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CONSTRUCTION & REAL ESTATE BRIEFING

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Commercial Property and Casualty Global Insurance and Reinsurance Market Summary

- The **Global Insurance and Reinsurance** market remains in good health through the second quarter of 2013, as catastrophe losses remain relatively low, capital remains plentiful and demand is broadly consistent. All of these factors have resulted in a stable marketplace characterized by moderate if any change in capacity, rate and pricing throughout the industry.

- According to projections by analysts at *Fitch Rating*, global reinsurers will likely report weaker profits next year, held back by a combination of potential price reductions, declining reserve releases and persistently low investment returns.

- Although moderating, both insurers and reinsurers acknowledge that improving rates attract new capital and it is this additional capacity that makes it difficult to sustain the trend toward progressively increasing rates.

- Renewal rate changes over the past 30-60 days suggest that the market hardening experienced at the beginning of the year has lost traction and a continued softening is likely to continue barring an unforeseen catastrophic event.

- The **Property Catastrophe** market is in a state of transition with flat pricing now the norm as underwriters are challenged to remain disciplined admidst growing supply. Despite the approximate $30BN loss impact of Superstorm Sandy last year, property insurance and reinsurance catastrophe rates have moderated and in some cases are being reduced. Rates are similarly moderating in regions that last year experienced large rate increases directly tied to large catastrophe losses in these areas, most notably New Zealand, Australia and Japan. In the absence of any major losses, it is very likely that the softening will continue and rate reductions will be achieved through the end of the year.

- The **Terrorism Insurance** market remains stable and competitive, although insurers' aggregations or overall exposure in Tier 1 areas continue to be managed closely. Concern over the uncertain future of the US Terrorism Risk Program Reauthorization Act (TRIPRA) set to expire on December 31, 2014 will peak toward the end of this year. If history repeats itself, it is likely that the reauthorization of TRIPRA will occur just prior to its expiration; thereby creating uncertainty as to how policy renewals beginning January 1, 2014 will be handled. It is very probable that "sunset clauses" will be attached to policies renewing in 2014 whereby coverage for S&T will be excluded December 31, 2014 if the government backstop is not reauthorized or substantially reduced in scope.

- The **General and Excess Liability** markets also show signs of rate stabilization after several quarters of single digit rate increases generally. Accounts with poor loss experience or a perceived high risk profile will be less likely to achieve rate moderation or reductions. Like the Property Catastrophe market, the significant amount of capital in the industry is acting as a governor on carriers' ability to achieve any sort of rate increases on their primary and excess liability books of business.

- **The Management (D&O/E&O/EPLI) Liability** market is mixed. D&O liability insurance rates continued to experience slight increases. Publicly traded companies have experienced modest 5% to 10% rate increases for D&O coverage and private companies have seen rate increases in excess of +15% on their management

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liability renewals. This is primarily driven by the fact that private company management liability policies usually include both D&O and EPL and the driver of the increases has been the EPL coverage. The rate for primary D&O layers appeared to be firming more than for excess layers, particularly for companies or entities with a less favorable risk profile. Although capacity remained robust and even increased in the Errors & Omissions/ Professional Liability market, insurer companies were less willing to compete thereby reducing the ability of organizations to secure decreases. California, Florida and New York-based companies have experienced significant rate increases in stand-alone EPL coverage, and terms and conditions are more restrictive.

- The **Workers Compensation** market continues to remain tight, as underwriting discipline remains strong and upward pricing pressure continues unabated. Many employers are exploring alternative program structures and loss sensitive programs to mitigate year over year rate increases.

- Unlike prior years in which the Asia Pacific region sustained several of the world's largest catastrophic events, recent insured loss activity has been minimal and as a result insurance and reinsurance costs have stabilized throughout the region. Europe and the United States experienced more recent catastrophic losses although the insurance and reinsurance markets have easily absorbed these losses and capacity continues to remain plentiful.

  - **Australia:** There is currently adequate available capacity for the majority of risks in Australia. Although insurers are still seeking higher premiums for certain classes of insurance, greater competition brought about by additional capacity and increased underwriting appetite is keeping rate increases to a minimum.

  - **Japan:** Last year was relatively benign with few major natural catastrophes. The regional insurance markets in Japan have recovered quickly after the dual catastrophic losses of the Great East Japan EQ of 2011 and the Floods in Thailand. Capital, capacity and competition continued to flow into the region as demand for insurance increased and underwriters sought to maintain or increase their share of the market.

  - **Europe:** The insurance market across Europe is expected to remain broadly stable in 2013 despite the losses that affected the market globally in 2012 and the flooding in Central and Eastern Europe in June this year. This year's flooding caused approximately $4BN in insured losses, according to Swiss Re, surpassing the claims bill from the 2002 catastrophic flooding in the same region.

  - **United States:** Catastrophe losses in the U.S. in 2012, continued pressure to achieve favorable underwriting results and a low interest rate environment increased most commercial insurance buyers' total cost of risk by 5%, according to the 2013 *Risk and Insurance Management Society's* benchmark survey released last month. *The Council of Insurance Agents and Brokers* report in their second quarter 2013 market Index Survey that Commercial Property and Casualty rates ticked upward but at a slower rate than in the beginning of the year. Pricing for U.S.-based accounts rose at an average rate of 4.3% from April 1 to June 30, down from the 5.2% growth rate in the first three months of 2013.

Source: Fitch Ratiings, Swiss Re, Council of Insurance Agents & Brokers Market Index Survey 2Q2013, S&P Global Reinsurance Report, Lloyd & Partners Market Update July 2013, RIMS Commercial P/C Market Survey July 2013.

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