MARKET SUMMARY – PRIMARY CASUALTY
Generally, the primary casualty marketplace can still be considered competitive, and capacity remains available. However, as noted in previous quarters, we continue to experience areas of tightening and firming with respect to certain industry classes (e.g., habitational real estate and hospitality, transportation or large fleet risks, and public entity liability) as well as risks with poor historical losses regardless of industry class. Rate increases within these groups can easily reach double digits.

In addition, with the changing environment of the umbrella/excess marketplace, we have seen an increase in requests for primary auto limits to be raised to help support attachment points. We have also seen some requests to increase GL limits.

Exposures associated with the sharing economy, autonomous vehicles, wearable technologies, the Internet of Things, opioids, cannabis/marijuana, traumatic brain injury, and sexual molestation remain challenging for insurers.

Quality information is critical as underwriters are prioritizing what risks to quote.

Workers’ Compensation
In the third quarter of 2019, the market trend continued from the first two quarters with the workers’ compensation market remaining fairly favorable for the majority of insurance buyers. The competition is fueled by mature insurers seeking to hold onto renewals and grow their books. In such a competitive landscape, insurers are having some issues securing WC rate increases on their books of business. In the third quarter, 52% of our insureds experienced some level of a decrease, 19% renewed flat, and 29% received an increase. Though WC remains the competitive line within Casualty, there is a growing concern that the rate environment is not sustainable based on reserves beginning to increase on the carrier side.

General Liability
Underwriting results continue to deteriorate for many insurers. With jury verdicts increasing and severity trends being driven by more social inflation, this will result in underwriters attempting to renew at an increase for most risks going forward. As always, loss experience, exposure class, program structure, and treatment of legal expense can heavily influence premium and structure. Results in the third quarter remain consistent with the second quarter, with 32% of insureds receiving rate increases, 36% receiving rate decreases, and 32% renewing flat. These results also include changes in the program structure (i.e., higher retentions or GC converting to a retention), which can result in a rate “decrease” but is achieved only because the insured is willing to take on more risk.

Automobile Liability
Automobile liability remains the most challenging primary line, with insurers experiencing a high frequency and severity of auto losses and deteriorating results. Auto liability cases made up a substantial portion of the top 100 verdicts in 2018, according to the National Law Journal. Despite past rate increases, most insurers have not reached an adequate return on their auto results. Thus, the market continues to seek rate increases; and our third quarter results are in line with 70% of insureds sustaining rate increases and only 12% receiving a decrease, which is typically the result of a program structure change.

Note: The rate range averages on the following pages are provided for illustrative/informational purposes and should not be used in isolation to form renewal expectations.
The above ranges represent results for renewals in the first through third quartiles; generally moderate risks.
ANNUAL CHANGES AT RENEWAL

US EMPLOYEE COUNT TRENDS

- Average
- Median
- Government Data

US PAYROLL TRENDS

US FLEET SIZE (Marsh Clients) & GAS PRICES (US GOVT) TRENDS

US DOMESTIC SALES TRENDS
WORKERS’ COMPENSATION

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US WORKERS’ COMPENSATION - HISTORICAL RATE CHANGES
All Programs

-3.2%  -0.9%  -3.0%  -3.2%  -2.9%  -1.3%  -2.3%
-3.9%  -2.6%  -5.9%  -4.8%  -4.2%  -4.5%  -2.4%
-5.4%  -5.1%

2017 Q4  2018 Q1  2018 Q2  2018 Q3  2018 Q4  2019 Q1  2019 Q2  2019 Q3

Average  Median  Linear (Average)

US WORKERS’ COMPENSATION CLIENTS WITH RATE CHANGES - RANGES
All Programs

PERCENT OF US WORKERS’ COMPENSATION CLIENTS WITH RATE CHANGES
All Programs

29%  34%  25%  26%  30%  27%  34%  29%
16%  17%  19%  17%  16%  15%  18%  19%
56%  48%  56%  57%  55%  58%  49%  52%
GENERAL LIABILITY

US GENERAL LIABILITY - HISTORICAL RATE CHANGES
All Programs

-2.0%  -0.1%  -0.6%  0.0%  0.0%  0.0%  0.0%  0.0%
-4.3%  -3.4%  -2.6%  -2.8%  1.3%  -1.1%  -0.1%  -1.2%

