reinsurance capital estimates a projected total of \$530 billion at year end

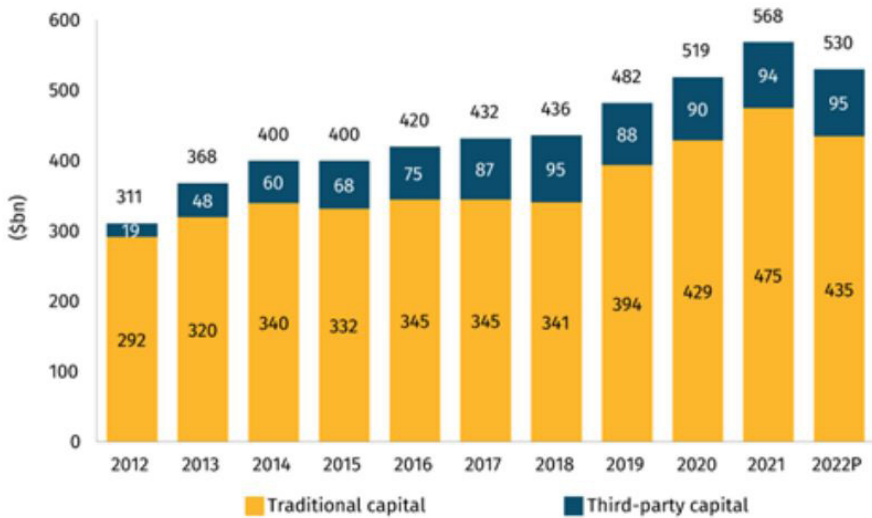
Figure 1: Guy Carpenter Global Property Catastrophe (ROL) Index – 1990 to 2022*



* The Guy Carpenter ROL Index is a measure of the change in dollars paid for coverage year-on-year on a consistent program base. The index reflects the pricing impact of a growing (or shrinking) exposure base, evolving methods of measuring risk and changes in buying habits, as well as changes in market conditions.

Source: Guy Carpenter January 2022 Reinsurance Renewal: An Evolving Market Leads to Divergent Outcomes

Figure 2: Global reinsurance – estimated total dedicated reinsurance capital



Source: Guy Carpenter and AMBest.com; AM Best Information Services Market Segment Report: Dedicated Reinsurance Capital Growth of 2021 may not continue

2022, compared with \$568 billion at the close of 2021. See Figure 2.

BUILDER’S RISK SPOTLIGHT

Residential new construction is expected to continue expanding over the coming year. There is still a degree of ongoing supply chain challenges, shortages of building materials and a lack of skilled labor that are driving up construction prices, yet these factors seem to have moderated slightly over recent months. In addition, there has been an increase in “shovel-ready” infrastructure development and solar renewable energy projects as a result of the investment incentives with federal legislation passing in November 2021.

Available capacity within the builder’s risk insurance market is generally keeping up with demand, yet can be an issue depending on project size, geographical location, CAT exposure and type of construction. Several markets have withdrawn from participating in larger projects and, with very few new entrants coming into the market, premiums have been continually on the rise. Larger projects may require a multi-carrier placement (layering or quota share) to meet policy limit requirements. There is a potential of capacity becoming even more scarce in Q4 as various carriers are beginning to reach premium caps for some slips.

Another challenge is carrier responses to policy term extensions. Labor challenges and

material supply chain delays have created the need to extend policy terms beyond original estimated completion dates. In many cases, carriers will require the issuance of new terms with higher rates when asked to extend a coverage period. In some cases, inflation has resulted in higher total project values thereby requiring higher coverage limits on extension, which can cause capacity issues for underwriters who may have used their entire capacity at inception.

Protective safeguards have become more standard and typically are incorporated as mandatory requirements with builder’s risk quotations. Common underwriting recommendations include third-party

monitored video surveillance with requests for upfront documentation (i.e., Geotech, budgets, site plans) on the larger projects. Within the builder’s risk market, renovations with existing structures have also become a challenging risk to place in the market. Several carriers no longer offer builder’s risk coverage. Similar to stand-alone larger projects, upfront documentation, including loss control engineering reports and prior inspections, are key to responding to underwriting requirements.

Within the frame construction space, the builder’s risk market continues to experience large fire losses, including the Oklahoma City fire in February, which made national news. While not as newsworthy, water damage and intrusion losses have become another key topic of discussion, with significant water damage losses becoming too frequent for insurer comfort. Markets have now begun limiting coverage for water damage unless water loss mitigation technology is in place. In addition, there is currently increased demand for “sprawl projects” in the southwestern US, with many projects being developed within very high-hazard brush areas. For underwriters, brush remediation plans prior to construction have become compulsory for successful placements.

