2022 Q2

Umbrella and Excess Market Update

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The second quarter of 2022 proved to be a continuation of what we witnessed in the first quarter. While incumbent carriers tried to continue to push rate, new market entrants and legacy carriers alike were aggressively targeting new opportunities. This has created a fairly competitive marketplace as there is more available supply for most accounts than the demand to purchase coverage.

Many accounts were oversubscribed on capacity, leaving insureds with options for the first time in a couple of years. While we have seen a few accounts with minimal rate reductions, the majority of rate increases are coming in under about 5% or so.

One of the interesting aspects we witnessed in the second quarter is several standard carriers making adjustments we would have expected to be made already in 2020 or 2021. There were several accounts in which the incumbent standard market on a lead layer either reduced capacity or significantly increased pricing, which is not what was seen across the broader marketplace. If you happen to have a lead placement with a standard carrier that appears to be an outlier in either capacity provided or pricing offered, it is best to get in touch with the underwriter to plan early and manage expectations accordingly.

As the excess casualty market continues to stabilize, there are several evolving issues that will determine how long the stabilization lasts and what happens next. Let's look at a few key areas that our clients must be aware of as we enter into the second half of 2022.

INSURANCE MARKET RESPONSE TO INFLATION

In looking at outside factors that will have a significant impact on the future of the excess casualty market, the health and direction of the economy is one we need to pay attention to. While inflation is hitting home with consumers, it is leading to higher payroll and revenue projections for insureds, and higher claim and settlement costs for insurers.

This is an aspect brokers need to pay attention to, as insureds may be hit with pricing increases due to exposure increases as well as rate increases at that same time that carriers are saying that their renewal rates need to keep pace with the current inflation rate. As some carriers we've spoken to have put it, matching the inflation rate to the renewal rate increase, regardless of exposure, is the new "as expiring" renewal. It is important to note that this stance isn't a blanket approach by all casualty markets, however, we are seeing an increasing trend of carriers utilizing this approach after their review of renewal submissions.

One counter-measure we've looked at in an attempt to mitigate the above is changing the exposure base from payroll or revenue to a non-inflation impacted exposure base for commodity-driven accounts. Carriers won't always make this change, but partnering with an intermediary who is experienced in the excess casualty space and has the ability to leverage carrier relationships and general market intel to mitigate this tactic on accounts will put brokers in the best position for a successful renewal.

OVERALL ECONOMIC HEALTH AND THE UMBRELLA & EXCESS MARKET

Expanding on the thoughts above, the direction of the economy over the next few quarters will have an impact on effective rates in the casualty marketplace. The expectation of a recession and reduced revenues could lead an insured to think that their pricing will be coming down. While this may have been the case in past economic cycles, this time around carriers may not give much pricing concession, especially on long-tail business.

Carriers have increasingly looked more closely at the 5 year exposure history of insureds, and while we may see reduced exposure levels in the coming quarters, carriers may hold pricing, taking into account the amount of outstanding exposure from that past that could lead to an occurrence in the upcoming policy year.

Another important factor for insureds to note for upcoming renewals is wage inflation. While wages continue to climb as companies continue to try and entice workers back into the labor force, it is paramount that brokers and clients alike pay attention to the change in an insured's direct or field payroll year-over-year. If employee count is stagnant year-over-year but payroll increases, that will need to be a negotiating tactic discussed with the underwriter at renewal as technically, exposure would be as expiring. The upward pressure on claim costs from inflation will continue to push up loss costs, and if carriers take these higher loss costs and factor in the past 5 years of strong exposure base it could lead to higher pricing than an insured may expect.

LOOMING FOCUS ON DORMANT CLAIMS

Another factor expected to continue to evolve as we get through 2022 and into 2023 will be claims that have been sitting in the courts that haven't been tried due to court closures during COVID-19. Given the reopening restrictions in various areas of the country, it is of belief by casualty reinsurers, both treaty and facultative, that the market may continue to see an uptick in nuclear verdicts and large loss settlements for claims that occurred during COVID-19 and court closures, but are only coming to light now with reopening of courts across the country.

While this doesn't necessarily pose an immediate threat to the marketplace, reinsurers could begin increasing reserve amounts and as insurers renew their treaties towards the end of this year and even next year, increases in reinsurance claim reserves could be passed on to insurers in the form of rate increases, with those costs being further passed on to insureds.

WHAT'S AHEAD

While the casualty marketplace continues to stabilize due to the recapitalization and high growth expectations of carriers, loss costs have not changed and do not show any signs of slowing down or tapering. Insureds should expect to see similar results in Q3 and Q4 of 2022 as we witnessed in the first half of the year.

However, the direction the market heads in 2023 will be influenced by several outside factors, including inflation, the economy, carriers' investment returns and combined ratios and outstanding claims. It is of the utmost importance to continue to have fluid, effective and open communication with clients and insureds alike, to ensure expectations are being managed. Negotiations for renewals and new business alike must be pointed and concise, while the data provided to markets must be comprehensive, including completed supplemental applications and 5—7 years of currently valued, ground up loss and exposure data, as carriers continue to diligently underwrite individual accounts, with many still needing to be referred to home office approvers prior to being released.

We are cautiously optimistic with the direction of the excess casualty marketplace and will continue to pay close attention to the factors influencing the market and keep you and your insureds informed and prepared on what to expect.