

REAL ESTATE

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Risk & Reward – An Overview of the Real Estate Insurance Market in 2009

Having seen extremely competitive market conditions over the last few years, we outline below how JLT expect the insurance market to react in 2009, with the backdrop of global economic downturn.

We expect to see a change in the underwriting philosophy of many in the Real Estate insurance market, which is a result of a number of factors, most noticeably the current economic downturn which has, and will for the foreseeable future, drastically reduce investment income that insurers have relied upon in the past to post successful trading results.

Many of the major UK carriers have been operating at a combined operating ratio of well in excess of 100% with most being between 105% and 110%. This means that for every £1.00 collected in premium, accumulated costs incurred, such as claim payments and expenses, have been running at £1.05 - £1.10, i.e. in excess of premium receipts. Investment income, coupled with the release of historic loss reserves has, in the past, allowed them to make an overall profit and return shareholder dividends.

With this as a backdrop, whilst the Real Estate insurance market remains competitive for profitable accounts and there have been only modest increases in reinsurance costs, there is a noticeable change in view for those accounts that are either considered to be too keenly rated, or are unprofitable.

In addition, carriers are more closely scrutinising the risks inherent in property portfolios, particularly those that have potential to suffer losses due to, for example, construction type; the trade of tenants or external environmental factors, meaning poorly performing risks, or those with the potential to suffer losses, will likely be adversely impacted.

With the worsening economic outlook, and an inevitable increase in the level of void and unoccupied properties, such risks will also be a target for price and cover pressures. In fact, many carriers are trying to impose enhanced security procedures, or reduce cover and increase policy excesses in such cases.

There is also some evidence that carriers are looking to limit the total commission available on new business, which clearly impacts those in the sector that retain part or all of the commission generated through their insurance arrangements.



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As of yet, there is no real change to existing businesses' remuneration where the account is profitable, although this situation is being reviewed by a number of carriers.

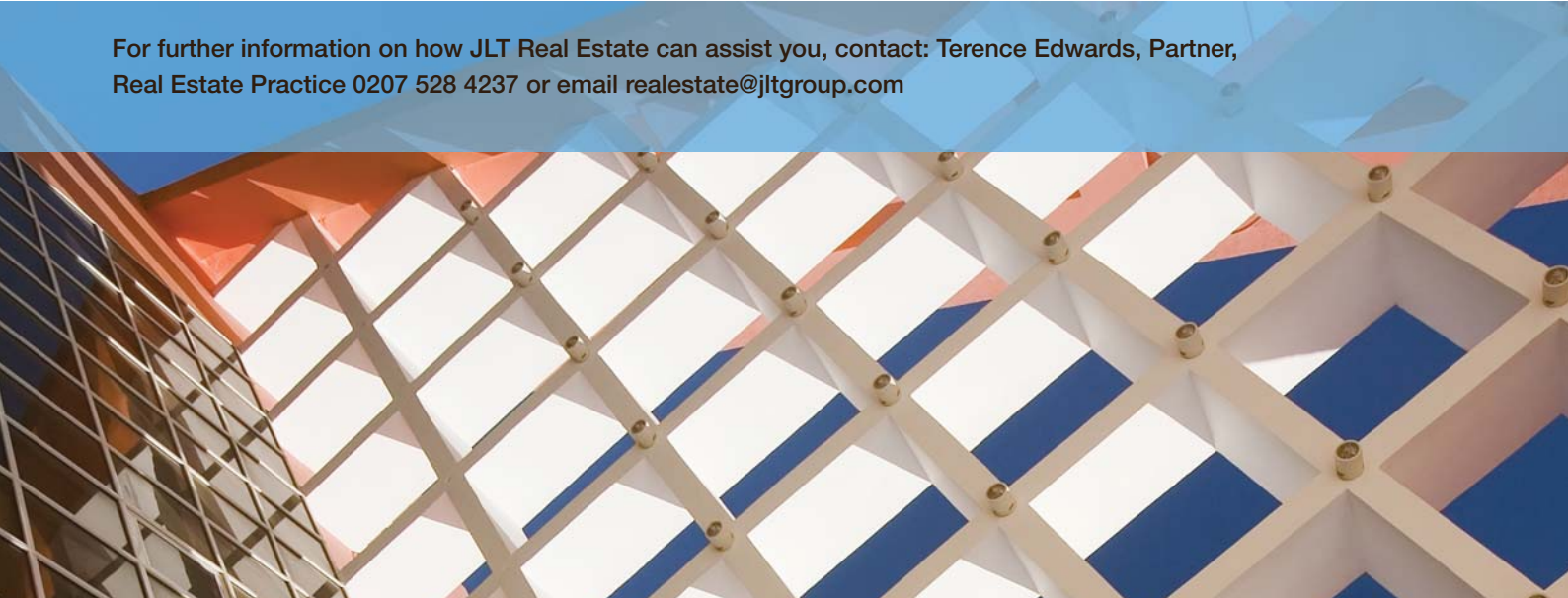
There is still some evidence that, for profitable accounts, some insurers are adopting an overtly aggressive strategy in order to win new business, whereas the renewal book is subject to the pressures outlined above.

One vital area to help alleviate losses, price increases or even the negative impact on commission levels will be effective risk management. In the past, some brokers have offered risk management services to clients and insurers, which in reality encompassed many areas that traditionally should be covered as part of the core service provision to their client. Going forward, where brokers are offering additional risk management services, both clients and carriers will expect that those services are on a truly value added basis, to help deliver a positive impact on loss ratios.

A client that actively manages risk in the current environment, working in partnership with a broker providing support and added value to their risk management strategy will, without question, differentiate themselves in the eyes of insurers, and help protect their position as we move into the next cycle of the insurance market.

To assist in these difficult times JLT Real Estate has proven expertise with a deserved reputation as dealmakers. We ensure that our clients are presented with the very best solutions the insurance market has to offer, and where solutions are not already available, we create them. We also have embedded within our team a specialist risk manager who has over 20 years experience at one of the largest property owners in the UK and Europe. This allows us to deploy market leading initiatives and systems that focus on improving our clients' risk management profile in the insurance market.

For further information on how JLT Real Estate can assist you, contact: Terence Edwards, Partner, Real Estate Practice 0207 528 4237 or email realestate@jltgroup.com



The JLT Real Estate Team specialises in providing services to investors in the real estate sector. Clients include leading plc's, REITS, pension funds, managing agents, development companies and others. Services range from arranging insurance of property portfolios, and the activities of facility managers, through to risk and insurance advice on corporate activity and development projects.



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