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Market realities - 2021 forecast - by Spencer Macalaster

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As we enter the first quarter of 2021, our clients are asking us for our predictions regarding the overall insurance environment. Until 2018 the insurance marketplace saw significant inflows of capital, manageable loss experience and ample carrier surplus. As a consequence, the markets remained relatively stable through 2018. Rate changes, if any, were primarily confined to inflationary levels, except for those risks in catastrophic loss locations or with higher individual loss experience.

However, all that changed in 2018 when hardening insurance markets became increasingly evident. We believe the change manifested itself due to a significant increase in catastrophic events. Three major named storms hit Texas, Florida and the Caribbean with estimated insured cost of over $75 billion. The Mexican earthquake hit the insurance market as well with losses estimated to exceed $1-$2 billion. The year 2020 will go down in the history books as one riddled with a record number of billion-dollar disasters. According to a new report released by the National Oceanic and Atmospheric Administration (NOAA), losses in the U.S. alone tallied a staggering $95 billion from 22 separate billion-dollar events. The previous record for billion-dollar disasters was 16 in 2011 and in 2017. The year marked the most severe wildfire season across the West to date, with California logging five of its six biggest wildfires in state history. It was also the Atlantic's busiest hurricane season on record, with 12 land-falling named storms in the U.S., while swarms of tornadoes ravaged the South. Combining this with a recent trend in litigation awards of what is commonly referred to as "nuclear verdicts" and you have a perfect storm leading to a dramatically hardening insurance marketplace.

In the latest CIAB market report, the market continued to harden in Q3 2020, with premiums increasing by an average of 11.7% across all-sized accounts, marking the 12th consecutive quarter of increased premium pricing. As with the previous quarter, the impact was most apparent for large and medium-sized accounts, which recorded increases of 15.3% and 12.7%, respectively. "It's clear the pandemic has accelerated the hard market conditions observed in previous quarters," said Ken Crerar, president/CEO of CIAB. "The financial stress from the extended economic contraction has contributed to increased premium pricing across the board, heightened insurer wariness and reluctance to take on additional risk."

Property: Buyers nervous about changes in their property placements will fall into two distinct groups. Those with little catastrophic exposure could see 15%-30% rate increases. Those with catastrophic exposure, especially to flood or wind perils, or those with negative loss history, will see significantly higher rate increases and higher deductibles.

Casualty: Primary Casualty insurance (general liability, commercial auto and workers' compensation) capacity remain steady; insured's should expect renewals (depending on individual loss experience) with 10%-20% rate increases. Favorable loss histories will dictate the outcome of the casualty renewal. Investment in safety and loss prevention along with claim management and contractual controls will enhance your risk in the eyes of the underwriting community.

Umbrella: The umbrella marketplace firmed more significantly than the primary markets and capacity is harder to negotiate and premium increases between 20% and 50% are not uncommon. In many cases carriers are cutting the renewal capacity in half, which makes it far more difficult to negotiate the size limits historically purchased at competitive premiums. Social inflation and nuclear verdicts were among the primary drivers for the sizeable increase in premiums.

Cyber: We believe the "tipping point" for most insureds has been reached when it comes to Cyber Liability. Make no mistake, all companies—big or small—are vulnerable to a privacy breach or a network security incident. Cyber liability can be attributable to human error, hackers, digital espionage, data theft, denial-of-service attacks, electronic sabotage, improper employee or contractor access, computer viruses, or programming errors. Cyber insurers have been enjoying a profitable run for several years but are now facing a changed risk landscape with data breaches, ransomware attacks, insurance claims and overall threat awareness increasing. We are cautious not to state that we have moved to a hard cyber insurance market for all organizations in all industry sectors. However, there is clear evidence that the cyber marketplace is taking a harder stance with some of the larger and more complex risks. We expect larger organizations to see cyber insurance carriers seek premium increases in the 10% to 20% range, with certain isolated instances of even greater increases.

D&O, EPLI, Crime and Fiduciary: Executive Management Liability (D&O, Fiduciary, Crime and EPLI) insurance continues to show signs of firming with most renewal rates increasing 25% or more, primarily driven by employment practices related claim exposure. Even companies with claim free exposures are experiencing rate increases. Companies with global operations should evaluate 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 is a prudent option.

Strong loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the carriers. In addition to building strong risk management relationships with your broker and underwriters, approaching the marketplace early will allow for the negotiation of the most competitive program the markets will offer.

Risk Strategies is cognizant that the above rate increases are extraordinary. The market is unprecedented with the confluence of carriers paying larger claims, investment returns at historic lows and economic burdens on every business. We are tenacious negotiators and will leave no stone unturned in our effort to achieve the lowest possible renewal terms the market will bear. However, we want to be realistic with you and provide accurate and truthful analysis of the current insurance market conditions.

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