STATE OF THE CASUALTY MARKET

CONTACT

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker.

LEGAL DISCLAIMER

ON YOUR TEAM.

CASUALTY UPDATE - Q1 2019

When looking at the casualty marketplace, moderate price increases and sufficient capacity will likely define 2019.

CASUALTY UPDATE

The casualty landscape remains a story of contradictions. On one hand, we have markets exiting, constricted capacity, rate increases, and restricted terms and conditions for problem areas such as primary casualty in Florida, much of the transportation sector, and New York Construction. On the other hand, we have new entrants, increased capacity, competitive pricing and terms in lessors-risk, the sharing economy, and liability coverage for cannabis producers.

REAL ESTATE

In 2019, brokers will find competitive markets for lessors-risk business, and with the expanding economy, there is plenty of business to be had. Conversely, habitational business remains problematic, as both primary and excess markets continue to increase pricing and pull back on underwriting of apartments.

“Capacity in some geographies and sectors is more restricted than in other areas, but there is still enough to meet market needs,” says Tom Dillon, executive vice president and national casualty practice leader for AmWINS. “There is no shortage of business out there, and we do have the capacity, albeit at increased rates for certain classes.”

AUTOMOBILE LIABILITY

Automobile liability presents a familiar scenario for brokers and buyers in 2019: increasing rates and continued market constriction.

“We are seeing rate increases in both the primary and excess transportation spaces,” Dillon says. “It’s not just trucking accounts — it’s sales fleets, contractors’ vehicles, livery, and all commercial auto that are being affected.”

The problem is profitability: the industry’s combined ratio topped 110 in 2017 and is likely to do so again when the numbers for 2018 are tallied. Underwriters are seeing massive, seven-figure judgments and settlements in commercial auto, along with greater accident frequency that is tied to more miles being driven.

(continued on next page)

(continued from previous page)

"No matter how much insureds focus on safety and loss control, accidents happen, and we're seeing a difficult legal environment with sympathetic juries," Dillon says. As one example, he cites a recent ruling where a driver was not speeding at the time of the accident, but because he had been speeding 30 minutes prior, the jury deemed him at fault as they determined his rig would not have been at the site of the accident had he not been exceeding the speed limit.

One area in the transportation sector that is seeing increased carrier interest involves the "sharing economy;" specifically, transportation network companies (TNCs), such as Uber and Lyft. More personal lines carriers are also stepping up to offer coverage to bridge the gap between a TNC driver's personal policy and the coverage provided by the network company. Auto carriers, particularly in the TNC space, are increasingly turning to technology in an attempt to provide customers with real-time risk management tools and to specifically tie risk pricing to driver behavior. Telematics, whether using on-board data recorders or via software embedded into the drivers' own smartphone application, provides this real-time feedback.

SHARING ECONOMY

More carriers are jumping into the sharing economy space beyond transportation, as well. This area encompasses all kinds of largely app-based, on-demand businesses, such as "taskers" that provide help with household chores and dog walking, shared office space, deliveries of all types by a large variety of means (e.g. on foot, bicycles, scooters, etc.), meal sharing, and more. These types of businesses are only as limited as the entrepreneur's imagination, and the space is growing exponentially, providing ample opportunity for retail brokers.

PRODUCT LIABILITY AND PRODUCT RECALL

In contrast to the tight underwriting appetite for habitational risks and auto liability, underwriters are bullish on product liability business. Standard markets continue to be aggressive in this space, meaning that the best opportunities for retailers in the E&S space are accounts with poor loss history, as well as the perpetually problematic classes of pharmaceuticals, invasive medical products, and tobacco products.

In product recall, movements into and out of the market have served to cancel each other out and create a holding pattern scenario. While some U.S. markets have reduced their capacity for certain classes, there has been a recent aggressiveness on the part of London underwriters to increase their overall share of the U.S. market.

"We do not expect to see any change in overall capacity in 2019," says Matt Carpenter, senior vice president, AmWINS Brokerage of the Midwest. "The U.S. markets are trying to push rate increases whenever they can, as most markets think the need for – and ability to obtain – rate increases is now possible. Since it is challenging to sell rate increases, especially for first-time purchases, an experienced wholesale partner is key."

ENVIRONMENTAL

In 2019, pricing will remain very competitive for some lines of coverage, including CPL and small site (new conditions only, one location) operations. However, tougher "Eagle-like" business – General Liability, Environmental Impairment Liability, and excess liability lines – will see slight increases and a possibility of fewer market options as carriers decline those risks with a greater likelihood of loss.

