



Quinton Rose and Paul Eaton

UK LANDLORDS AND TENANTS: BETWEEN A ROCK AND A HARD PLACE

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Artex

Alternative
Risk

It's a tough time for UK residential property. The insurance market is hardening and the Building Safety Act is expected to prompt a fresh wave of defect claims. At times like these, having a captive to support your insurance programme can mean the difference between being insured or being left out in the cold.

For the past five to six years, rates within the UK residential property sector have hardened substantially, prompted by a series of claims and safety concerns.

It has become increasingly difficult to secure affordable building insurance with full value coverage or even meaningful limits. Terms and conditions have been tightened considerably by underwriters, with the introduction of cladding exclusions. Between 2016 and 2021, property freeholders and their tenants suffered rate hikes of 187% on multi-residency buildings with cladding exposures.¹

INFLATION DRIVES UP CLAIMS

According to residential property insurers, this business has been under-priced for many years and a pricing correction was long overdue. The UK property insurance market as a whole reported an underwriting loss for 2020 and 2021, with a combined ratio of 110.5% and 103% respectively.²

Additionally this challenging market also reflects COVID-19 related losses, the impact of inflation, a more expensive reinsurance market, and insurers' changing risk appetite for certain risks. Meanwhile, the cost to remediate claims has risen as a result of delays, the spiralling cost of materials and labour constraints.

Factors including Brexit, the War in Ukraine, a resulting energy crisis, the global pandemic and supply chain disruptions have compounded existing headwinds, coming together to create a perfect storm, according to **Quinton Rose, Associate Director, Artex Risk Solutions.**

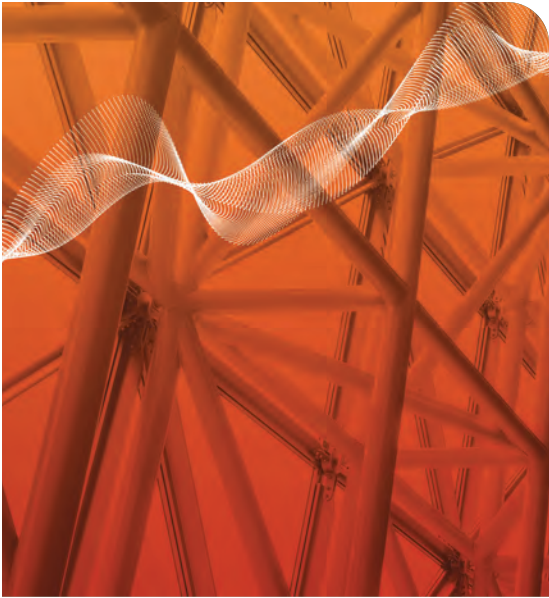
"There are still significant outstanding claims going back to 2019 because of COVID-19 and the country going into lockdown in 2020," he explains. "Many of the contractors we used to rely upon are not in the UK anymore, due to

Against this backdrop, property owners and their tenants using a captive to support their insurance programme are benefitting from continuity of cover. By increasing their captive retentions where necessary to reflect the changing insurance market there is much more opportunity to maintain levels of protection and help to stabilise rates. Those without the ability to retain risk through a captive are faced with the prospect of substantial rating increases, reduced cover and limited market choices as carriers retrench capacity for certain risks, in particular those with cladding and/or structural defect exposures.

"Many of the contractors we used to rely upon are not in the UK anymore, due to the combined impact of Brexit and COVID-19."

the combined impact of Brexit and COVID-19. On top of this there is a shortage of materials, which is inflating the overall cost of claims."

"Historically, we saw small reserve savings in the claims run-off rate, as some claims did not progress and often loss adjusters allowed a margin for contingency. Now we are seeing more deterioration in claims reserves, because everything is costing more and claims are taking longer to settle."



Meanwhile, there are the well-publicised issues around cladding and potential breaches under the Building Safety Act 2022 (BSA), which is expected to be in force later this year. The BSA sets out to improve safety standards by prosecuting those responsible for the supply and installation of defective or dangerous structures or products.

