AmWINS Group, Inc.

STATE OF THE CASUALTY MARKET - Q3 2019

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In a tough market where underwriters are overwhelmed with submission volume, quality applications produce the best results.

Hardening conditions in casualty seen in the second quarter have continued to deepen as we move into the third. “It’s getting more and more difficult to place accounts. Capacity continues to dry up in all areas of casualty, particularly in the tougher areas of transportation and habitational,” says Tom Dillon, Executive Vice President, AmWINS Group.

This holds true in both primary and excess lines. “Insureds are understandably looking at numerous options, whether higher retentions, SIRs vs. deductibles, lower umbrella limit; whatever they can do to help mitigate some of the cost increase on their insurance,” says Corey Alison, Executive Vice President, AmWINS Brokerage of Georgia.

At the same time brokers are working harder to place individual accounts, they are also trying to remarket a greater number of accounts. “Almost every account is being marketed because brokers know they need to cover all the bases,” says Dillon. “There’s no automatic renewal anymore either—every policy is being re-underwritten as well.”

The dramatic increase in submission volume coupled with no increase in staffing levels means that everyone is working harder and turnaround times are getting longer. “Underwriters are swamped. They’ve gone from 100 or 150 submissions a month to over 300 in some cases. Renewal quotes are coming back just a few days out from the expiration date. It’s causing a lot of stress in the industry,” says Matt Jarrett, Director, U.S. Casualty at THB, AmWINS’ London broker.

Although it is more difficult to get underwriters to budge, companies still do need to write business and deals can still be made. In this market, submission quality is of paramount importance to get a favorable result in an acceptable timeframe.

“The best information produces the best results and helps move a file to the top of the stack,” Dillon says. “A 90 percent complete submission gets indicated; a 95 percent complete submission gets quoted immediately.”

“We do still get involved in a number of last-minute deals. They can be done, but you need a really high quality submission. Prepare your retailers, prepare your insureds and, above all, don’t waste your underwriters’ time,” Jarrett says.

Despite trouble spots, new opportunities continue to emerge, including risks in the sharing economy. “Markets are finally beginning to get their arms around this growing industry segment,” says Gary Grindle, Executive Vice President at AmWINS Brokerage of New England. “Retailers need to partner with wholesale brokers who understand not only the industry, but also carrier appetites and capabilities.”

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SEGMENT SNAPSHOT

Going into the third quarter, this is what retailers can expect to see in different casualty market segments

REAL ESTATE

What hasn't changed from earlier this year is that real estate is one of the toughest casualty segments. What has changed is that, faced with a tighter market, more owners are looking to obtain insurance themselves rather than be included within a property management company's portfolio.

"The best properties are looking to extract themselves from property management company policies in order to obtain better pricing," Alison says. "That creates a problem for the management company in that not only do they lose some leverage based on the size of their account, but the properties left in the portfolio are ones that have a poorer loss history."

In addition, the lack of markets is continuing to worsen. "Every quarter, every month, another casualty market seems to step away from this space, and unlike in previous years, a new carrier is not stepping in. Additionally, on many accounts, rate is no longer relevant, and carriers are only concerned about the premium they need to account for expected losses," says Alison.

Additionally, the number of excess RPG programs has diminished. "Customers accustomed to purchasing $50M and $100M in limits at very low premiums are increasingly being forced into the open brokerage excess markets where premiums are much higher, forcing them to purchase lower limits due to the much higher costs", says Grindle.

AUTOMOBILE LIABILITY

Automobile liability has been a hard market for some time, a condition to which brokers and buyers alike have become accustomed.

"By now, risks that have poor loss history and don't have proper controls in place know they are going to be paying a high rate," Dillon says. "We are seeing additional restriction in capacity in the marketplace due to losses as well as some new instability in the excess marketplace."

A continued trend that we are seeing in the excess space is carriers putting up very short lines and trying to move away from the working layers. Accounts that carried $25 million in excess limits with one or two carriers in the past are finding that they need four or five carriers to fill out this capacity. At the same time, we are seeing pricing increases in the 70 percent to 100 percent range due to the instability and capacity restriction.

UTILITIES AND WILDFIRE-EXPOSED

Utility contractors, tree trimmers, and all companies that work on or around power lines face a capacity crunch.

"Wildfire-exposed is one of the toughest classes to write," Dillon says. "We have underwriters who will do it, but it is very expensive with rates 25 to 50 percent of limit, so a $10 million limit goes to $2.5 to $5 million or more in premium."

PUBLIC ENTITY

Public Entity accounts are showing ever increasing loss severity patterns—both in verdict and settlement outcomes, particularly in non-tort protected venues where both economic, social and medical cost inflation is occurring. "We are seeing noticeable underwriting concern around loss progression and portfolio performances, resulting in increased retentions, significant reductions in capacity deployments in both lead and excess participations, and aggregation in previously unaggregated coverage areas," says Brian Frost, Executive Vice President, AmWINS Brokerage of California. "Additionally, some markets have instituted moratoriums on new business in certain states—while other periphery players have elected to vacate the space entirely. The recently concluded July 1 renewal season saw more absolute non-renewal decisions by underwriters than we have historically witnessed, where both lead and excess incumbents were unwilling to offer terms, irrespective of structural changes."

In the Public Entity market, other observations include a continued underwriting concern over aging infrastructure; electrical distribution (wildfire); and sexual abuse and molestation predominantly in the K-12 space, leading to discussions of claims-made and/or affirmative coverage parameters, and in certain instances absolute exclusions. Entities that offer organized sporting activities are facing stringent underwriting of procedures and protocols around CTE/neurodegenerative injury exposure(s), while Student Accident policies are tending to sublimit CTE coverage at $100,000 or less. However, with public interest in youth sports still strong, expect the market to offer a solution if need be, albeit at a cost. A final note, automobile liability loss costs, in both revenue (transit related) and non-revenue (fleets) continue to escalate and are translating to meaningful rate pressures at renewal, often driven by treaty reinsurance participants. Careful attention will be paid to the upcoming treaty renewal outcomes for the niche public entity markets, with ramifications into subsequent renewal positions likely.

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RENEWAL PRICING TRENDS—CASUALTY RENEWALS, ROLLING QUARTERLY

Source: AmWINS casualty lines account data