Primary rates continue to climb even as reinsurance market stabilizes

February 2024

January 1, 2024, activity suggests the reinsurance market is returning to normalcy following difficult treaty renewals just over a year ago. Nevertheless, a positive property insurance rate environment is expected to persist in the first half of 2024. Buyers should be prepared for insurers to continue monitoring loss trends and applying significant underwriting scrutiny.

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Still in a positive rate environment

Backed by abundant capacity, rates for reinsurance catastrophe coverage flattened during Jan. 1, 2024, treaty renewals. Capacity is similarly ramping up in the quota share market, where ceding commissions are leveling off to increasing. In contrast, capacity is limited in the more difficult risk market. A key reason why the risk market remains more difficult than the rest of the overall reinsurance marketplace is because of the highly individualized nature of the coverage being placed.

Generally, reinsurers have generated fairly significant profits over the last 12 months, and by the end of 2023 had reached a point where they were comfortable with attachment points and pricing for catastrophe coverage. This is the main reason why rates flattened at Jan. 1.

While improving conditions in the reinsurance market are carrying over — to some degree — to the retail property insurance market, resulting in some rate deceleration, the reality is that property insurance rates are still rising for the vast majority of buyers. And despite recent reinsurance market developments, conditions for buyers with significant catastrophe exposures, recent losses, or difficult occupancies remain challenging early in 2024.

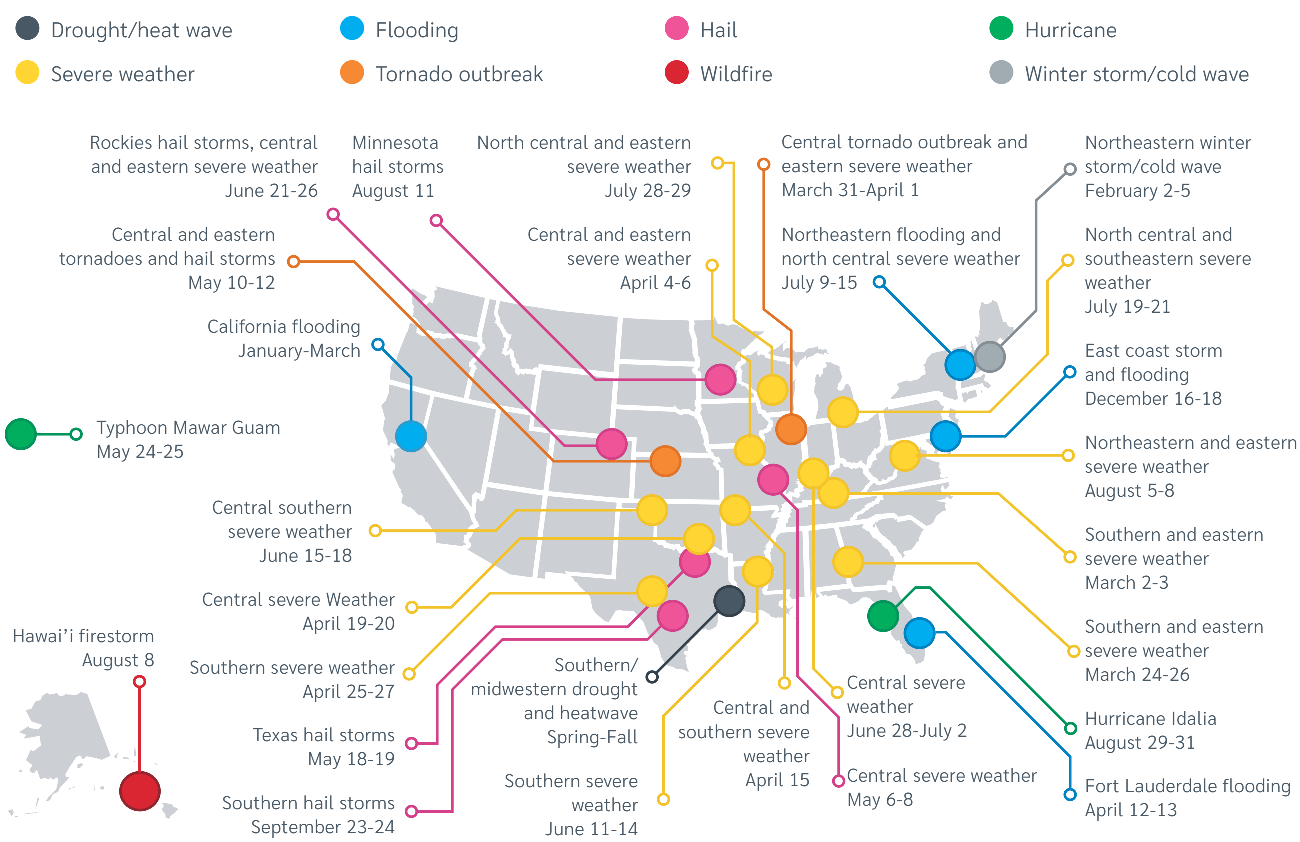
As always, account characteristics — including loss histories — will largely dictate individual insureds' results, with some buyers seeing both rate reductions and rate increases outside of the typical range. Policyholders may also be able to secure more favorable pricing in exchange for less desirable terms and conditions; conversely, more favorable terms and conditions may be available for an added price.

