2022 Q3

Umbrella and Excess Market Update

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The third quarter of 2022 brought more rate stability across the broader excess casualty market with average rate increases on an excess tower continuing to come down and now hovering near low single digits. It is an interesting marketplace as we still have less deployable capacity than we did three years ago, but there are 20+ more markets deploying the available capacity.

This has created increased competition in excess of $5 million or $10 million depending on class, which is pulling down the rate increases and occasionally providing rate decreases. Lead excess layers continue to see about a 10% or so rate increases due to the lack of carrier competition on the lead.

WSIA ROUNDUP

Coming out of the annual WSIA E&S conference this September, the general consensus is that carriers are expecting to grow, taking advantage of the strong rate environment. Most carriers shared that they are targeting 7%–10% rate increases in 2023, but realize that they are going to have to make rate concessions on desired classes of business if they want to hold onto their renewals.

Listening to carriers' senior leadership teams, there is definitely an undertone of uncertainty on what's ahead. Will inflation continue? How will inflation impact indemnity and expense payments? How are the claims that are sitting in the courts going to end up playing out? What happens if we continue heading toward a recession? Let's dig a little deeper.

RISING CLAIM COSTS NOT GOING AWAY

A factor that is consistently on carrier's minds is the continued increase of loss costs and costs to adjust, litigate, and settle claims. Furthermore, insurers and reinsurers alike continue to increase reserve amounts for claims stemming from prior years, which can be explained partly by the court system essentially being shut down through 2020 and most of 2021.

We routinely hear the response that the courts have been back open for over a year, so how is this the case? While this is true, many of the low-level dollar amount claims have been settled, while the claims that have high dollar amounts continue to linger. At the end of July, a $7 billion judgment came out in a death claim from an incident in 2019 and again in August, a $10 million claim for a pedestrian fatality came out from a 2018 claim. In the recent conclusion of an eight-week trial in June, two plaintiffs were awarded $464 million due to sexual and racial harassment at a utility company.

Carriers are calling for rate increases at this point simply to keep pace with continued pressure from social inflation, inflation, and recession warnings coming from the broader global financial markets. Additionally, the increased deployment of TPLF (Third-Party Litigation Funding or Financing) continues to make insurers uneasy due to the lack of regulation surrounding the tactic. It's been noted that the U.S. now accounts for 52% of the global TPLF, furthering the probability of shock and nuclear verdicts.

Carriers are continuing to monitor the aforementioned factors while also delving further into analytics and trends regarding claims, like the rise in fraudulent insurance claims, which is estimated to cost consumers up to $80 billion annually.

Tying this back to current market competition, much of the new capacity that has entered the market over the past two years does not need to worry as much about how losses prior to 2020 develop as they don't have these losses on their books. They are able to benefit from the strong rate environment as well as learn from industry losses to stay ahead of their specific loss costs. Long-standing carriers continue to push the rate to keep capital ahead of losses.

UPCOMING TREATY RENEWALS

Another topic for brokers and buyers alike to be cognizant of is the upcoming treaty reinsurance renewal period, which involves most insurers renewing their reinsurance treaties between Q4 of the current year and Q1 of the upcoming year. With natural disasters like the recent Hurricane Ian, those forecasted property losses that will be sustained by reinsurers should impact the Casualty marketplace as reinsurers pass their increased costs down to their insurers, which may be passed on to the buyers.

Ian could end up being a capital event in which reinsurers not only end the year in the red but have to pull from capital reserves as well. In prior years CAT losses have not been kind to reinsurers, and while they have been pushing rate increases in prior years, all data points to continuing firming and loss of capacity in that sector.

While insurers have tried to offset their rising reinsurance rates by attempting to take more capacity on a "net" basis, continued rate increases and increasing loss costs sometimes force carriers to continue to seek alternative reinsurance capacity to maintain their books of business, particularly on more difficult classes of business. While specifics haven't quite been brought to light regarding the rate increases, larger reinsurers at the conclusion of the recent Rendez-Vous de Septembre in Monte-Carlo and APCIA event in Dallas have stated that they expect to see continued market firming and rate increases into 2023, given the expected increase in demand for reinsurance and shrinking of global capacity due to catastrophic events.

MARKET STABILITY CONTINUES TO BE UNCERTAIN

While recent months have shown a bit of a rate plateau in the Casualty world, it is important to keep the aforementioned factors in mind as brokers and clients look ahead. In the short term, we would expect a fairly stable excess casualty market for the coming months as carriers continue to target growth in the strong rate environment. The long-term stability of the market will be driven by the economic and social factors that reinsurers and carriers continue to keep a close eye on.

As always, it is imperative to provide comprehensive renewal submissions, consisting of clear and concise information as to the "why" surrounding changes in the insured's renewal data. More effective communication with clients will lead to better renewal expectations, which in turn, can limit the amount of surprises at renewal.