THE INSURER
Global risk capital intelligence

Nuanced umbrella/excess casualty market emerges as rate increases begin to ease

29 April 2021

Two years on from the seismic shift in US lead umbrella and excess casualty insurance pricing conditions there are signs that the pace of hardening is beginning to decelerate, as buyers move into another renewal cycle of rate increases with budgets stretched, multiple sources have told *The Insurer*.

Although underwriters continue to highlight the need for more rate and argue that drivers of losses have not abated, brokers are reporting an easing of pressure in some areas and even evidence of competition returning in less volatile areas where there is appetite from incumbents and new players.

That is leading to a more nuanced marketplace where the outcome for buyers can vary significantly depending on their capacity requirements, track record and the segment they operate in.

24 months into hard market

As reported at the time by this publication, it was at the last in-person RIMS conference in April/May 2019 that there was broad acknowledgment from brokers that a significant change was taking place in the market as carriers in lead umbrella and excess layers slashed capacity and pushed for big rate hikes.

Beginning at the 1 April renewal date that year buyers were suddenly faced with double-digit price increases and a scarcity of capacity that left brokers scrambling to fill placements.

Over the next 24 months those rate increases gathered pace as underwriters across the board followed carriers such as AIG and Swiss Re Corporate Solutions in retrenching, either by drastically shortening limits or exiting segments of their portfolios.

That left some of the more distressed areas of the market experiencing a capacity crunch that led to the cost of cover doubling or more for lead umbrella and lead excess layers.

Momentum easing?

But speaking to ***The Insurer*** earlier this month, Tony DeFelice, managing director of the national casualty practice group at Aon Risk Services, said that his firm had seen a significant change between Q1 2021 renewal pricing and that seen at 1 April this year.

Based on preliminary data ahead of Aon's upcoming update on the segment, the executive said that the median increase for umbrella and excess in Q1 was around 33 percent, with accounts where volatility continued renewing up 43 percent on average.

"There are some large accounts in there, tough risk classes such as large commercial fleets or trucking, where we saw 100 percent increases," he reported.

Factors for and against sustained pricing momentum

FOR

- Loss trends show no sign of abating as social inflation continues to loom for UWs
- Closed courts during pandemic could mean pent-up frequency of severity to come
- No sign of reversal of shortened limits from carriers with some further reducing capacity
- Global capacity has shrunk from $2.2bn to $1.4bn, with max deployed only half of that
- Capacity from new entrants expected to have minimal impact at least in H1 2021
- UWs are also focusing on managing attachment points

AGAINST

- Aon preliminary numbers suggest a drop in rate increases from Q1 to 1 April renewals
- Median increase for umbrella/excess down from 33% to 14.8%
- After two rounds of heavy rate increases budgets of some buyers are constrained
- Some large buyers are retaining more including through captives
- Brokers are reporting evidence of more competition returning in some low-moderate hazard classes
- Appetite from some carriers to leverage umbrella/excess participation to access primary layers
- Brokers expect mixed experience for clients in 2021, with some tempering of price increases but others continuing to experience challenged renewals

"For the low to moderate hazard classes of business we're seeing some real competition out there for the premium dollars. It's the tougher risk classes that are continuing to see the increases, whether because of the risk class or because of the losses they've had"
Aon Risk Services' national casualty practice group managing director Tony DeFelice

With many 1 April renewals having paid consecutive large increases already, DeFelice said on the portfolio he oversees – large account risk management business – rate increases had dropped precipitously, with an average increase of 23 percent and a median increase of 14.8 percent.

"For some of the large umbrella accounts – clients that pay millions for their lead program – we've seen that flatten quite a bit to the point where there's even competition that keeps the rates in check," he added.

The broker is continuing to see pressure in the mid- to higher level excess coverage layers on higher hazard risk classes, such that even where there is a flattening of the rate on the umbrella, the layers above could still see 40 percent or 50 percent increases in some cases.

But, he said: "For the low to moderate hazard classes of business we're seeing some real competition out there for the premium dollars. It's the tougher risk classes that are continuing to see the increases, whether because of the risk class or because of the losses they've had."

Rival broker Willis Towers Watson indicated in its latest Marketplace Realities report this month that it is seeing a moderation of increases that has led it to lower forecasts for 2021.

Where high hazard accounts were expected to see 150 percent increases or more, they are now in line for 100 percent or more, while low or moderate hazard accounts are expected to renew up 50 percent or more, less than the 75 percent or more previously forecast.

Nuanced market

Speaking to this publication, Marsh's US casualty practice leader Daniel Aronson said that after two years of challenging renewals the segment is "not out of the woods yet" from a buyer's perspective.

He suggested that in the evolving environment renewals will depend on multiple criteria.

"How much capacity they're buying and who the players are that are providing that capacity is key. As soon as you have one of the insurers cutting capacity that can have small, or major ramifications on that tower depending on where they sit on the tower," said the executive.

