USI Property & Casualty Insurance Market Update | Q1 2019

Following a relatively subdued January 1st renewal season, the property and casualty insurance market's push for rate increases has shifted into high gear.

Under the weight of back-to-back years of loss accumulation and despite the abundant capacity, property insurers are questioning the adequacy of rates. Similarly, casualty insurers are reevaluating their book of business, driven by the protracted soft market and adverse loss trends.

The primary carriers are not only demanding higher rates but tightening underwriting guidelines and exiting specific classes of businesses in certain cases.

Below, USI property and casualty experts provide brief insights into the evolving P&C market landscape.

The Property Insurance Market

Losses in the commercial property insurance market were at an all-time high in 2017 due to unprecedented windstorms and flooding events from the trio of hurricanes that occurred in Q3/Q4 (Harvey, Irma, and Maria). Prior to the hurricanes experienced in 2017, the costliest hurricane on record was Katrina in 2005 with estimated losses of $160 billion. Total estimates for 2017 storms are currently in excess of $200 billion. Unprofitability for carriers continued with severe storms in 2018, although it was not the worst losses for the industry.

Worldwide losses from catastrophic events are estimated to be close to $80 billion for 2018, which while lower than the record amounts experienced in 2017, is significantly above the 20-year average of approximately $55 billion.

Going into 2019, USI predicted price firming in the property market for most classes of business and risk profiles. Steve Zimmer, USI property practice leader, said while this has certainly been the case the rate firming has escalated and is now more widespread.

Fourth quarter loss estimates from 2018 are expected to be between $20 - $30 billion, mostly from Hurricane Michael and the wildfires in California. Those events, combined with the loss development from Hurricane Irma, along with the non-CAT attritional losses (fire, tornado, hail, water damage, etc.) have continued the adverse results experienced by both insurers and reinsurers on a widespread scale. The aggregation and collective magnitude of these events has put extreme pressure on rates (and capacity) as losses continue to rapidly overtake premium dollars.

Depending on occupancy, geographic size and historical loss activity, first quarter 2019 property renewals have ranged from slightly up to multiples of expiring rates.

There is still competition for "clean" non-catastrophic business. Catastrophe-exposed and loss-affected businesses are experiencing double-digit rate increases at a minimum, with some less-favorable accounts facing rate hikes as high as 30-40% and upwards.

The pressure for rate increases is strongest in the primary layers, although excess programs are experiencing a similar, but less intense trend.

The market hardening has caused some difficult renewal situations, and we expect the challenging environment to continue into the second quarter and beyond.

Umbrella/Excess Market

Multiple years of a protracted soft insurance market coupled with increasingly adverse loss trends have caused umbrella/excess insurers to reevaluate their book of business sooner and more conservatively than anticipated.

Douglas O'Brien, national practice division manager, casualty and alternative risk, said since January 1 a bigger percentage of large risk management and upper middle market companies across different industries have faced rate increases and capacity reduction.

"This cuts across industry classifications and is regardless of loss history or tenure with their insurance carriers. A handful of companies have also been non-renewed," O'Brien said. According to O'Brien, for certain middle market accounts who tend to purchase a maximum limit between $10 million and $25 million, "the rate hikes and limit contraction are less pronounced and account-specific, depending on the company's industry, exposure and loss history."

Another key observation; in previous hard markets, new entrants have come in to provide additional umbrella/excess capacity. "As of today, we are not seeing any indication of new capacity," he said.

How USI Can Help

For property insurance buyers, USI recommends:

- The firming rates do not seem to be driven by capacity constraints as the market is flush with capital – rather it is a strategic decision on the part of carriers tightening underwriting standards. This means proper communication to markets is critical to achieve optimal results.
- Data quality and integrity must remain paramount in discussions with underwriters.
- Insureds should look to obtain secondary modifying characteristics for the most accurate modeling output.
- Work with your broker to restructure break points on layered and quota-shared programs.

For umbrella and excess buyers, USI recommends:

- Prepare early, develop a plan of action and dialogue with incumbent markets at least 90 days in advance of renewal expectations. Discussions should consider reductions in capacity and corresponding rates on a price per million-basis.
- Insureds should work with brokers to stay abreast of specific market conditions and develop a flexible plan of action.
- Insureds should be able to differentiate their risk profile from others in the industry, citing historical loss activity, geography, loss control and claims handling initiatives, and management's commitment.
- If switching carriers, evaluate coverage terms and conditions appropriately to ensure consistency across carriers.

For tailored solutions and more information on how USI can help protect your business, contact a USI consultant.

The USI ONE Advantage®

To analyze our client's business issues and challenges, our property & casualty team leverages USI ONE®, a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a network of local and national technical experts in a team based consultative planning process to evaluate the client's risk profile and identify targeted solutions. Clients then receive tailored recommendations for improving their total cost of risk. To learn more about USI ONE and the USI ONE Advantage, contact your local USI team today.