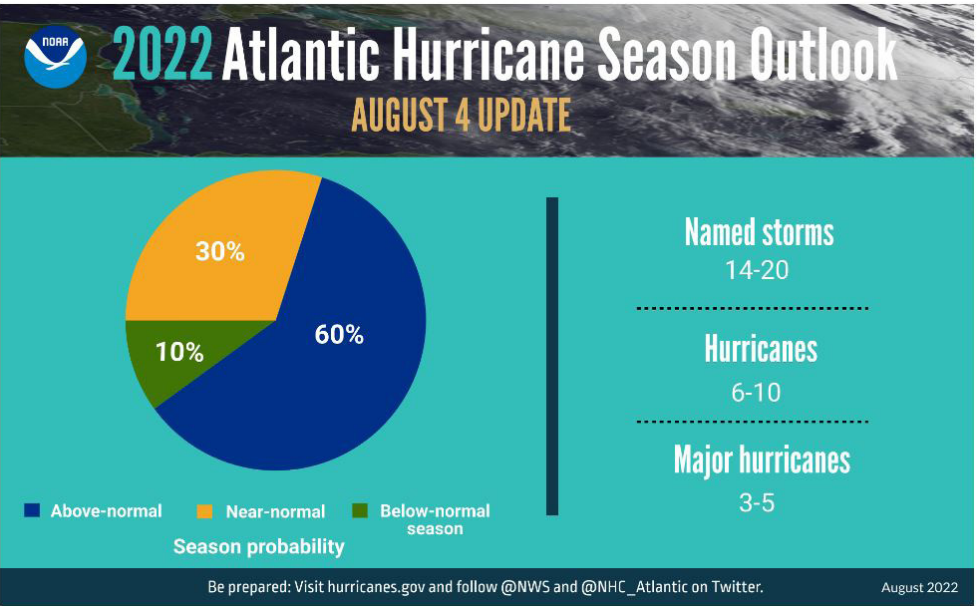
HURRICANE SEASON SPOTLIGHT

As we enter peak season for Atlantic hurricanes, three well-known Atlantic hurricane season forecasters predict this will be the 7th consecutive year of above average-activity, which is reflected in their

Figure 3: 2022 Atlantic Hurricane Season, Forecast Summary

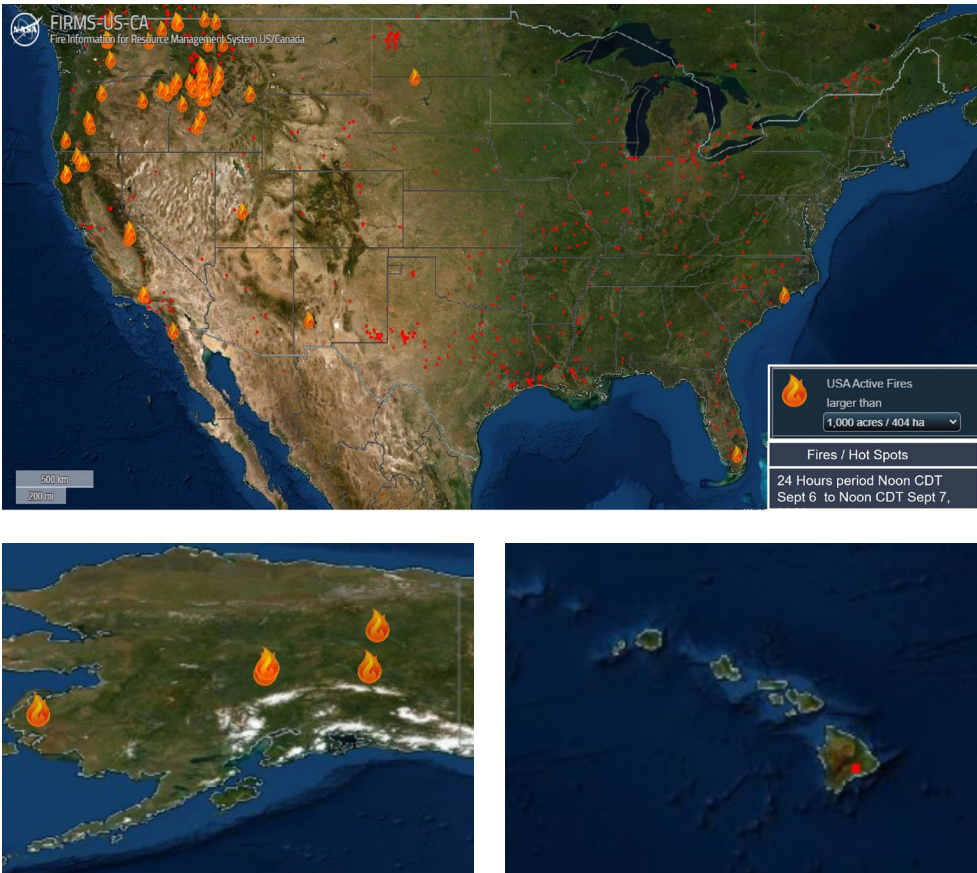
	DATE OF FORECAST	NAMED STORMS TS 39-73 mph, and all Hurricanes	HURRICANES Cat 1 – 74-95mph Cat 2 – 96-110 Cat 3 – 111-129 Cat 4 – 130-156 Cat 5 – >156mph	MAJOR HURRICANES Cat 3 – 111-129 Cat 4 – 130-156 Cat 5 – >156mph
CSU – Tropical Meteorology Project	8/4/2022	18	8	4
TSR - Tropical Storm Risk	8/9/2022	17	8	3
NOAA – National Oceanic and Atmospheric Administration	8/4/2022	14-20	6-10	3-5
Average of the above forecasts:		17.3	8	3.3
1991-2020 NOAA’s Average Benchmark		14	7	3

