Reactions

The three things that need to happen for sustainable reinsurance placements at Jan. 1

Sompo's Steve Hanke, President of North America Reinsurance, discusses how rates will play out at renewals.

Broadly speaking, how would you characterize the state of the reinsurance market in the U.S. at the moment?

We are in a transitional market where a focus on underwriting discipline has re-emerged, in both the insurance and reinsurance markets. When we look back about 10 years ago, to the beginning of the financial crisis, these markets created an oversupply of capital. Teams of underwriters left well-established firms to pursue new opportunities by launching new start-up underwriting platforms. The reinsurance capital, including hedge fund reinsurers, followed and supported many of these companies – which ultimately created an oversupply of capacity.

In today's market, while the demand for insurance continues to increase, the supply has been greatly diminished. Some of this reduction can be attributed to an uptick in M&A activity over the last few years, but most stems from insurers and reinsurers being more disciplined about limiting capacity, retentions and strong pricing. We believe that the market will continue to firm well into 2020, and that the most successful reinsurers, insurers and brokers will be the ones that set expectations with their clients early and with great clarity.

What are you hearing from clients in terms of reinsurance requests? Are you seeing much change as far as placements go?

For 2019, we expect our reinsurance submission counts to be at the highest levels ever and attribute this to clients being more focused on selecting core reinsurers. We believe that more clients are seeking out Sompo International due to our strong balance sheet, stable underwriting platform and talented and responsive underwriting and claims teams. We are also benefiting from some reinsurers retrenching by implementing corrective measures on their respective books of business.

What are you seeing as far as rate increases/decreases for Jan. 1 renewals? Have reinsurance buyers become more savvy in their buys?

Ultimately, reinsurance placements will be evaluated by their underwriting results and their profitability. The reinsurance market has been correcting underperforming treaties for about two years now and we believe this trend will continue through 2020.

For sustainable reinsurance placements at Jan. 1 and beyond, three things need to happen: First, reinsurers need to set realistic expectations with their clients and brokers at the onset of the renewal process. When you consider there are reinsurers, brokers and clients that have never seen a rate increase in a primary or reinsurance program, early communication will be key. Second, primary rates need to continue to grow to get portfolios back in line with loss costs. And third, reinsurance terms should be aligned with portfolio performance. Clients and brokers are looking for more stable, well-positioned reinsurance panels where ability and willingness to pay claims are paramount.

What's your current assessment of the Professional Liability market? Has the claims picture changed in this line in the past few years?

The Professional Liability market has been in a state of flux for the last several years. We have seen rates continue to decease on many large commercial and financial institutions' D&O programs, forcing insurance companies to delve into the cyber liability and the transactional risk space. To make up for lost premiums in the management liability space, many companies have acquired talent in these other new lines of business.

At the same time, the exposure base for all these lines of business has expanded. The D&O policy has become more of a management "event" cover, while cyber policies have expanded to cover contingent business interruption and system failure (first and third parties) and transactional risk policies are now covering contingent liabilities. Also during this time, there was an overdeployment of large limits being used.

Given that claims frequency and severity is now catching up with these new coverage trends, the Professional Liability market is now firming. We have seen double-digit rate increases, limits reduced, and retentions increased. We also see it as a hard market for IPO business where demand has overreached supply, and think this will continue well into 2020.

Do you believe rates are where they should be in Professional Liability? If so/if not, why?

For Professional Liability, we began to see rates slightly increase toward the end of 2018. That positive rate change has continued throughout most of 2019 and our belief is this will continue well into 2020.

While there is positive momentum, we think rate changes are still needed for most Professional Liability lines of business. When you consider that primary rates have been going down for the last 10 or so years, and that class action frequency and severity has increased, we need the rates to improve just to keep up with loss costs.