STATE OF THE CASUALTY MARKET

CASUALTY UPDATE - Q3 2018

Habitational risks and automobile liability remain extremely challenging, while brokers can readily place coverage for products liability.

REAL ESTATE

Although brokers will have no problems finding competitive markets for traditionally favorable lessor's risk exposures, habitational business is an entirely different story. Markets continue to pull back or even exit the space on the primary side.

"On apartment risks, we continue to see deteriorating results year over year," says Corey Alison, Executive Vice President at AmWINS Brokerage of Georgia. "We now see more accounts where it is no longer about rate, but instead about how much premium the carrier needs to fund for losses."

As claims continue to trend upward, renewal rates are doing the same. Minimum premiums and retentions have also increased. It's not uncommon for minimum premiums and/or retentions to be twice what could be found just a few years ago from some markets.

Excess coverage is also proving problematic for apartments. "We are seeing a number of excess markets exiting and MGA's losing their paper due to deteriorating losses," Alison says. "There is definitely shrinking capacity in the lead $5 million layer."

Within this national trend are additional regional challenges. In the southeast, particularly Georgia and Florida, apartment business is finding placement challenges due to the growing frequency and severity of assault claims. "In many situations, no matter how much security a property provides, they still cannot completely remove the assault and battery exposure," Alison says.

In northeast states, slip and fall claims – combined with skyrocketing medical costs – have served to harden the habitational market. In New York, specifically, the need for lead coverage is an ongoing challenge for properties built prior to 1979. "There are a few E&S markets that will include coverage for lead on the liability form, but most carriers will exclude. You have to obtain a separate pollution policy, which turns the coverage from occurrence to claims made," Alison says. "Local Law 11 (on-going façade work on NYC buildings) also creates challenges in making sure the carrier is offering the proper protection for this repair work exposure."

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CONSTRUCTION

In Florida, markets that had been active in new residential construction (non project-specific), whether for artisan or general contractors, are moving to exit the class or restrict coverage. This is especially the case for new condo construction and tract work. The particular concern is the increased number of construction defect claims. In addition to restricting the type of work, most insurers are applying “continuous or progressive” damage exclusions. “Markets want to protect themselves from being liable on multiple policies for the same loss,” says Alison. MGAs are now stepping in to try and pick up business that the traditional E&S markets are moving away from now.

On project-specific work, more clients are opting for the Wrap route vs Owners Interest or GC Project-Specific only. The Owner-Controlled Insurance Program (OCIP)/Contractor-Controlled Insurance Program (CCIP) marketplace remains competitive, with no lack of interest from carriers for both primary liability and excess.

However, condo conversion coverage and lead excess on residential remain challenging. In particular, the first $5m of excess on condo remains a tough placement in high-risk construction defect states such as Florida, California, Arizona and Nevada. The ability to provide condo conversion coverage varies from carrier to carrier, depending on the state the work is in, the type of construction (frame vs commercial grade) and the construction value. If a carrier offers the coverage, they will typically charge the additional rate up front instead of providing the option to buy the coverage midterm. Developers are working around this issue by placing a clause in their sales contract that stipulates that the building cannot be converted. Alternatively, a condo conversion form that states there is coverage as long as the insured has nothing to do with the conversion may be included with the policy. In such a case, if the property is sold and the new owner converts the property, the insured is still protected.

Another area that can create issues on projects is the use of Exterior Insulation and Finish Systems (EIFS). While the problems that many experienced with EIFS in the 1990’s have been minimized by the advancement of both the products themselves and the way in which they are applied, there are still some carriers that cannot cover any application of EIFS. While other carriers do offer coverage, the cost varies depending on a variety of factors, including whether the construction is over frame or commercial grade and what percentage of the job consists of EIFS. Carriers will also want to know the actual product and installer being used.

Overall, although the construction industry has its challenges, there is still an abundance of appetite from carriers to cover even the most challenging job. But, is the door open for primary carriers to increase attachment points, introduce more restrictive terms for specific risks or reduce limits? Time will tell.

AUTOMOBILE LIABILITY

In automobile liability, particularly in the transportation sector, buyers continue to be challenged by increasing insurance rates, government regulation, and a worsening driver shortage.

“This is probably the hardest market we’ve seen for transportation in primary markets. The term ‘decrease upon renewal’ is no longer in the market’s vocabulary,” says Chris Loggie, Senior Vice President at AmWINS Brokerage of the Midwest. “Along with the driver shortage, there is also an underwriter shortage. Every submission and every account is being heavily shopped, and underwriters are finding it difficult to keep up.”

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Some areas are particularly hard hit. New Jersey, New York, and California have consistently been a challenge, with markets either pulling out or increasing rates to punitive levels to effectively withdraw. However, because of broad access to E&S markets, transportation has been a significant growth sector for AmWINS.

“Capacity is at an all-time low, which is why retail agents and brokers need to partner with wholesalers who not only have access to markets, but who can work with those markets in difficult territories and come up with creative solutions,” Loggie says.

In the fourth quarter of 2018, AmWINS will be introducing an innovative program designed for transportation accounts with up to 24 power units. Available in all states, the program will offer automobile liability, cargo, physical damage, and general liability lines.

“It’s not often you have something new coming into the market, but that’s a strength we can bring to retail agents,” says Sandy Reddy, Senior Vice President with AmWINS Transportation Underwriters.
With the combined ratio for automobile liability expected to run over 110 again in 2018, the hard market shows no signs of subsiding. “There is not much capacity in the space, and rates will continue to rise,” Loggie says.

PRODUCTS LIABILITY

In contrast to the tight underwriting appetite for habitational risks and auto liability, underwriters can’t seem to get enough products liability business.

“Every carrier we deal with wants to write more products liability,” says Tom Dillon, National Casualty Practice Leader for AmWINS.

With standard markets fighting for business in this sector, E&S markets are left looking at accounts with poor loss history, as well as a few traditionally difficult classes, including pharmaceuticals and invasive medical products, imported goods, and tobacco products.

Standard-lines markets are even willing to take on product liability for startup ventures. Although this is generally good news for retail agents, it does come with a risk.

“New ventures have an expectation of revenue on which policies are priced. If they don’t get the revenue they expect, which happens often, brokers can find themselves midway through a policy term trying to renegotiate premiums,” Alison says.

As 2018 winds down, casualty conditions continue to vary widely. While the market for lessor’s risk exposures remains competitive, carrier withdrawal and claim severity in the habitational business space has contributed to a slight hardening, particularly in the Northeast. In construction, however, abundant capacity still exists, as MGAs compete for new residential construction business that traditional E&S carriers are moving away from. In automobile liability, capacity has reached a historic low, creating a hard market that shows no sign of abating. Conversely, carriers are eager to write more products liability business, resulting in an extremely competitive market.

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