Seeds of Change Abound - The Property/Casualty Insurance Marketplace

Current Conditions

The most recent data about the current marketplace is showing generally soft market conditions. Following are a few excerpts from February’s Market Scout report.

- Rates for commercial property/casualty insurance fell 4 percent in the first month of the new year
- Commercial property insurers are getting ready to scratch each other’s eyes out as they fight for market share
- Umbrella/excess liability and workers’ compensation rates actually increased slightly over the same period
- Large and jumbo accounts (over $250,001) were assessed rates slightly higher in January versus December

Below is the latest quarterly rate chart (by line of business) published by Council of Insurance Agents & Brokers (CIAB).

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A Confluence

However, utilizing Wayne Gretzy’s philosophy of skating to where the puck is going to be, let’s look down the road to where the market is heading. Here is the confluence we see coming.

1. Due to excess capacity available to the marketplace there’s downward pressure on rates
2. This is eroding underwriting profitability in the face of reduced investment income availability
3. Lack of significant catastrophes is a fortuitous rather than controllable scenario
4. After a decade of utilizing “redundant” loss reserves to bolster earnings it appears that well is running dry Let’s look at some seemingly isolated events that point to change on the horizon.

Recent Activities

XL Catlin

In 2015 XL merged with Catlin. Faced with minimal growth prospects the two companies realized merger/acquisition was the way to achieve growth. This created a leader in the global specialty insurance and reinsurance markets. Since February 2016, XL Group, PLC has seen negative downgrade pressure from the financial markets.

Ironshore

In 2015 Fosun International purchased 80% of Ironshore—following the 20% they purchased in 2014. It would make sense Ironshore would sell at a peak time in share price.

ACE/Chubb

In July 2015 ACE & Chubb announced its combination which closed in January 2016. This is another combination as a method to achieve growth in a challenging environment.

Zurich

In October 2015, Zurich announced it foresaw impending losses for the balance of the year and added $300 million to loss reserves for certain lines of business. In addition, they announced staff cuts would be made—which has been accomplished. In February 2016, they announced a review of their risks and, where necessary, either re-price or walk away from some risks—even in the face of shrinking some of their businesses. Zurich reviewed its general-insurance portfolios after the unit posted losses and identified 15 that were lagging, including auto liability and construction liability, according to a presentation in September.

AIG

In February 2016 AIG announced some changes in their underwriting appetite. “After a comprehensive review of our Casualty and Environmental business in the U.S., we have identified some market sub-segments that do not warrant continued investment. We are taking thoughtful steps to remediate some of these underperforming portions of our portfolio.” This was on the heels of adding $3.6 billion to their loss reserves in January 2016. On January, 27 2016 A.M.Bests also placed AIG under review with negative implications.

Executive Moments

As insurance executives adapt to the changing landscape (i.e., AIG, Chubb, Zurich) they are finding other insurers who see the opportunity to grab talent—sometimes in new underwriting disciplines for them. We believe this will open up placement options for clients.

Activist Investor

In 2015 Carl Icahn began pressuring AIG to take action to increase the value of the company. His suggestion was to split the company into three separate companies. AIG has resisted this course of action but is being pressured to increase profitability. Some believe this has contributed to AIG’s change in underwriting appetite.

Where’s The Puck Going?

So, what does all this mean? There are forces afoot sowing seeds for change in the insurance marketplace. Knowing this, what steps can you take to prepare?

1. Determine how your key underwriting partners will address your renewals in 2016. Some underwriters are putting each risk into categories such as
   a. Very profitable—retain the business
   b. Marginally profitable—some re-pricing needed
   c. Not profitable—significant re-pricing needed to keep business
   d. All other—major re-pricing needed or let the business leave
Implementing the perceived necessary action will not be easy—and it remains to be seen how strong the underwriters’ constitution will be. Even if you fall into a favorable category and have positive renewal results, educate your management on the seeds of change in the marketplace.

2. Know how your risk has performed (profit/loss) in the eyes of your underwriting partners. Are they viewing this correctly?

This is where the broking comes into play. Intimate knowledge of your risk will be key—rather than placement center pressure.

3. Have you groomed a key “back-up market” to incumbents? How you and your broker have treated the marketplace will be key to the future.

4. How do you best position your risk to prospective underwriters—particularly if your incumbent is known to be re-underwriting their book of business?

5. If you’re pushed onto a change what are the ramifications—with the former and prospective underwriter (i.e., collateral, etc.)?

6. What is your strategy—short term and long term?

As you can see there is a lot preparation required—meaning you can’t start too early.