Crucially, it extends the limitation period of the Defective Premises Act to 30 years retrospectively and 15 years prospectively. This enables property owners to pursue valid claims for defective work, where the work has rendered the dwelling uninhabitable, over a much longer period than in the past. Lawyers anticipate the changes could lead to an increase in claims, with indirect implications for landlords and tenants.

CAPTIVES COME INTO THEIR OWN

With property owners struggling to secure insurance with the commercial insurance market, Artex is experiencing a surge in requests for risk retention and captive solutions. Regardless of the market cycle, but particularly during a hard commercial insurance market, captive insurance offers clients certainty of coverage, more continuity of premium rates and greater control over claims and remediation costs.

As captive manager for four of the five largest UK property freeholders, Artex has long been a proponent of risk managed programmes for property landlords and tenants. In the current market property owners using captives to support their insurance programmes are providing benefits to their tenants by the captive taking the primary loss layer. Crucially this means a long-term relationship with fronting carriers is created by this commitment to risk management and greater risk alignment between the carrier and the customer.

The impact of using a captive is profound, both premium pricing and the coverage offered are rarely available within the commercial market for traditional placements. For tenants, there is a clear advantage, with freehold managers and captive owners providing an insurance offering that would otherwise be unavailable. The resulting economies of scale combined with a tailored risk managed programme delivers benefits for both landlords and tenants.



Despite the turmoil in the commercial insurance market, many Artex clients have benefited from having a captive to support their insurance programme and have experienced flat renewals on low loss ratio accounts. Those with exposures to cladding or other issues are receiving rate rises in the region of 10% to 20%, but crucially, are still able to access the coverage they need. The benefit to property landlords and their tenants is clear.

In comparison those that do not have a captive and risk managed programme and are relying solely on the commercial market for coverage are finding that, in some instances, they are unable to obtain insurance at any price. Where they can access insurance, the cost is often punitive and terms and conditions more restrictive.

Captive programmes are sophisticated risk management tools that facilitate the retention of risk and mature over time alongside their insurance carrier partners. They have an unmatched ability to enable access to terms, conditions and pricing that would otherwise be unavailable in the commercial market.

“There are billions of pounds of property value in the residential sector which at the moment are struggling to secure coverage because the insurance markets are so limited,” says Rose. “Those with cladding or building safety defects have been especially challenged. Property owners and tenants that have access to a captive insurer as part of their programme have an advantage in these market conditions.”

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It's not just larger programmes that can benefit from a captive, Artex is also seeing a surge of interest from small to medium-sized property landlords. For these clients, vehicles such as protected cell companies (PCCs) and incorporate cell companies (ICCs) can offer lower set up costs and a quick route to market.

THE BENEFIT OF CONTROL

In all market cycles, but particularly in the current climate, captive structures offer significant benefits for tenants and property owners or managing agents. This includes more control around costs and greater visibility on claims as a result of improved risk management.



Over time, having skin in the game means those property owners with captives take proactive steps to manage risk and improve their loss ratios. Carrying out simple maintenance measures on a regular basis, such as clearing gutters, checking for loose roof tiles and installing insulation around pipes, minimises the potential for loss and steadily improves the company's risk profile.

Such an approach makes sense for all parties involved, regardless of the insurance market cycle, according to Paul Eaton, CEO of Artex International. Over time, captive owners and crucially, their tenants, should benefit from more predictability and stability around insurance costs.

"If you maintain risk within your captive insurer, the portfolio effect delivers flexibility in pricing, rewarding good tenants and penalising bad tenants, but at the same time making sure all get appropriate coverage," he says.

"Over time, captives can grow as any retained profits increase. This allows the risk retention strategy to develop and assume larger deductibles which in turn provides more pricing continuity and directly benefits tenants."

"As a result, the ability to manage the claims and the intelligence that comes with that, allows captive owners to control it all much better."

