

For Lease

REAL ESTATE

Market Commentary 2010

12 months ago, received wisdom in the real estate insurance market was that premium rating increases would prove to be almost inevitable during the course of 2009, with insurers generally making it known that they would be looking for set increases across their books of business, ranging from 5% to 9%.

This was as a result of a combination of factors:

- the market having been “soft” for several years, resulting in a downward trend in rating over the course of that time;
- a reduction in reserve levels available to release, to boost profitability;
- the potential impact of recessionary linked claims, both actual and fraudulent;
- increased reinsurance costs
- the inflationary nature of claims costs and settlements;
- a lack of investment income and low interest rates;
- as a result of the previous two points, the need to underwrite business with a greater emphasis on profitability, rather than market share.

However, the reality during 2009 was that competition for business amongst insurers remained fierce, with some seemingly operating a “dual pricing” system of underwriting, whereby reduced rating was offered to secure new business, with attempts being made to achieve targeted rate increases on existing business.

Whilst potentially beneficial to clients in the short term, such a strategy adds obvious friction and instability into the equation when the business then comes round to renew the following year.

The latter half of 2009 saw an even greater drive by insurers to secure business, both new and existing, driven largely by poor financial results for the first half of the year.

So what lies in store in 2010?

Essentially, the same issues described above still exist and so must be taken into account when attempting to plot the course of rates during the next 12 months.

Similar noises are being made by real estate insurers regarding the need to increase rates across their books of business in the early part of the year with most suggesting that they will increase rates by 5%.

In addition to rate increases, real estate insurers are continuing to closely scrutinise the property portfolios that

they insure as they have concerns about a number of areas where there are perceived higher risks. Those areas that have performed poorly or have the potential to suffer losses will be adversely impacted. The main areas of concern are unoccupied properties and flood.

Unoccupied properties have become an area of great concern for a number of real estate insurers because of the continuing economic situation with some refusing to provide any cover at all, while others limit cover. Good demonstrable risk management is the key to obtaining cover in this area.

Flood is an area where real estate insurers have been concerned for some time, most now have quite sophisticated flood mapping tools to assist them with underwriting, meaning that in some cases cover is reduced or excesses increased. The recent losses in Cumbria have exacerbated matters. Full underwriting information will help property owners obtain cover.

Another area that may impact pricing is the Solvency II regulation, which could increase the minimum capital

requirement, though the framework does not have to be in place until October 2012. Rating increases are possibly the easiest way to raise the required capital and may be implemented sooner rather than later to ensure adherence to the regulation.

However, there are a number of factors that may prevent the market hardening to any great degree, including:

- competition remains strong, with several insurers looking to increase market share in the sector, as well as potential new entrants. A hardening market can only be achieved if there is a collective drive towards it;
- increased pressure on property owners' own costs as a result of the recession, including non-recoverable insurance premiums, driving re-marketing exercises;
- until the recent incidents of flooding, particularly prevalent in Cumbria, the general claims picture has been relatively benign;
- new tax legislation may reduce the impact of a lack of reserves, providing an aid to insurer profitability.

Effective risk management will continue to alleviate losses and premium increases. In the past, some brokers have offered risk management services to clients and insurers, which in reality encompassed areas that traditionally should be covered as part of the core service provision to their client, but did not always add value by helping to address and reduce practical risk exposures.

