AMWINS

Facultative Reinsurance: Casualty Market Update

Reinsurance is essentially insurance for insurance carriers. Facultative reinsurance is specific coverage for individual accounts. Unlike treaty reinsurance, which offers carriers protection on a portfolio, every facultative placement is unique. It can also provide coverage where a treaty may not, place coverage directly behind a captive and decrease the carrier's net and treaty retention.

Facultative reinsurance can be a useful marketing tool that is sometimes overlooked. It can be used when:

- An underwriter declines to write a whole account/layer or opts to carve out certain exposures.
- An account is over a certain size and the underwriter's guidelines may require facultative reinsurance.

While best leveraged in lower layers and attachments, every reinsurer has their sweet spot, which can vary by class and industry. Most prefer to play within the first $10M to $15M of the risk.

CONTACT

To learn more about how Amwins can help you place coverage for your clients, reach out to your local Amwins broker.

LEGAL DISCLAIMER

State of the market

The facultative reinsurance casualty market is in a state of transition. E&S capacity is more readily available to casualty risks as new carriers and MGAs have entered the space, and carrier treaty renewals at 1/1, 4/1 and 5/1 were more organized than in 2023, bolstering the direct markets' confidence and ability to quote capacity.

As a result, competition for large facultative placements is significant in less distressed areas of the casualty marketplace. However, for some of the more difficult to place accounts, facultative reinsurance is in demand, with reinsurers eager to retain renewals as well as write new, profitable business. For example, construction rates for New York accounts have made it even more challenging to secure coverage and we have seen an influx of these accounts move to facultative reinsurers.

Other industries experiencing the same struggles include:

Transportation: Auto liability rates have increased for primary accounts while excess layers that had been moderating are beginning to firm. Most carriers remain concerned about frequency and large loss trends especially when it comes to tractor fleets and large commercial schedules and are turning to facultative reinsurers to reduce their net line.

Workers' compensation: As workers' comp claims continue to rise, carriers are looking to offset their risk and we are seeing an increase in the number of carriers returning to the facultative reinsurance marketplace.

Impacts of social inflation

Claims litigation continues to impact the casualty market exponentially. As the number of aberration verdicts (verdicts of more than $10M) rise and changes in the legal landscape are ongoing, social inflation makes up 26% of today's inflation rate[1].

A recent report by the Institute for Legal Reform shows that from 2010 to 2019 the median aberration verdict increased by 27.5% from $19.3M to $24.6M. When combined with the rise of third-party litigation funding, these tactics have driven **capacity reduction on individual accounts.**

In general, research suggests social inflation could be causing losses to increase faster than general inflation by 2% to 3% per year. And, as a result, reinsurers are either holding the line on rate or implementing slight increases just to keep up.

[1] *1 D&P Composite NPE Mix by Estimated Inflation Type*

We help you win

All facultative reinsurance intermediaries are not created equal, so it's important to choose one with strong relationships, knowledge on how to leverage the market and creativity in structuring deals.

Our Amwins reinsurance team averages more than 20 years of experience and is noted for their vision and aggressive execution in the completion of multi-layered accounts and difficult to place exposures.

The risk specialists at Amwins Re are fundamentally different from other brokers in this segment. We understand that each account is special and can create unique plans specific to your client – working directly with the carrier to secure capacity and customize options.

About Amwins Re

Amwins Re has been specializing in the placement of facultative reinsurance and program administration since its creation in 1984. In addition to our expertise in transactional facultative placements, Amwins Re is fully engaged in the production and administration of niche program business. These programs bring together "A" rated carriers, reinsurers and managing general agents in such diverse areas as habitational, municipalities, motor truck cargo, auto physical damage, excess and surplus property, GL/products and umbrellas, workers compensation, professional and auto liability (including carve outs).

With access to markets in the U.S., London, Bermuda and globally, whatever the exposure, Amwins Re can provide the appropriate facultative solution to any risk management dilemma.

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