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Industry Insights

The power of synergy and service

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Climate change, increasing litigation and rising claims awards in the US are making many London carriers reconsider their US small commercial property and general commercial liability portfolios. ***Alex Hardy, Focus Group Leader, Property Covers*** *and* ***Joe Fiorelli, Underwriter, Package Business*** *discuss how Beazley's small commercial property team is looking to buck the trend...*

What is your business focus and the cover that you provide?

Alex: Our primary focus is on small commercial property – including offices, retail trade, multi-family dwellings and restaurants – in the US and Canada, which we write in the London Market exclusively via delegated authority agreements with Lloyd's wholesale brokers, their MGAs and Coverholder clients.

We also provide a full liability package product for commercial property that includes habitational risks and unoccupied buildings risks, as well as public liability for slip and falls.

Over the years we have been able to demonstrate to our Coverholder partners our good track record, and our willingness to become long-term partners with them.

Joe: I am based in the US, and my focus is on underwriting commercial property liability package business (property and general liability). My knowledge of the local market helps us shape our policy wording to suit US businesses and be a full-service one-stop-shop, providing quality capacity backed up with a local claims service.

The successful platform that we have built up over the years has led to us now looking to expand our offering and write mono-line business up to USD$100m over a five-year period. To support this move, we are also looking to expand our US-based team and broaden our appetite

for other related classes of business.

How do your two areas of the business interact with each other?

Alex: Both areas dovetail neatly; we work with the same Coverholders in the US and Canada. Joe's US contacts and expertise backed up by our local claims service, London Market capacity, Lloyd's broker relationships, and our experience of writing delegated property business combine to make a compelling offering.

In addition, our ability to write full commercial liability packages, and offer extensions for equipment breakdown via reinsurance from HSB for a small premium increase, puts us in a good position compared to our peers.

What makes you stand out in the market?

Joe: A lot of commercial property business that comes to the London Market is distressed – business that is hard to place in the local market – with a higher propensity for claims, due to increasing social inflation and litigation in the US. The current conditions mean this business has become unprofitable for many insurers, resulting in some London carriers pulling out of writing this business or seeking to reduce their exposure.

Since joining Beazley in 2017, my role has been to develop our local service to enable us to turn this tide. The secret to our success is having local claims handlers and wordings expertise: this enables us to write policies tailored to the local market and manage and resolve claims quickly and efficiently saving time and money. Whereas traditionally this type of business underwritten in Lloyd's has tended to be seen as a 'soft-touch' when it came to claims.

Alex: The response to our approach has been very well received. Our Coverholder partners appreciate the service we provide, which helps to make this type of business cost-effective for them to handle.

Another key differentiator is that we can now also offer a single policy wording for small commercial liability package business with a maximum total insured value of USD$15m.

What are your future plans?

Alex: We recognise the power of synergy and service and working in partnership with our Coverholders, as this delivers a better and more profitable relationship for all parties. We now are looking to expand our relationship with our existing Coverholders, by providing them with additional business opportunities going forward.

Joe: We would like to develop and expand the classes of business we write and broaden our distribution locally. We are also keen to expand our appetite for casualty business, and the key to doing this will be finding the appropriate expertise to help us to define our appetite for this business. Our plan is to write this business initially via binders, and then consider writing larger, single submission open market risks in the future.

In Canada, the environment is less litigious and the claims environment more benign, so there are also opportunities for us to develop new partnerships with local Coverholders there. We are also considering if we can write Excess Liability business alongside our programme business via a separate policy.

What are market conditions like at the moment, and what issues are driving risk trends?

Alex: As climate risk increases, the number of natural catastrophe (Nat CAT) related losses also increases, so insurers are trying to ‘de-risk’ their books of business resulting in a lack of appetite to write properties in coastal areas. And we have seen several key players pulling out or back from this market: moves that are creating a capacity squeeze.

One of the key problems relating to climate change and the associated Nat CAT perils is that existing risk modelling tools are proving inadequate at identifying the real nature of the exposure, as the models are based on limited historical loss data and random stochastic event sets. However, as the frequency and severity of these Nat CAT events increase so too does the physical aggregate risk, resulting in some carriers being overexposed and with inadequately priced coverage.

The market is generally looking to write ‘better’ risks, with less CAT exposure – focusing in particular on hail, hurricane, tornado, wildfire and quake risks. As these risks increase they will need to be factored into pricing, and as a result, they will become increasingly expensive to insure, soinnovative new solutions will be required.

Joe: Over the past few years we have invested significantly in data analytics, which enables us to quickly identify changing conditions and provide a more accurate picture of our exposure helping us to quantify the risk – which is vital for successful underwriting.

In addition, as businesses emerge from the pandemic and government financial support packages are withdrawn there is an anticipation that liability and slip and fall claims may start to increase, and we are already seeing some carriers being more selective about the business they write.

With the current market conditions and claims environment, this is no longer an area of insurance for carriers without the requisite experience, technical knowledge, capacity and local support.

However, for carriers like Beazley with its specialist focus underpinned by an unusual level of local service and support, we see opportunities to deepen our relationships with our broking partners and offer a broader range of product offerings going forward.

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Home

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