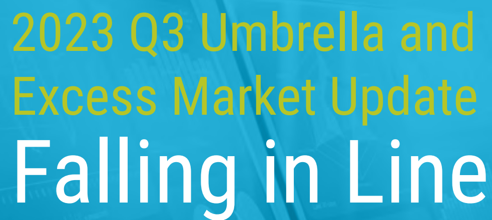

2023 Q3 Umbrella and Excess Market Update

Falling in Line

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The umbrella and excess insurance market fell in line with expectations during the first half of 2023. Carriers continued to push rate across their books, with most rate gains happening within the lead $10 million. Upwards of $10 million continues to have a lot of interest and competition, keeping rates in line with expiring and—in several instances—reducing rate.

A few standard carriers continue to increase capacity on lower hazard accounts, to increase market share and stay on accounts. The one aspect that seems to be evolving at this point in the market cycle is risk selection among general liability carriers, especially from a premises standpoint.

Let's take a more focused look at what's happening in the market and where we expect it to continue for the rest of the year.

CONTINUED TREATY RENEWALS AND THE EVOLVING REINSURANCE MARKET

The reinsurance market has always been a strong indicator of underwriting results and the direction in which the insurance market will head. The direction is mainly driven by carriers underwriting treaties, and while the results of a treaty renewal aren't entirely passed to the insured, they're a good barometer of what can be expected in the future.

July 1 is one of the major treaty renewal dates for casualty insurance. While we're still gathering intel on how this year's renewals went, the feedback shows that losses continue to come in, and reinsurance loss ratios continue to deteriorate. Carriers with strong underwriting results tended to see modest rate increases.

Ceding commission was a big topic of conversation, with several carriers seeing their ceding commissions reduced. Carriers with poor underwriting results didn't receive the same reinsurance support as they had on their expiring, and there was less interest and support from reinsurers on new facilities. Some managing general agents (MGAs) even lost their paper or reinsurance backing and are scouring the marketplace for a replacement. The evolution of the reinsurance market is something to keep an eye on as the year progresses.

A UNIQUE DICHOTOMY

It can be tough following the overall casualty insurance marketplace and tying it back to the impact it will have or to the results it will drive for a given insured. During the last 6–12 months, it seems that more carriers are gravitating to the middle and safer road, staying away from more loss-sensitive exposures or "minimum premium" sized deals.

We all know one of the best ways to manage loss ratio is risk selection, and it's becoming more prevalent. In general, insureds with lower propensity for loss and what the market deems adequate premiums will be oversubscribed with interested capacity on their account, which ultimately leads to better results. As mentioned, there continues to be intense competition excess of $5 million and even $10 million; in several instances, we've started to see incumbents offer "as expiring" rates to maintain their renewal.

Here are a couple examples of this trend:

- In a recent renewal of a publicly traded chemical manufacturer, the entire $150 million excess tower renewed "as expiring," despite an increase in revenue year over year.
- The same can be said for another $200 million excess tower for a large food distributor, operating around 4,000 extra-heavy vehicles, which saw only low single-digit increases on some layers of the renewal, despite increased revenues and auto count.

On the far end of the spectrum are insureds for which, due to location or exposures, the underwriting community doesn't believe they can make money on the class. One example is premises-driven accounts in Florida and Georgia, where very few carriers are actively trying to write new accounts. For lead excess layers on habitational accounts in Florida, only be a handful of markets might be interested, which drives up pricing from what that same portfolio would see in a more favorable jurisdiction.

On the other end of the spectrum, an insured with very low exposures that is trying to increase their capacity is probably going to run into minimum interest and minimum premiums, and not receive the expected rate relativity in the layer they're looking to buy.

From a combined ratio standpoint, S&P Global Market Intelligence's 2023 US P&C Insurance Market Report says that the overall P&C industry is expected to produce an aggregate combined ratio of 100.8% for 2023 before returning to profitability in 2024, with a sub 100% combined ratio projected for 2024.* It's is important to note that while this outlook is positive, rapid deterioration in losses or even catastrophic events that occur before the end of 2023 may impact these forecasts.

ECONOMIC IMPACTS ON LOSS RESERVES

Inflation has been one of the hottest topics in recent years, with the economy running red hot and inflation at one point soaring to 8.9% in the US. While inflation has begun come down in 2023, carriers are constantly monitoring their reserve amounts as inflation eats away at their current ones.

For instance, if inflation is at 6%, and a carrier is mandated to take a 5% rate increase across their book of business, the carrier's thought process is that while they may feel a 5% rate increase is adequate, inflationary factors push them to adjust that increase even higher. This extra cost is ultimately passed to the insureds and can impact reserve amounts.

LOOKING AHEAD

In summary, the market continues to evolve, but at a much slower pace than in previous years. It remains important to stay on top of what's happening in the marketplace and keep your insured updated while communicating that there are outliers from the broader results.

As the retail agent, it's vital to partner with a wholesale specialist that has a very comprehensive understanding of the excess and surplus (E&S) marketplace, so that both admitted and non-admitted carriers can review the opportunity; this partnership helps ensure the most optimal result. The reinsurers continue to have an impact on the direction rates and capacity goes, and as post-COVID-19 claims mature, we may see more rigid changes in the marketplace depending on how these claims impact overall loss ratios.

Sources

*Zawacki, Tim. "US P&C Insurance Market Report: Profitability to Remain Elusive in 2023," *S&P Global Market Intelligence,* 19 Jul 2023.

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