2024 Q1
Umbrella and Excess Market Update

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While 2023 wrapped up with continued increases in Casualty insurance pricing, the increases are more consistent than the wild swings of the past few years. Given that we're now three years into the firming market cycle, carriers and reinsurers alike are finally starting to see if their rate increases and capacity management have fortified their books of business and improved combined ratios.

With the January 1 treaty renewal date behind us, it's time to digest the information that came out of those meetings. By and large, this year's process, while still challenging, went more smoothly than prior years in terms of available capacity and pricing need; however, reinsurers still have concerns about the dynamics of their portfolios and where loss costs will continue to go.

Let's take a deep dive on what to expect in the Casualty/Umbrella and Excess insurance marketplace for Q1 2024.

UMBRELLA AND EXCESS CAPACITY ABOUNDS, BUT STRINGENT UNDERWRITING CONTINUES

As we've touched on in previous market updates, over the last 18 to 24 months, it's no secret that support of capacity is strong in the marketplace, at least for certain classes of business. The challenge with larger excess towers is finding the capacity and structuring it to make sense from a relativity and pricing standpoint, which isn't always easy. As we've continued to discuss capacity and outlook at length with our carrier partners and reinsurers, the consistent message is that, while capacity is available and competitively priced program structures exist, stringent underwriting and limited direct authority aren't going away.

As we move into 2024, it's important to manage expectations from both a client and insured standpoint. Continuing to partner with a specialist Excess and Surplus (E&S) broker can help clearly and concisely outline the information and questions the underwriting community needs — and most importantly, why they're needed.

Reinsurers on down-the-line underwriters within the marketplace continue to push for information on insureds' operations and, most importantly, what strategies, protocols, and practices those insureds have implemented if they've had a significant loss. Information that helps clarify a loss or demonstrates the insured's active involvement and their commitment to risk management should yield better results for their casualty insurance program.

A CONTINUED FOCUS ON AUTO

From an Excess standpoint, Auto insurance continues to be a hot-button item that carriers are still concerned about given the increased costs of medical procedures, continued persistence and uptick in legal action for claims, as well as general costs to repair and replace vehicles involved in an accident.

While Auto continues to be a loss leader, it's paramount that insureds are involved in their insurance renewals if their business has catastrophic exposures such as large Auto losses or a large fleet of vehicles, regardless of class of business. The more information and receptiveness to fleet safety an insured can demonstrate, the more comfortable carriers will ultimately become with the risk.

While it sounds like a simple process, there's often a lot of disconnect about safety information among insureds, their retail agent, and even the wholesale broker involved. Carriers are then typically prone to take a more conservative stance on pricing and capacity if a lot of question marks surround information they can't obtain to adequately price the risk.

LEGAL ENVIRONMENT NOT CHANGING SOON

The continued increases in loss costs and the factors driving nuclear verdicts and social inflation are at the forefront of concern for carriers and reinsurers. With attorneys using practices such as third-party litigation funding and strategies such as time-limit demands, carriers and their legal teams continue to monitor loss costs, trends and developments, and strategies used — and in which jurisdictions — very closely.

Reserving amounts and the ongoing adverse development of claims for accident years of 2014 to 2020 are still plaguing carriers and their goal of profitability, although with historical increases in the marketplace, many are expecting profitability in 2024 and 2025. However, it's far too early to tell how that will shake out.

Another area of concern is the sheer amount of legal advertising and attorney spending. It's estimated that attorney advertising spend in the US has reached nearly $1 billion annually. These levels have never been seen before and are expected to continue to rise. This aggressive marketing and general uncertainty in the legal environment continue to challenge would-be investors looking to deploy capital into the insurance marketplace and limiting new capacity.

LOOKING AHEAD

Diligent underwriting and disciplined capacity management is here to stay for the foreseeable future, as carriers continue to be kept up at night about their profitability, adverse loss development on historical accident years, and continued pressure from the ever-changing legal environment. While we expect to see stabilization of price increases in 2024 from an overall casualty standpoint, there will be pockets of significant pricing increases on more hazardous classes of business or those that haven't demonstrated an active role in changing their practices, policies, and procedures after incurring a catastrophic loss.

Capacity is available, and some competitive deals are out there, but the collective knowledge, communication, and information the insurance team (insured, retail agent, and E&S broker) compiles for the marketplace in the renewal transaction will dictate the positive or negative outcome of the insurance program.

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