Secondary perils, valuations remain in focus

Even as reinsurance rates have begun to flatten, it's important to note that primary property insurers are retaining more risk today than they did just two years ago, and will contemplate passing on those increased loss costs to retail insurance buyers. This is an important consideration for insurers as they continue to raise primary rates overall, albeit at a slower pace than in 2023.

Insurers, moreover, remain concerned about catastrophe losses, including many that stem from so-called secondary perils, such as wildfires and convective storms (See Figure 1). Although the most recent Atlantic hurricane season was relatively benign, 28 separate weather events resulting in total economic losses of $1 billion or more each were recorded across the United States in 2023, according to the National Centers for Environmental Information (NCEI). That's the most billion-dollar events recorded in a calendar year since the NCEI began its tracking of this data.

FIGURE 1: NEARLY 30 BILLION-DOLLAR WEATHER EVENTS WERE RECORDED IN THE U.S. IN 2023.

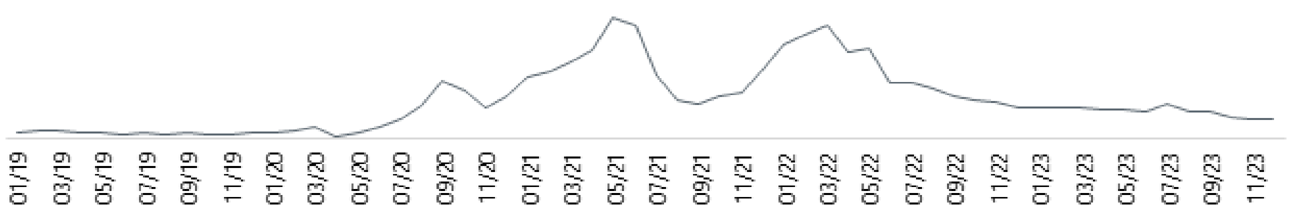


Source: National Centers for Environmental Information

Meanwhile, the Federal Reserve continues to make progress in reining in “headline” inflation, as measured by the Bureau of Labor Statistics’ Consumer Price Index (CPI). In January 2024, headline inflation slowed to 3.1% year over year, a fraction of the 9.1% peak recorded in June 2022. “Core” inflation, which excludes food and energy, was unchanged from December at 3.9%, its lowest level since May 2021.

The cost of construction materials has also declined in recent months. Notably, prices for lumber and wood products — as measured by BLS;’ Producer Price Index (PPI) — fell 9.2% from December 2022 to December 2023. The lower December 2023 prices, however, were still 17.6% higher than prices as of December 2019, just before the start of the pandemic (see Figure 2).

FIGURE 2: LUMBER PRICES FELL IN 2023 BUT REMAIN ABOVE PREPANDEMIC LEVELS.



Source: U.S. Bureau of Labor Statistics

Even as many buyers have stepped up their focus on reporting accurate property valuations, insurers continue to monitor the cost of building materials and labor as well as lingering supply chain disruptions. As such, valuations — while less of a discussion point today than they were a year ago — will likely remain an important point of contention in some insureds’ renewal negotiations.

Recommendations for buyers

- Reevaluate your organization’s appetite for risk and volatility. Consider, for example, retaining more risk on your balance sheet or otherwise altering the structure of your existing property insurance program.
- Engage your broker’s analytics team. Be clear about changes in the business, goals and objectives, and financial constraints.
- Start renewal processes early. Build in extra time for insurer approvals and/or internal education, especially if you are considering adjusting program structures or evaluating alternative risk options.
- Leverage full relationships with individual insurers. In a still difficult market, you may be able to get a better deal on property insurance if you purchase coverage in a more profitable line from the same insurer.