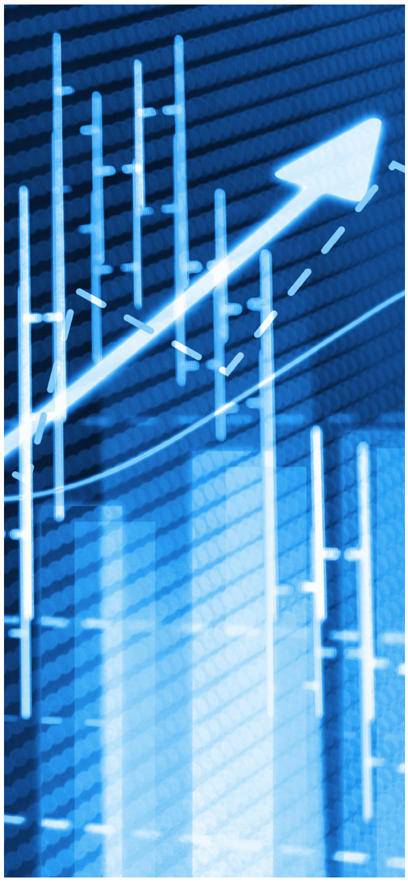
INSIGHTS | SEPTEMBER 2020

Property and Casualty UK Insurance Market Update

The UK property and casualty (P&C) insurance market is changing quickly. In the second quarter of 2020, property pricing increased by 16% and casualty pricing increased by 5%.



This is the sixth consecutive quarter of pricing increases. Pricing increases for the previous quarters were typically single-digit (see Figure 1), but several headwinds mean that pricing increases may persist and even accelerate in the next 12 months.

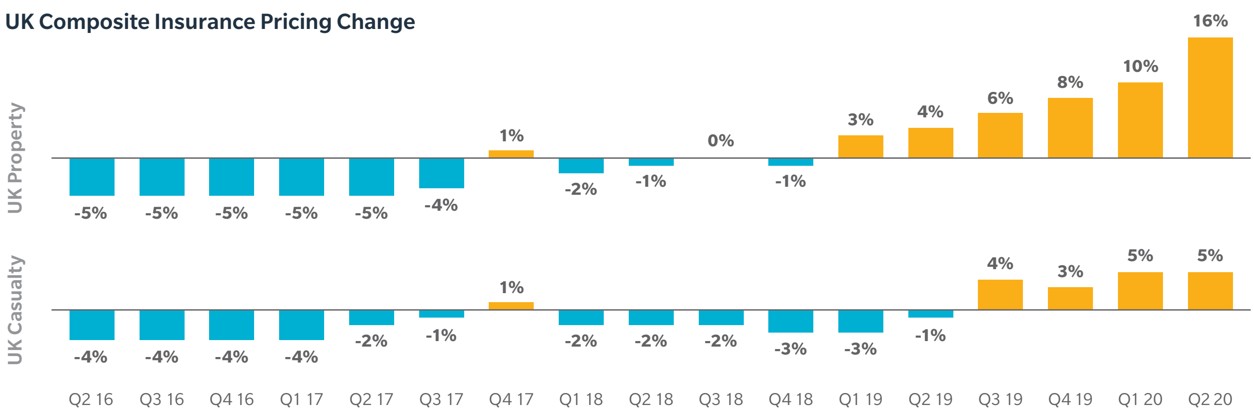
The principal reason for these recent pricing increases is a sustained lack of profitability in P&C underwriting. Although 2017 was a record-breaking year for natural catastrophe losses, underwriters did not deliver meaningful profits in subsequent years despite more benign natural catastrophe seasons.

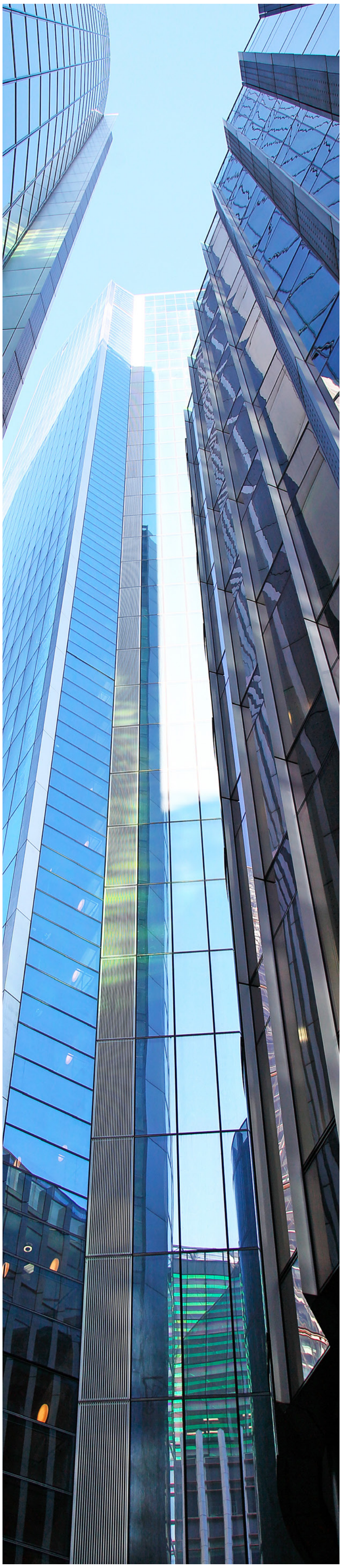
Many major insurers felt this indicated a lack of underlying profitability, a notable example being the Lloyd's Decile 10 review. As a result, they took more pronounced steps to reach underwriting profitability, including: reducing capacity deployment on individual risks to reduce volatility; increasing pricing to improve profitability; and withdrawing from some risks or classes of business to improve risk quality and reduce the potential for significant losses.