Figure 4: 2022 Atlantic Hurricane Season Outlook - August 4 NOAA Update



Source: NOAA – National Oceanic and Atmospheric Administration

Figure 5: NASA / Fire Information for Resource Management System US Maps



Source: NASA / FIRMS

mid-season updates to their predictions. The Colorado State University (CSU), Tropical Storm Risk (TSR) and NOAA, forecasted storm numbers seen in the chart on page 3 are higher than the 30-year average benchmark. See page 3, Figure 3.

Environmental factors cited for the enhanced activity include sea surface temperatures in the tropical North Atlantic and Caribbean remaining warmer than average, and the ENSO phase is expected to remain in La Nina conditions for the duration of the Atlantic Hurricane Season. The numbers in the table and chart include the three tropical storms from June and July, Alex, Bonnie, and Colin, none of which made landfall. Before reaching tropical cyclone status over the Atlantic, the unnamed storm system that would become Alex produced 11 inches of rain in the Miami area with local flooding. See Figures 3 and 4.

WILDFIRE SPOTLIGHT

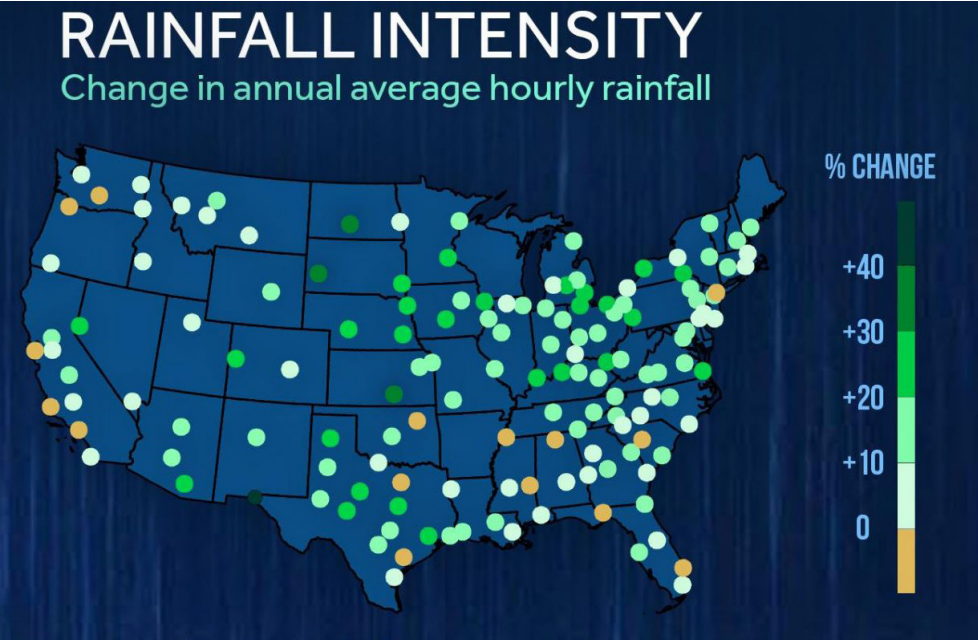
The [National Interagency Fire Center](#) (NIFC) [four-month outlook](#) issued on September 1 forecasts above normal significant wildfire potential in much of the Northeast in September through November due to ongoing drought there. Most of Northern California and parts of the Pacific Northwest are forecast to have above normal potential in September, with most of those areas returning to normal in October. Much of the Southwest is forecast to have average potential, due to the North American Monsoon's precipitation improving the drought situation there. Below normal precipitation and above normal wildfire potential is forecast to continue in Oklahoma and is forecast to expand to Texas by December. The US is approximately 116% above the ten-year average for acres burned, year-to-date through August. [The NASA / Fire Information for Resource Management System US/Canada \(FIRMS\) maps](#) illustrates the US active wildfires over 1,000 acres as of September 7, 2022. See Figure 5.