WTW casualty rate predictions

	Nov-20	Apr-21
General liability	+7.5% to +15%	+7.5% to +15%
Auto liability	+8% to +15%	+8% to +15%
Workers comp	Flat to +4%	Flat to +4%
Umbrella liability:		
High hazard	+50% or more	+50% or more
Low/moderate hazard	+30% or more	+30% or more
Excess liability:		
High hazard	+150% or more	+100% or more
Low/moderate hazard	+75% or more	+50% or more

Source: Willis Towers Watson

"Some clients may have tempered renewals compared to previous years whereas for others it may be very challenging depending on the situation around their tower and their experience in the class of business they're in"
Marsh's US casualty practice leader Daniel Aronson

Individual renewals would also be influenced by where pricing is at on the higher levels and carrier demands for minimum price per million.

And they'd be influenced by coverage concerns across a range of potential exposures, including communicable disease, wildfire, traumatic brain exposure or CBD exposures.

"What the exposure is, the coverage provided and the language around the coverage is all very meaningful.

"Some clients may have tempered renewals compared to previous years whereas for others it may be very challenging depending on the situation around their tower and their experience in the class of business they're in," Aronson continued.

Shortening of limits

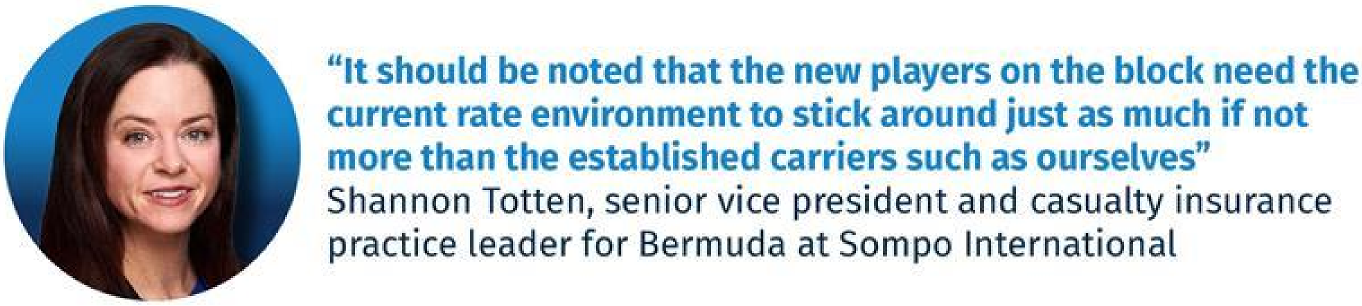
As previously reported, a key driver of market conditions in umbrella and excess casualty over the last two years has been the shortening of limits.

Where previously the standard lead line for an umbrella program might have been $25mn, that was typically reduced to $15mn.

Despite the progress made on pricing, DeFelice said there are still examples of carriers trying to shorten limits further to $10mn. With excess layer underwriters sitting above typically only willing to offer what the lead is offering, that has created problems again for filling out programs.

"It's about controlling capacity and reducing volatility, and the underlying cause of that action is that there's still a lot of negative prior-year development hitting their books," he said.

Underwriters speaking to this publication said that while they recognised the challenges for buyers and the reality of budgetary constraints for some clients, they are not in a position to increase limits again in the current loss environment.



Shannon Totten, senior vice president and casualty insurance practice leader for Bermuda at Sompo International, said that last year had seen a much-needed "foundational pricing correction" in excess casualty that had been a long time coming.

But she said the trend of reducing the average limit deployed reflected the need to recognise the impact of social inflation and an increasing average level of awards.

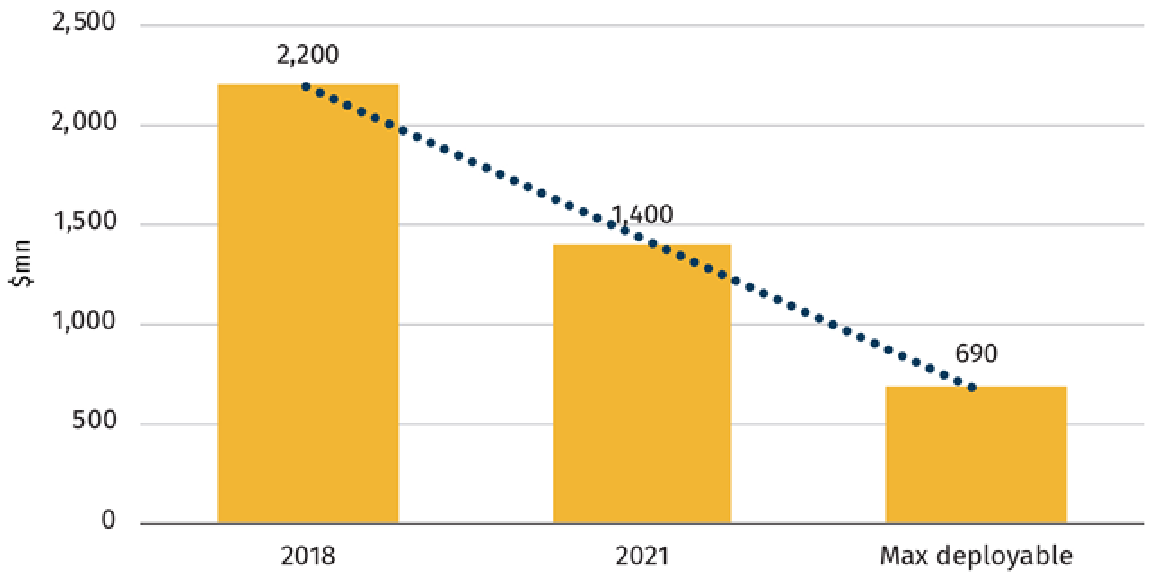
"It's more about $10mn to $15mn lines because certainly in the large account complex casualty space Bermuda plays in we are still in the cross hairs of social inflation, so the only way to reduce the volatility of your book is to reduce the line size," Totten commented.