FIGURE 1

Property and casualty pricing has increased in recent quarters.

SOURCE: MARSH





COVID-19

The factors influencing capacity and pricing have not changed in the last six months. But in addition to the aforementioned characteristics – reduced capacity and increasing pricing – insurers are now reacting to the implications of COVID-19, which have begun to exacerbate underlying market conditions.

Although there is still a lot of uncertainty around known business interruption (BI) losses, insurers are closely monitoring ongoing regulatory and legal proceedings in the UK and other jurisdictions. There is also potential for COVID-19-linked employers' and public liability claims, at a time when casualty insurers are already concerned about the adequacy of non-COVID-19 claims reserves.

The pandemic has had a marked effect on coverage for P&C where disease exclusions are applied to many property wordings, though insurers are increasingly keen to impose coverage restrictions, including sub-limits for disease, in liability wordings.

Property Capacity and Pricing

It is not only the major global insurers who have implemented changes in underwriting for P&C. The change in the property market is partly due to a marked change in underwriting approach in facultative reinsurance (capacity that insurers purchase on an individual risk basis), which began in early 2018 following the 2017 Atlantic hurricane season.

Throughout 2019, reinsurers closed facultative property portfolios and remaining participants reduced capacity and mandated price rises. It has become increasingly apparent that property insurers had made shrewd use of competitively priced facultative reinsurance to bolster their own capacity, transfer risk, and keep pricing low.

The lack of availability of facultative reinsurance has taken some time to affect the direct market. But the shift is now more obvious for high-hazard sectors (such as waste and food), placements with a large natural catastrophe exposure, and placements with below average risk management quality. Pricing can be very volatile, with increases ranging up to 100% in some examples, as insurers seek to obtain the same level of reinsurance protection and pass on the increased cost to insureds.

There are few new entrants in the property market and several notable closures of portfolios. In addition to the reduced facultative reinsurance capacity, this has contributed to reduced competition, even for well-risk-managed and claims-free placements.

Casualty Coverage and Claims

Although the casualty market is more stable than the property market, from a pricing perspective, more stringent underwriting guidelines have affected terms and conditions, which in turn have influenced the total capacity offered. Underwriters are particularly focused on bespoke coverages such as professional indemnity, financial loss, rip and tear, electromagnetic field, the General Data Protection Regulation (cyber), and abuse. Some capacity has been withdrawn completely due to price, sanctions, and breadth of cover, leading to the restructuring of programmes.

As ever, global casualty claims trends influence the casualty reinsurance market and eventually UK insurers. US auto losses consistently feature in insurers' top 10 largest claims; there are likely to be increasing attachment points in global casualty programmes and significant pressure on rating for larger (500-plus vehicles) US fleets.

Outlook

The remainder of 2020 and 2021 present several potential headwinds that could accelerate P&C price increases. The first is the potential impact of ongoing regulatory and legal proceedings in respect of COVID-19 policy coverage. The second is the current 2020 Atlantic hurricane season, which officially ends in November.

The final potential headwind is the P&C reinsurance treaty renewal season at 1 January 2021, which is when many global insurers renew their treaty, or portfolio, reinsurance.

Pricing in the direct market has increased quarter-over-quarter through 2020, despite many P&C treaties renewing at modest single-digit rate increases at 1 January 2020. Some insurers that arrange their main treaty renewal earlier in the year have reported double-digit increases for both P&C treaties.

Insurer results for the first half of 2020 vary, but many insurers are reporting combined ratios – the ratio of incurred claims and expenses, including reinsurance treaty costs, to earned premiums – in excess of 100%. We therefore anticipate that insurers will immediately pass on increased reinsurance costs to direct policyholders as they seek to achieve profitable underwriting results.

Key Strategies

In order to mitigate premium increases and successfully navigate a changing insurance market, we have worked with clients on the following key strategies:

1. **Take time to identify and understand your risk appetite –** increasing retentions, reducing limits, and redefining cover are options that will provide robust rationale for underwriters to reduce their pricing. We recommend being proactive and controlling the range of options based on your risk appetite and tolerance, rather than waiting for insurers to impose changes.

2. **Prepare a high-quality underwriting presentation –** focus on up-to-date risk information, but also on industry trends and risk differentiation.

3. **Understand claims and articulate lessons learned –** reflect on your response to large losses and changes in process to mitigate future claims. Ensure that claims management protocols are established to convey oversight and control of claims.

4. **Focus on risk management –** spend time on insurer engagement to articulate risk quality and provide up-to-date information on achievements and future plans.

5. **Have a thorough market engagement plan –** include potential use of our international hubs in order to generate capacity and create competition.

6. **Involve the C-suite –** engage with insurers' senior leadership and also involve your own senior management in order to articulate the board-level approach to risk management and enhance accountability,

7. **Market the programme effectively –** ensure that insurers have the right risk information and timely engagement. It is also very helpful to look through a cross-class lens and consider the premium volume placed across all lines with each insurer.

8. **Stick to agreed milestones to keep control –** the level of activity in the insurance market has intensified and marketing is taking longer. Staying on top of the timeline and using time to your advantage is crucial in order to proactively manage marketing results.

For further information, please contact your local Marsh office or visit our website at marsh.com.

CLARISSA FRANKS
+44 (0)20 7357 3309
clarissa.s.franks@marsh.com

CATHERINE FRENCH
+44 (0)20 7357 3465
catherine.french@marsh.com