Figure 6: Historic St. Louis Rainfall



Source: Weather.gov; July 26th, 2022 Historic Flash Flooding in the St. Louis Metro Area

Figure 7: Rainfall Intensity



Source: ClimateCentral.org, Wetter Rainfall Hours in a Warming Climate, April 27, 2022

Figure 8: Flood Damage – From the Headlines

4 May 2022 – USA and Canada	Evacuations After Widespread Flooding in Manitoba, North Dakota and Minnesota
6 May, 2022 – USA	Flood Rescues after Heavy Rain in Arkansas and Oklahoma
8 May, 2022 – USA	Emergency Declared After Deadly Flash Floods in West Virginia
14 June, 2022 – USA	Evacuations and Rescues After Record Flooding in Southern Montana, Yellowstone National Park Closed
18 July, 2022 – USA	Rain on Burn Scar Areas Triggers Deadly Flooding in Colorado
27 July, 2022 – USA	Severe Flash Floods in Missouri After Record Rainfall
29 July, 2022 – USA	Emergency Declared After 15 Killed in Kentucky Flash Floods
8 August, 2022 – USA	Flash Floods in Death Valley Leave Hundreds Stranded
14 August, 2022 – USA	2 Die in Las Vegas Flash Floods
16, August, 2022 – USA	State of Emergency Declared after Floods in West Virginia
21, 22 August 2022 – USA	Deadly Flash Floods in Texas After 385mm (15 in.) of Rain in 24 Hours

Source: FloodList.com

FLOODING SPOTLIGHT

The Weather Channel – Meteorologist Ari Sarsalari explains “...warmer temperatures across the globe are causing more water to evaporate from the land and oceans. This increases the size and frequency of heavy precipitation—basically like we’re seeing across this area of Missouri.”

“A recent study by Climate Central revealed [up to] a forty-two percent increase in the heaviest precipitation events across the Midwest since the 1950s, so while climate change doesn’t directly cause individual floods, it is intensifying the factors that do.” See Figures 6, 7 and 8.

UPDATE – CHAMPLAIN TOWERS SOUTH – SURFSIDE, FLORIDA CONDO COLLAPSE

On June 24, 2021, the 12 story, 135-unit condominium built in 1981 known as Champlain Towers South in the Miami suburb of Surfside, Florida partially collapsed, killing 98 people. (See Figure 9.) Contributing factors to the collapse are believed to be construction of a new condo adjacent to Champlain Tower South and maintenance deficiencies at Champlain Towers South, including issues with the basement level parking garage which had been originally reported in 2018 but not approved for a \$15 million remediation project until April of 2021. The main structural remediation work in the garage had not yet begun at the time of the collapse.

In response to the collapse, the State of Florida passed a new law requiring statewide recertification of condominiums more than 3 stories and requiring apartment owners to contribute to reserves, as well as making building inspection records available to tenants and prospective buyers, according to the [Local 10.com May 25, 2022 report](#).

[Rueters.com](#) reported on June 23, 2022 that a judge finalized a \$1+ billion settlement to be awarded to the survivors, families of the deceased and owners

of damaged property. Earlier in 2022, a separate settlement for the condo owners was reached for \$96 million. Both settlements will be mainly funded by payments from the insurance policies of the settling parties. Additional funds going toward the settlement will be from the recent sale of the land where Champlain Towers South stood to a Dubai developer who plans to build luxury residences on the site, as published by the [Tampa Bay Times](#) on May 25, 2022.

[Per the Miami-Dade County Circuit Court, Case No: 2021-015089-CA-01](#), the \$1+ billion settlement involved multiple settling parties, including the security firm for Champlain Towers South in the amount of \$517.5 million, plus the general contractor for Eighty Seven Park and the condo being constructed adjacent, who settled for \$157.0 million. The majority of the balance of the settlement involves various subcontractors of both Champlain Towers and the Eighty Seven Park condo project. However, additional parties listed in the settlement included the Town of Surfside and the legal counsel for the Champlain Towers Condo Association.

As [CBSnews.com](#) reported on May 25, 2022, federal investigators at the National Institute of Standards & Technology (NIST) are now continuing their investigation with invasive testing of the concrete and steel for density, porosity and corrosion from environmental climate change sea level rise and saltwater intrusion.

Figure 9: Champlain Towers South Collapse



Source: Retuers.com, Florida judge finalizes settlement for victims of Surfside condo collapse, REUTERS / Marco Bello / File Photo



THE RT SPECIALTY ADVANTAGE:

- Exception Dedicated Claims Team
- Top-Notch Modeling / Analytics Team
- Professional Compliance / Legal Team
- Strong Technical Resources
- Incredible Market Relationships / Scale

The RT Property Team is prepared to assist throughout all areas of this challenging property market. We continue to shine for our retail broker partners with our motto:

“Out-Think. Out-Work. Out-Execute. Repeat!”

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