nerej
CELEBRATING 55 YEARS

2012 insurance marketplace fall preview: Has the hardening market materialized?

October 25, 2012 - Spotlights

There has been a great deal of discussion in early 2012 of a hardening market, the question remains has it materialized? Property and casualty markets tend to harden when underwriting losses reach their pinnacle (1984, 1992, 2001 and now 2011). On the investment side, property and casualty insurers saw their income decline due to the drop in bond returns. Combined loss ratios have reached 110% in general for most insurers. These factors had contributed to the gathering of a "perfect storm", which we had expected would force premiums higher on all lines of insurance in 2012. Ironically, if not for the abundant capacity in the insurance market and the weak economy the premium rates could have increased more dramatically.

Commercial property coverage led the hardening market of 2012. We have seen carriers requesting upward of 20% rate increases; with renewals for risks throughout wind and flood prone areas being the most challenging. Key markets for CAT perils have cut back capacity and are carefully analyzing this book of business.. RMS-11 released in February has estimated new loss projections for windstorm and storm surge with increases of 40% to 60% (and sometimes even higher) for exposure in many coastal areas, from New Jersey to Texas. As a result, underwriters have been forced to either increase the price at renewal or reduce the amount of capacity they were providing.

Primary Casualty insurance (general liability) capacity remained healthy; however insured's should expect renewal options to be flat at best. Favorable loss histories will dictate the outcome of the casualty renewal cycle. Investment in loss prevention along with claims management and contractual controls will enhance your risk in the eyes of the underwriting community. The umbrella marketplace has firmed more significantly than the primary markets and capacity is harder to negotiate and more expensive at renewal.

We have seen the most dramatic volatility in the workers' compensation marketplace. The vagaries of individual state laws and regulatory oversight dictate the insurance markets response to availability and pricing. Recently carriers have made moves to exit markets, curtail the size and scope of the program design or refuse to underwrite mono-line programs. Middle market programs have been most challenging, with concentration of risk impacting the underwriting authority most.

Executive Management Liability insurance continues to show competitive signs with most renewals flat. Companies with global operations or expansion plans should consult with their broker regarding the evolution of corporate laws expanding the duties of D&O's in many foreign jurisdictions. Coverage voids may exist for foreign D&O's at subsidiaries of U.S. parent companies. Purchasing local D&O policies in countries that do not recognize non-admitted U.S. D&O policies might be a prudent option.

It is our belief insured's will be faced with continued pricing pressure through the remainder of 2012. Although as stated earlier, insurance capacity remains strong this could dampen the increases sought by most carriers. It will be extremely important for corporate management to build strong relationships with their underwriters. In addition, loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the underwriters. We recommend building strong risk management relationships with your broker and underwriters early action will allow for the negotiation of the most competitive program the markets will offer.

Spencer Macalaster is an executive vice president with Risk Strategies Co., Boston.