(continued on next page)

(continued from previous page)

Several new markets have entered the space, and market mainstays, like Colony, are becoming increasingly competitive. New entrant Serius International Insurance is offering up to $25M in capacity. Similarly, Everest Energy and XL Energy, with their ability to cross the line between energy and environmental, are providing increased flexibility to brokers and insureds.

On pollution/professional combined, there used to be only a few carriers providing true professional coverage that included coverages such as mitigation/rectification and professional protective. Today, carriers continue to enter that space, and those that cannot offer combined coverage are at a disadvantage on the more complex deals.

The most difficult placements continue to be blended GL/CPL in New York state, as well as old tanks and sites with pre-existing contamination. Downstate New York contractors are very challenging placements, and excess on those placements is even more difficult. The market also continues to closely watch issues related to polyfluoroalkyl substances (PFAS) in drinking water, and at least one carrier has added exclusions for glyphosate, which is an area of growing concern.

PUBLIC ENTITY

In the public entity space, there is heightened underwriting concern around several issues, including liability exposure of utilities due to wildfires and aging infrastructure. Traumatic brain injury and sexual molestation exposures are also key concerns. Additionally, law enforcement remains a difficult area in an era of heightened scrutiny for civil rights violations, in-custody fatalities, and incidents of active shooters at municipal or educational venues. These concerns are compounded by the limited availability of mental health services, as well as the ongoing opioid epidemic.

There is a focus on underwriting profitability in the public entity space, leading to heightened sensitivity on individual risk and loss performance profiles, as well as the desire by underwriters to move their attachment point up on some risks. On large, self-insured municipalities, in particular, underwriters are looking to be truly excess. Carriers are also looking to diversify portfolios and dilute concentrations on non-tort protected states, particularly as specialized plaintiff attorney firms are focusing on niche litigation within the public entity realm.

Despite these challenges, the public entity space continues to have relatively stable market participations, although appetites vary by venue and jurisdiction. In Liability, we have seen the consolidation of capacity in terms of limits and QS participation. Carriers are also taking creative approaches to loss control, including providing or partnering with providers of additional risk management services, such as predictive loss analytics and anonymous reporting applications. As a new generation of risk managers moves into leadership roles at public entities, there is an increased focus on data and analytics. In response, some markets are undertaking conceptual design discussions around the use of parametric triggers for certain liability exposures, as well as targeting legislative reforms to mitigate severity of loss trends in non-tort protected states.

ENERGY

While we do not expect any carriers to enter or exit the energy space, we may see carriers divest from classes of business that have performed poorly or that have a large impact environmentally (i.e. sand, coal, disposal wells). AIG Energy, which had been writing $5M and $10M limits on energy transportation risk, has changed their appetite and are non-renewing risk where most of the operations are oilfield trucking, both primary and excess. Replacement markets will be on non-admitted paper, and multiple markets will likely be needed to build the excess tower on these transportation risks.

(continued on next page)

(continued from previous page)

While we anticipate flat renewals if loss history is favorable and rate increases on accounts with losses or in undesirable classes, we expect to see excess carriers reducing limits, especially in the lead $10M layer. Furthermore, auto will continue to be the primary driver for many energy placements, and oilfield auto/trucking markets are limited.

Finally, with environmental markets and some E&S energy markets offering professional and contractors' pollution, insureds' expectations regarding terms and conditions have been redefined upward.

LONDON

Faced with excessive losses over the last few years, Lloyd's is undergoing a performance management process that is expected to shrink its 2019 gross written premium by around five percent. As a result, brokers are closely watching London to see what impact this performance management may have.

"We have already seen some London markets pull out of U.S. construction, but there is still ample capacity available," Dillon says.

REINSURANCE

For several years, casualty reinsurance premiums had been on the decline. However, that trend appears to have halted in 2018. Going into 2019, we expect continued, modest increases in primary casualty reinsurance rates, except in workers' compensation.

Rate increases are being driven by several factors, including the performance management initiative affecting Lloyd's syndicates. Overall, with Lloyd's expected to shrink its 2019 gross written premium by around five percent, we anticipate long-term improvement in underwriting results but higher rates in the near term.

RENEWAL PRICING TRENDS—CASUALTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS casualty lines account data