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Sompo's Lavin: Robust E&S property market to continue in 2024

After a visible rehardening in E&S property during the first half of 2023, our sister publication *E&S Insurer* talked to Sompo International's John Lavin as the year drew to a close about current market conditions and the outlook for the year ahead.



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How would you describe E&S property market conditions last year and where do you think they're heading in 2024?

2023 has been a pretty robust year and, if anything, probably a little bit stronger than 2022. We're talking about six years of positive rate change, but that's because the last six, seven years have been pretty challenging. We've seen double-digit pricing this year, depending on if it was loss-free or not, or in a tougher area. As we've come into the fourth quarter, we've definitely experienced a little bit of deceleration on pricing from what we saw earlier in the year and in 2022, but it's still a really good pricing environment. Over the last six years, we've gotten closer to adequate rates, but we still need a little more if we project over the next five years and we have a similar environment to the prior five.

I think some people saw reductions of PML over the last year and have a little bit less aggregate to deploy. We have also seen a couple of little pockets of lesser rate increase. However, as we go into 2024, I believe we will continue to see that robust environment. It took the reinsurers a while as they were behind us in getting the rate and terms and conditions that we received.

Reinsurers are going to be looking for a combination of rate increase and retention. However, an insurance company measures that retention internally, it's a cost, so your capital cost is going up. That means insurers will be looking at the year ahead, what they've got in the PML bucket, what they've got to do to optimise their portfolio. I think rate increases in the 10 to 25 percent range are likely what we'll see. We were not really impacted, but for anyone exposed to convective storm, particularly primaries and low buffers, it's been a brutal year. We may not have experienced a major storm or earthquake, but it wasn't the best year for attritional losses and if you're running a 40 or 50 percent loss ratio on attritional that's not good. Even if we have one year with no major hurricane loss, I don't think it's going to really change things a lot, especially when you start looking at some of that third-party capital that's deciding whether to come back.

Do you expect to see any easing of terms and conditions? And is the market where it needs to be on valuation?

I don't see the terms and conditions moving and, if anything, terms and conditions are probably more important than rate at this point. I don't think you could achieve any type of rate that's going to override the terms and conditions that we have put in place and I think they're in a good spot.

There's inflation to consider on top of that and we're expecting to see those insurance to values (ITVs) continue to move up. Some of these accounts had the same ITV for 15 years, so we're looking for increases, and how much we push will depend on how the insureds operated for the last couple of years, but there will be very few accounts that shouldn't see an increase in valuation year over year.



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Somo International's John Lavin says he doesn't see T&Cs moving any time soon

We've made some good headway on valuation, but I think we're still a few years away from getting there. We really didn't start to see the change until the end of 2022 and then 2023 when everybody seemed to be on board. The bigger accounts, particularly those that have a risk management department in place, are probably the easier ones. They're doing inspections, they're changing their valuation year after year.

But some of the smaller accounts in the E&S space – that type of account that is \$250mn total insurable value and under – the person buying the insurance is a condo owner or somebody who's not as sophisticated as far as insurance buying goes.

Carriers are pushing back where valuations are super low, either they're just not offering coverage or, in our case, we just say unless you get this valuation up, we're not going to be able to offer the same terms and conditions as in the past. It's the first time I've ever seen it where the market is in unison on the need for increased valuation.

With the price increases year over year, I don't expect them to take their values up 30 to 40 percent. Some of them probably need to, but if you can show me a plan and you're stepping in the right direction at a good pace, I think that's something we can work with and compromise on, especially for a good insured.

What areas of the market are hardest?

We don't do primary habitational in our group, but from what we see as an excess writer, they're still tough. The coastal exposure used to be the worst part, but now the non-coastal exposure is almost just as bad.

Then there's the middle market, non-cat more industrial manufacturing-type business [where] there still seems to be a big need. We have a product that we put together in 2022 for just that reason – we can do \$1mn, \$2.5mn or \$5mn lines on these big programs that used to be written by big companies that were putting out \$50mn, \$100mn, \$250mn lines. Now they're shared and layered, and you need everybody's participation.

We've seen a lot more of those go to company forms too, from some of the big manuscripts just because it is a lot harder to find capacity to fill those up, and with a lot of the loss limits they're just not buying the top piece.

The last piece is probably the wildfire. That's one of the toughest perils. There's no real model for that. It's hard to get your arms around it, and people are willing to underwrite it as we are, but brokers have to piece together a lot of lines just to reach a certain limit.

How big is the opportunity for E&S carriers as a result of admitted carriers retrenching in some segments?

We mentioned middle market and that industrial manufacturing space – the mass exodus from the admitted marketplace has drawn a lot into the E&S market in that space. There's a big opportunity for us there to be smart, putting down small lines. It provides diversification because typically it doesn't have cat exposure so it's not adding agg to your book.

California wildfire definitely provides some opportunities to write smaller lines, and then the all-risk in general in California and the West Coast area. We're seeing more of that business come into the E&S market.

There are the departures like State Farm and Farmers but it's not just them – there are deals coming in that typically we would never have seen. They're not tough all-risks accounts, but because people are pulling out of the space, there are just these open opportunities where we can get some pretty decent deals on them and add some non-cat exposure to the portfolio.

John Lavin – CV

John Lavin is executive vice president, US E&S property at Sompo International North America Insurance. He is based in the company's Alpharetta, Georgia office and is responsible for all E&S property insurance operations across North America. Throughout his career, Lavin has worked closely with wholesale brokers to underwrite commercial property risks, including managing a specialty risk portfolio. Prior to joining Sompo International in 2014, he was with Ace Westchester Specialty Group.



What impact is the RMS hurricane model change having on the market?

This is the first time we've seen the RMS model change significantly since RMS 11. They've got some good points there with what they've done around Florida, but people are sitting on it.

We've been looking at it for the better part of 2023 and trying to figure it all out. Carriers are seeing how it affects their portfolio and what kind of proprietary changes they are going to make – I don't think anybody is going to use it out of the box.

I believe we'll see more people begin adopting it later in 2024. It'll probably start as more of a portfolio tool around some of the PML and things like that because reinsurers are going to want to see what that looks like. So whether you run it or not, they're going to run your portfolio through it.

I don't think anyone wants to be the first person to go out there [with the changes]. From a pricing standpoint, we know it's going to be more. The market will get there because there's enough change there ... especially down in coastal areas like Florida.

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