STATE OF THE CASUALTY MARKET

CONTACT

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Courtesy of AmWINS Group, Inc.

CASUALTY UPDATE - Q2 2018

The second quarter brought few surprises, but a dynamic casualty market requires expertise to navigate.

Although the casualty market saw some slight price increases on renewal business in the first quarter, conditions were nowhere near indicating the return of a hard market. Through the second quarter, those conditions have held consistent. Heading into the second half of this year, most clean accounts can anticipate seeing flat pricing to slight increases in the 3 to 4 percent range.

"We are seeing smaller rate increases than many anticipated at the end of 2017," says Tom Dillon, national casualty practice leader at AmWINS.

The dual drivers of this market condition are significant capacity and, despite some large loss concerns, generally favorable returns. "We still have a lot of capacity in the marketplace," Dillon says. "While combined ratios have ticked up and some carriers are struggling, many have reported decent first quarter results, and I would expect the same for second quarter. Also, topline revenue growth is helping produce positive earnings, offsetting some of the increases in combined ratios. Reserve releases are playing a role, as well."

High-stress areas in casualty remain habitational business and New York construction, both primary and excess, with some insurers exiting those markets in recent months. Additionally, casualty coverage for utility companies in West Coast regions is difficult to obtain without a wildfire exclusion.

"Carriers still struggle to write habitational business profitably," Dillon says. "Losses from slips and falls, assault and battery, and other causes have simply been outpacing the premium. At the same time, there are few large or bulk buyers in habitational. There are a lot of individual property owners who can't afford to take on high-deductible exposure that would help make the line more profitable."

INCREASED CAPACITY, PRICING STABILITY EMERGE IN AUTO

Automobile liability continues to be a problematic line for carriers; however, there are signs that conditions in commercial auto are changing, with new capacity entering the market and pricing beginning to level off in both primary and excess, particularly for clean accounts.

"We are finding more carriers willing to write auto, although at new 'normalized rates'. Because most carriers have taken significant rate increases over the past few years, many carriers, that are committed to the space, are getting close to the premium where they feel more comfortable underwriting the risk," Dillon says.

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“However, it’s far too soon to say that we’re out of the woods because losses continue to come in, particularly on trucking risks,” he cautions, adding that settlements in excess of $50 million are being made on the line.

Brokers can expect to see continued activity among underwriters impact the market in 2018. “In London in particular, we are seeing more interest in casualty business, and we are investing in a stronger London presence as a result,” Dillon says. “We’ve also seen increased creativity from London, especially with regards to loss-sensitive plans, which is an area where we can help retailers.”

In addition to market exits by insurers, carrier consolidation continues in casualty. Notably, AXA acquired Bermuda-based XL in the first quarter, and more M&A activity is expected in 2018. Offsetting any capacity reduction from consolidation is the continued inflow of capital from private equity and alternative sources.

“The casualty market remains dynamic,” Dillon says. “Retailers should partner with wholesalers who understand the trends impacting the marketplace and who have the relationships, specialized insight, and market knowledge to help brokers succeed in placing business for their clients.”