

An Overview of the Real Estate Insurance Market for 2011

The view of commentators was that 2010 would see the Real Estate market remain generally competitive with a possible number of exceptions, these being unoccupied or void buildings and properties that had potential or actual flood issues.

It was also thought that where possible insurers would push for rate increases, these could be resisted if the account was profitable and demonstrably well managed, which was the case.

There was an increased number of portfolios being remarketed due to enhanced pressures on Property Owners' own costs as a result of the economic downturn, as well as increasing pressure from occupiers to obtain the most competitive pricing.

However, competition between Real Estate Insurers remains strong with a number still trying to increase market share and few insurers sticking their heads above the parapet and trying to increase rates, potentially causing them to lose business.

What does the future hold for 2011?

There are still a number of issues affecting the Real Estate insurance market, which include:

- The market having been "soft" for several years causing the rating to reduce significantly below the market perceived norm.
- The inflationary cost of claims and settlements for both physical damage and liability losses.
- A reduction in the reserve levels available to release in order to boost profitability. In some insurer cases this is virtually nil.
- A lack of investment income and continued low interest rates.
- The Combined Operating Ratio of most Real Estate Insurers still exceeds the "break even" figure of 95%.

In order to reverse this unprofitable trend, Real Estate Insurers will need to underwrite business with a greater emphasis on achieving an underwriting profit. Insurers are suggesting that rate increases in excess of 5%, and in some cases significantly more are required to start this process.

Will Real Estate Insurers be able to achieve this?

It is likely that rates will see some type of increase for high risk accounts, or those that have performed poorly.

In addition, unoccupied and void properties continue to be of major concern to insurers with many refusing to provide cover and those that do limit the perils available and increase the rating. A robust risk management regime will help convince insurers that the risk is acceptable.

Flood remains a serious concern for insurers. The ABI's agreement with HM Government is due to expire in 2013 with many concerned that cover could be reduced or withdrawn post this date if an agreement is not reached. Most Real Estate insurers have sophisticated flood mapping tools which enable them to underwrite risks more accurately than before meaning that cover can be restricted or excesses increased. However, the future availability of cover will be influenced by the global re-insurance market which may well be impacted by the recent disasters in Australia.

Competitive pricing remains an achievable goal for portfolios that are of good quality, are profitable, do not have significant issues in the areas mentioned above and have demonstrable risk management. Static reinsurance costs will also have a positive impact on this.

As previously mentioned, effective risk management will continue to lessen the impact of premium increases and alleviate losses. Where brokers are offering additional risk management services both Property Owners and insurers will, quite rightly, expect these services to be on an added value basis, opposed to that offered in the past (which was little more than areas that should have been covered as part of the core service provision). These services will help deliver a positive impact on loss ratios.

It has been proven that in the current market, a client who actively manages their risk, working in partnership with a broker who provides support and leadership around risk management strategy, will differentiate themselves in the mind of the insurer as well as help protect their assets.

JLT's European Real Estate team has specialist risk management expertise which enables us to develop and implement market leading initiatives and systems that focus on improving our clients' risk management profile in the insurance market. We ensure that our clients are provided with the best solutions that the insurance market has to offer, and we have a proven reputation as dealmakers.



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