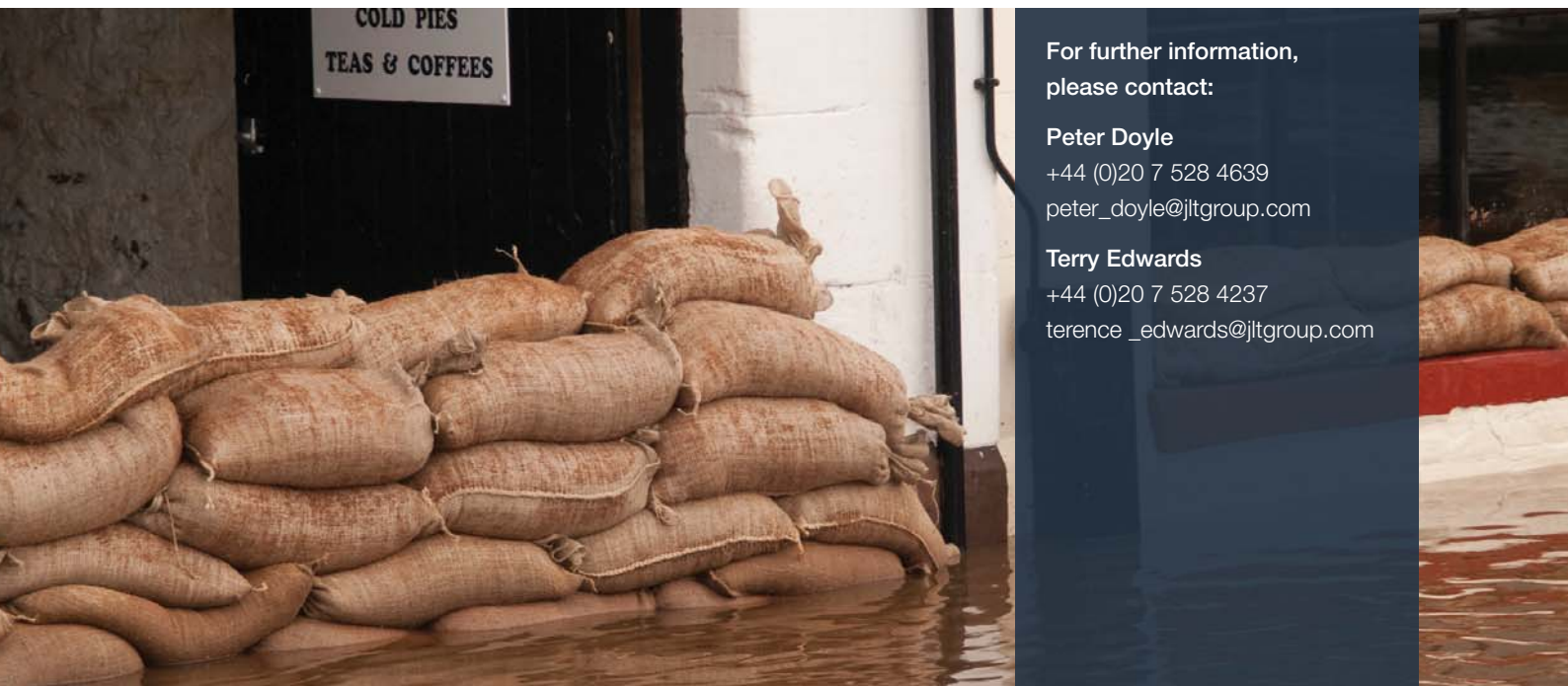
Going forward, where brokers are offering additional risk management services, both clients and insurers will expect those services to be on a truly value added basis, to help deliver a positive and demonstrable impact on loss ratios.

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 assets.

We have embedded within our real estate team specialist risk management expertise which enables us to deploy market leading initiatives and systems that focus on improving our clients' risk management profile in the insurance market.

Much can be done to reduce both the likelihood and severity of damage and, in the case of flood, improve the speed of repairs, thereby making the property available for re-letting earlier than might otherwise be the case.

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.



For further information,
please contact:

Peter Doyle

+44 (0)20 7 528 4639
peter_doyle@jltgroup.com

Terry Edwards

+44 (0)20 7 528 4237
terence_edwards@jltgroup.com

Jardine Lloyd Thompson Limited

6 Crutched Friars
London EC3N 2PH
Tel +44 (0)20 7528 4000
Fax +44 (0)20 7528 4500

Lloyd's Broker. Authorised and Regulated by the Financial Services Authority.
A member of the Jardine Lloyd Thompson Group. Registered Office:
6 Crutched Friars, London EC3N 2PH. Registered in England No. 01536540.
VAT No. 244 2321 96. www.jltgroup.com.

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