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Buckle your seat belt - by Spencer Macalaster

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As we finish the second quarter of 2021, we look forward to some stabilization in the insurance market, however that might be some time off. Through 2018 the insurance marketplace saw significant inflows of capital, manageable loss experience and ample carrier surplus. As a consequence, the markets remained relatively stable. However, all that changed in 2019 when hardening insurance markets became the norm. The increased rates and premium cost then accelerated through the first half of 2021. Most reporting agencies showed average increases in the double digits and in some cases more.

The change in the property insurance market manifested itself due to a significant increase in catastrophic events. Three major named storms hit Texas, Florida and the Caribbean Islands 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. 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” affecting the liability insurance markets and you have a perfect storm leading to a dramatically hardening insurance marketplace.

In the latest market reports, the hardening market in Q4 2020 saw premiums increasing by an average of 22% across all-sized accounts, marking the 13th 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 20% and 24%, 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: Looking toward the fall insurance renewal season, we predict a moderation in the premium increases barring any unforeseen catastrophic losses. Buyers nervous about changes in their property placements will fall into two distinct groups. Those with little catastrophic exposure and low loss experience could see 15% - 20% rate increases. Those with catastrophic exposure, especially to flood, wind or wild fire 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 could be characterized as a disaster with capacity harder to negotiate and premium increases between 40% and 1000%. In many cases carriers are cutting the renewal capacity in half, which makes it far more difficult to negotiate the larger 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. The cyber insurance marketplace enjoyed a profitable run for several years but are now facing a daunting risk landscape with data breaches, ransomware attacks, increased claim costs and overall threat awareness increasing. To say the cyber market has hardened is an understatement. All organizations in all industry sectors should expect a doubling or more of their cyber insurance renewals. Recent renewals in the cyber market have shown larger deductibles, more restrictive policy terms and dramatic premium increases.

D&O, EPLI, Crime and Fiduciary: Executive Management Liability (D&O, Fiduciary, Crime and EPLI) insurance continues harden 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 risk control 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 relationships with your broker and underwriters, approaching the marketplace early will allow for the negotiation of the most competitive program the markets will offer.

Overview: 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 and provide accurate and truthful analysis of the current insurance market conditions.

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