CONCLUSION

A combination of factors has produced one of the most challenging insurance markets for residential property owners and their tenants in two decades. New safety regulations that come into place in October are hotly-anticipated to cause an increase in claims frequency, with ongoing inflation fuelling the overall cost of insurance. As a result, this challenging insurance market looks likely to continue through 2023 and into 2024.³

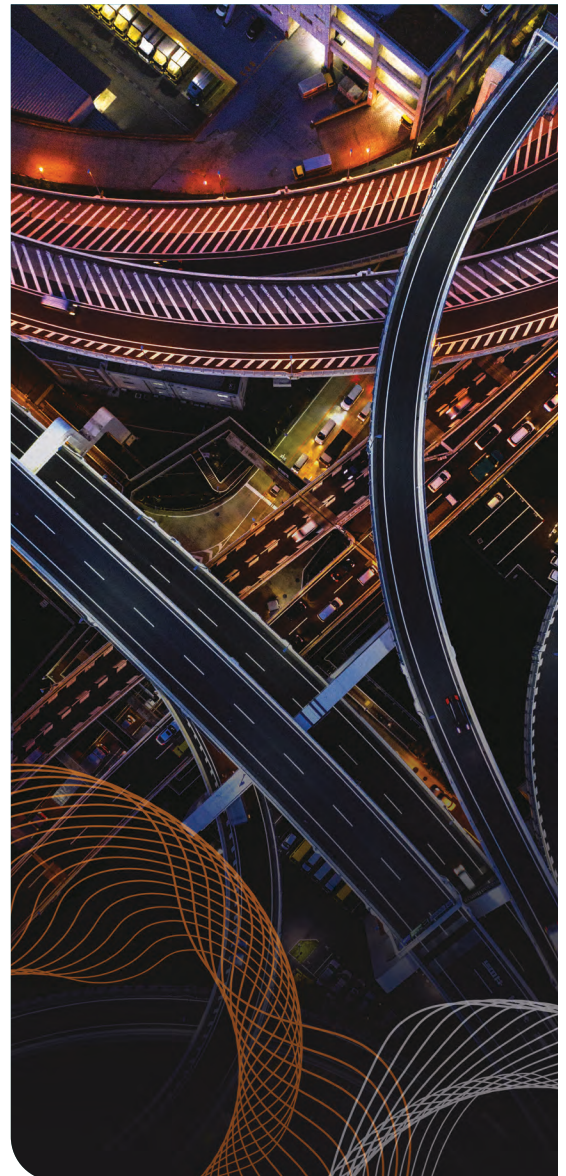
For residential property portfolios with an exposure to cladding and safety defect losses or those with a poor loss history it will remain difficult to secure adequate coverage in the commercial market. At Artex, we anticipate demand for captive solutions to continue to grow. This is prompted by hard market conditions, but will ultimately be sustained by the long-term benefits self-insurance offers property landlords and their tenants.

"Over time, captives can grow as any retained profits increase. This allows the risk retention strategy to develop and assume larger deductibles which in turn provides more pricing continuity and directly benefits tenants."

¹<https://www.fca.org.uk/publication/corporate/report-insurance-multi-occupancy-buildings.pdf>

² <https://www.insurancetimes.co.uk/news-analysis/property-insurance-falls-to-underwriting-loss-despite-drop-in-claims/1441566.article>

³ <https://www.ajg.com/us/news-and-insights/2023/jun/2023-june-insurance-market-report/>





Quinton Rose
Associate Director, Artex

Quinton has worked in the insurance industry since 1981 in the UK, before moving to Guernsey in 1996 to focus on captives for a major UK bank. In 1998, he took up a position in what is now Artex. Property captives have been a focus of Artex's business since 1999 and now place in excess of £100M of GWP through captive structures for UK companies.