Actual v theoretical capacity

With broker sources beginning to report signs of increased competition in more vanilla areas of umbrella and excess casualty, there has also been talk about the potential for new capacity entering the market to ease pressure on placements.

In its recent report, Willis Towers Watson noted, however, that by its calculation total available and advertised global capacity has declined from $2.2bn in 2018 to $1.4bn in 2021, but the maximum deployed capacity is much lower at around half that, or $690mn.

Theoretical v actual capacity in umbrella/excess



It said that carrier consolidation had driven around $235mn of the reduction, capacity withdrawn represented another $500mn and underwriting restrictions by carriers still in the market had taken a further $700mn from the total deployable capacity on risks.

Sompo International's Totten said that to secure $600mn of capacity a large insured would have to go through the US, Bermuda and London "taking every carrier and turning them upside down".

And she suggested new entrants are unlikely to make a significant difference.

"The new entrants are deploying small line sizes that don't begin to make up for what we approximate $500mn in lost capacity to be in the last couple of years.

"It should be noted that the new players on the block need the current rate environment to stick around just as much if not more than the established carriers such as ourselves," said the executive.

Aon's DeFelice highlighted the several new entrants that have either started underwriting or will be up and running by mid-year, including Ascot in the US, Ark, Vantage, Inigo and MGAs such as Helix.

"Theoretically there's $110mn additional new capacity coming into the market, but in practice we will probably only see $40mn-$50mn of additional capacity because they're not deploying their full set of limits," he commented.

One factor that could positively impact the supply of capacity is an appetite from some insurers to leverage their excess capacity in order to retain or gain new business in primary layers across general liability, auto and workers' compensation.

Managing attachment points

Joe Cellura, president of North American casualty at Allied World, told this publication that underwriters were now moving into a new phase as they look to address challenges in the casualty market.

“Corrections have been made over the last 18 months on limits, or volatility management, as well as addressing acute emerging risk like communicable disease. Together with management of aggregates that was the first phase of the process to return to a sustainable marketplace.

“Now we’re heading towards phase two, which is managing attachment points. Because of what’s happened with capacity management there’s now more insured co-participation and risk sharing. As well as attachment management some insureds are buying less at the top of programs,” he observed.

Cellura added that the consistent theme for underwriters has been making adjustments so that pricing is commensurate with the risk as it continues to evolve.

The approach comes as the sector contends not just with the higher severity and mass tort scenarios but also increased exposure from more attritional claims.

Other underwriting executives surveyed by ***The Insurer*** in recent weeks have said that even with signs of some easing of rate momentum after compounding increases, loss trends mean that hardening is still needed in 2021 and beyond.

And Cellura added: “We continue to risk adjust our pricing. Historical results still show loss development so from that standpoint we see the current pricing environment continuing in 2021. If the world continues to be as hazardous as it’s been in the last 18 months it may continue for some time.”

For brokers, the challenge will continue to be presenting their clients as differentiated risks in the eyes of insurers.

Aronson said that in his conversations with carriers some are suggesting there is still room to go on the rate, while others are saying they "might jump in a little bit" now as they get more comfortable with the rates "before they flatten out and are ready to take on some market share".

"I believe it's very account specific and assume they will be seeking some sort of rate increase on their overall book. I hope we don't see such drastic volatility for our clients who have had to weather this storm with such large rate increases and changes to their tower.

"I'm hopeful that the average rate increases will be more tempered and lower, and I'm hopeful there will be more nuances to the treatment of specific accounts rather than just a drive for rate," he concluded.

Reopening courts and social inflation

One major driver of market conditions in umbrella and excess casualty in the last couple of years has been the advent of social inflation and an increasing average level of awards in claims that go to court.

The big unknown as the US economy continues to open up is whether the shutdown of courts through much of 2020 led to an artificial reduction in the frequency of severe losses and whether that means that pent-up cases will trigger an acceleration in claims inflation in 2021 and beyond.

Allied World's Cellura commented: "A concern is that we may be in a situation where the courts are compelled to move cases faster, by sending more cases to mediation and/or being less receptive to appeals, delays and other scenarios that might normally take cases multiple years to get through the system as they look to clear out the backlog. That could create a spike after the slowdown of the last year."

But he also emphasised that it is not just big jury awards that are causing pain for insurers.

"A big part of the issue is just the main street loss costs that you have for slips and falls, fender benders and other auto accidents. It's not just the headline-grabbing incidents; it's also the everyday exposures that are escalating," he said.