MARKET UPDATE

REAL ESTATE BULLETIN JANUARY 2015

An Overview of the Real Estate Insurance market 2015

Over recent years the JLT Specialty Limited European (JLT) Real Estate team have been predicting that the real estate insurance market would remain competitive. With the exception of “distressed risks” such as claims heavy risks, unoccupied or void properties and those that are potentially at risk of flooding this has been borne out. The 2015 Real Estate Insurance market offers little to change this way of thinking.

As with previous years, there is little to fear in the next 12 months for Real Estate portfolios that have good risk management procedures and claims experience.

MARKET BACKGROUND ISSUES

Continued historically low interest rates and fluctuating stock markets mean that investment income remains low.

The continued increase in quantum from both liability and physical damage claims continues unabated.

The COR (Combined Operating Ratio) or ROCE (Return on Capital Employed) remains above the underwriting breakeven point for most real estate insurers.

These factors sit against a backdrop of an extremely soft market, where for a number of years the prices charged are considerably below the perceived market norm and the technical price an insurer should charge.

GLOBAL

The global insurance and reinsurance market enjoyed a quiet year in 2014.

The Atlantic hurricane season was relatively quiet, with eight named storms, six of them classified as hurricanes, two of them being major, at least a category three on the Saffir-Simpson scale.

For the ninth year running the US mainland did not have a major hurricane make landfall, Bermuda was not so fortunate. It was hit by Fay on October 12 as it was nearing hurricane intensity. Then, just five days later, it hit by Category three Hurricane Gonzalo, the strongest of this year's hurricanes and caused between USD200 and USD400 million worth of damage.

Elsewhere it was not so inactive.

Violent storms hit France, Western Germany and Netherlands in early summer causing widespread damage. There was wide spread flooding in southern France at the end of November causing 3000 people to evacuate their homes.

Typhoon Hagupit struck the Philippines in December causing widespread damage and loss of life, though it was not as powerful as Typhoon Haiyan which stuck the country in 2013.

It is estimated by Swiss Re that the global insurance market will pay out USD34 billion for 2014 compared to USD45 billion in 2013. To give that some perspective the ten year average at 2013 was USD60 billion.

With this as a backdrop there continues to be significant amounts of new and expanded capacity available in the reinsurance sector, meaning prices here continue to fall.

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UNITED KINGDOM

2014 was benign year, it started under water following the extra tropical cyclone Xaver that caused widespread flooding over the christmas period of 2013 but despite floods in the North of England and Scotland, particularly towards the end of the year, insurance losses from a real estate sector perspective were modest.

There remains the issue of premiums being historically under-priced in relation to quantum and frequency of claims. Recent entrants in the Real Estate insurance market along with older hands with more capacity continue to exert downward pressure on rates. A number of insurers look to stabilise their position and looked for rate increases on portfolios that they viewed as distressed, in a number of cases these moved to other insurers for a lower increase or in some cases reductions as certain insurers sought to plug holes in their account.

The accounts that succeeded in negating the proposed increases tended to have robust risk management strategies. Not just the traditional type but in new methodology including thermographic testing as well as the

2014

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utilisation of innovative theft protections systems such as smartwater ™, available through JLT European Real Estate.

Another trend that has impact the real estate insurance sector in 2014 is the amount of banking covenant and due diligence work that brokers and insurers were asked to carry out and agree on behalf of their clients and Insureds.

A number of insurers have pushed back on parts of the loan agreements and issue homogenous wordings.

Banks, when providing loans are looking for more and more protection, including under the asset owner's real estate insurance policy. A number of insurers have pushed back on parts of the loan agreements and issue homogenous wordings. The sooner JLT Real Estate is involved in these areas the better the outcome for our client.

Continuing on from 2013 we saw M&A insurance policy numbers continue to grow. With again, warranty and indemnity insurance being the most popular choice, allowing a number of transactions that would have otherwise not completed or would have been significantly more expensive to go though. JLT where happy to assist with these.

As with previous years legal indemnities insurances continues to be purchased by a large number of real estate owners including policies for rights of light, defective title and restrictive covenant.

WHAT IS THE OUTLOOK FOR 2015?

Flood Re is due to come into effect in the summer of 2015 according to the ABI's (Association of British Insurers) timetable, Flood Re is the agreement between UK insurers and HM Government to develop a not for profit company to enable insurers to pass on the flood risk element of home insurance policies into a fund that will pay any subsequent flood claim. The intention is that high flood risk households are able to obtain affordably priced flood insurance. The intention at present is that this will not include commercial properties including leasehold residential properties, unless it is a block consisting of three or less apartments and the owner of the block lives in one. Therefore commercial properties that are perceived to be at risk of flooding will potentially have to pay higher premiums and/or have a higher deductible, in extreme cases cover may not be granted.

Pool Re, the government backed terrorism reinsurer held an Emergency

JLT Specialty Limited provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference – using insight, intelligence and imagination to provide expert advice and robust - often unique - solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

Our Real Estate division has a wealth of experience, recognised within both the insurance market and real estate sector. The team specialises in the placement and management of real estate focused solutions utilising market leading IT platforms that are web based and allow control of the programme and access to real time information anywhere in the world.

General Meeting on 21st November 2014 following protracted discussions with HM Government. The main outcomes were that Pool Re will now cede 50% of all premiums received rather than the 10% previously to HM Government and Pool Re will now have the ability to purchase reinsurance from the insurance market and not just rely on HM Government. The is no immediate change in the pricing model charged by Pool Re though they will be looking at the rates charged later in the year particularly the business interruption rates. There is also the potential that a specific loss limited cover may be made available to SME business, the full impact of these changes, if they occur, will be known later in the year and JLT Real Estate will keep you apprised of the situation.

IS THERE ANY SIGN OF THE REAL ESTATE INSURANCE MARKET HARDENING?

As with previous years some insurers are trying to talk up their rates that they charge for real estate risks, however this has had little effect on the general pricing in the market. Apart from those risks that are “distressed” it is unlikely portfolios will have their rates increased. There are a number of insurers who have big growth targets for 2015 and therefore prices will remain keen as they try to protect their existing book acquire new business as well.

Given the unprecedented negotiating strength of JLT’s European Real Estate team, well managed portfolios as well as challenging ones will continue to secure deals that our clients and prospects demand.

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REAL ESTATE BLOGS

See the JLT blog site to keep you informed of any recent developments in the real estate sector: http://specialtyblogs.jltgroup.com/

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