Paul Eaton
CEO, Artex International

Paul Eaton is an experienced (re)insurance professional with a strong background in underwriting, business development, risk financing, and (re)insurance company management. Paul is currently the CEO of Artex International, and is based in Guernsey. In this role, he serves on the Artex executive leadership team, driving strategy around talent, organic growth, mergers and acquisitions, and operational efficiency for Artex's operations in Guernsey, Gibraltar, Malta, London, Ireland and Singapore. His responsibilities also include serving as a director for a variety of Artex clients and boards.

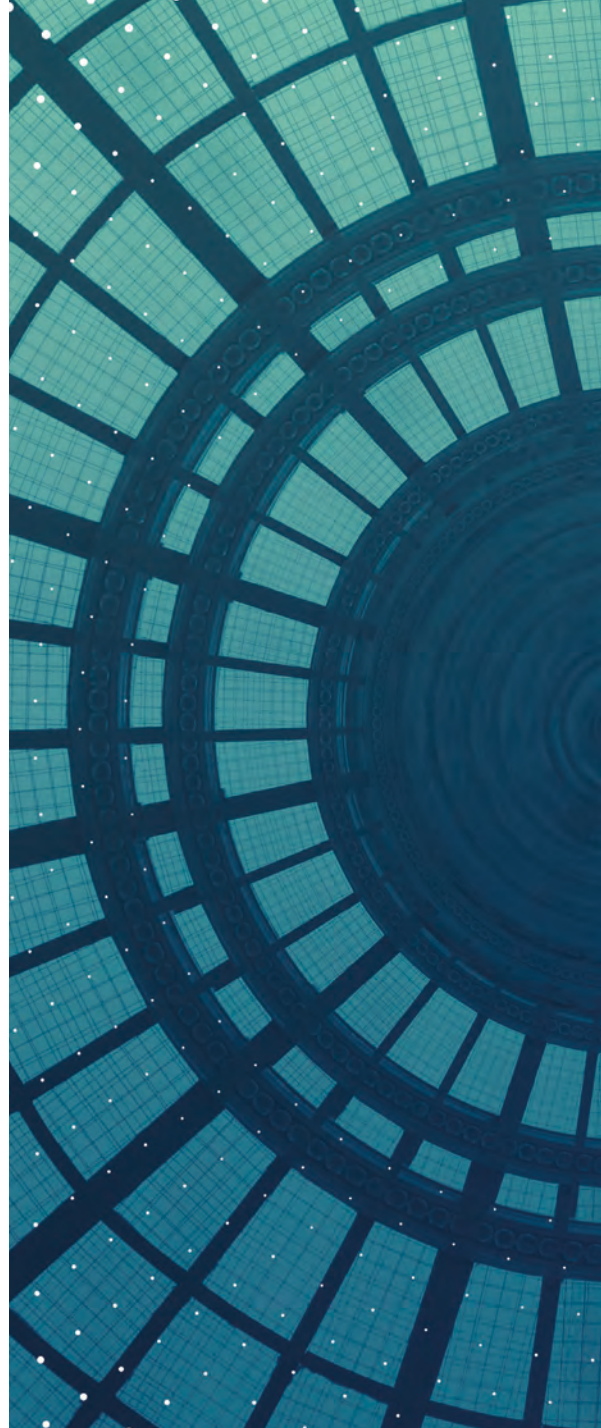
With 32 years of industry experience, Paul began his career at Royal & Sun Alliance, where he held various underwriting and management positions over a 13-year period. He joined Artex Risk Solutions in 2004, where he has held a number of roles, including client account management, head of business development, and commercial director for Horseshoe following its acquisition by Artex in 2019.

Paul holds a Bachelor's degree in Engineering from the University of Warwick and is an Associate/Chartered Insurer of the Chartered Insurance Institute.

THE ART OF RISK

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse (re)insurance and ILS solutions, our global team operates at the intersection of art and science—where creative thinking meets expertise and superior outcomes are made. That's how we're able to fully understand our clients' needs and deliver the most comprehensive solutions available.

Established in more than 35 domiciles internationally, we're here to help you make empowered decisions with confidence, reduce your total cost of risk and improve your return on capital. At Artex, we believe in finding you a better way.



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