2017 Q4  2018 Q1  2018 Q2  2018 Q3  2018 Q4  2019 Q1  2019 Q2  2019 Q3

Average  Median  Linear (Average)

US GENERAL LIABILITY CLIENTS WITH RATE CHANGES - RANGES
All programs

PERCENT OF US GENERAL LIABILITY CLIENTS WITH RATE CHANGES
All Programs
GENERAL LIABILITY

US GENERAL LIABILITY - HISTORICAL RATE CHANGES
Guaranteed Cost Programs

-4.3% -3.5% -1.7% -0.8% 0.0% 0.0% 0.0% 6.9% 0.0%
2017 Q4 2018 Q1 2018 Q2 2018 Q3 2018 Q4 2019 Q1 2019 Q2 2019 Q3

Average Median Linear (Average)

US GENERAL LIABILITY CLIENTS WITH RATE CHANGES - RANGES
Guaranteed Cost Programs

PERCENT OF US GENERAL LIABILITY CLIENTS WITH RATE CHANGES
Guaranteed Cost Programs

100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
2017 Q4 2018 Q1 2018 Q2 2018 Q3 2018 Q4 2019 Q1 2019 Q2 2019 Q3
19% 30% 51%
25% 34% 41%
32% 23% 45%
28% 33% 39%
33% 30% 37%
34% 33% 34%
36% 35% 29%
34% 34% 37%
AUTO LIABILITY

US AUTO LIABILITY - HISTORICAL RATE CHANGES
Loss Sensitive Programs

US AUTO LIABILITY CLIENTS WITH RATE CHANGES - RANGES
Loss Sensitive Programs

PERCENT OF US AUTO LIABILITY CLIENTS WITH RATE CHANGES
Loss Sensitive Programs
SUMMARY
The excess casualty market continued to firm in Q3, with most accounts experiencing a challenging environment in terms of rate, capacity, and appetite.

- With exceptions, lead umbrella insurers are generally expected to continue seeking reduced deployment from $25 million down to $10 million to $15 million, sometimes at near expiring pricing.
- Overall, the need for capacity replacement continues to cause major pricing disruption, especially when needing to fill aggressively priced layers.
- The market shift is acutely affecting the large, high-profile account space, where fears of “deep pocket syndrome” seem to be driving insurer decisions.
- Despite the environment driving a heightened level of marketing activity, incumbents’ lead umbrella insurers who have a desire to stay on risk continue to renew the vast majority of their book.

RATE ENVIRONMENT
With wide variation continuing across industries and accounts, average tower increases in the large/complex account space remain in the +15% to +25% range and can run higher.

Various insurers in the lead umbrella and low excess space have indicated average Q3 book rates at +30%.

Although some mid- to high excess markets are looking to manage pricing via relativity guidelines, others are striving for their idea of rate adequacy regardless of underlying pricing, which is causing additional disruption.

Note: These rate range averages are provided for illustrative/informational purposes and should not be used in isolation to form renewal expectations.

More than $500 million of theoretical limit has been removed from the industry over the past two years via withdrawals and the introduction of global deployment caps by various insurers.

Most recently, this includes the following:
- Sompo restricting global capacity to $25 million.
- AXA XL deciding to limiting its available deployment to $50M in total across all global access points.
- Swiss Re completing its exit from the US excess casualty space.
- Indications that Liberty Specialty Markets Bermuda (formerly known as IronStarr) may be headed towards a tightening of available capacity heading into 2020.

FRESH CAPACITY
Buyers are anxiously anticipating the availability of fresh capacity from several new players, all of whom have hired well-respected industry veterans to steer the ship in what continues to be a choppy marketplace. This includes the following:

- Ascot (Bda) – Pat Kenahan.
- Convex (UK) – Nick Wadell.
- Nationwide (US) – Elizabeth Johnson.

An eventual $75 million to $100 million in total theoretical capacity is expected to be made available across the three entities.

CAPACITY CRUNCH
The primary international casualty market remains largely stable, with competitive capacity available for well performing accounts. Nevertheless, the market has exhibited signs of firming this quarter, with the majority of GRM and IPP accounts renewing flat in all zones. For accounts achieving rate decreases, the percentage of those reductions has diminished as compared to Q3 2018. Average rate decreases in the global risk management space are in the 5% range, as compared to 10% a year ago. Rate decreases for package programs tightened more modestly, down 2% as compared to this quarter last year.

As a result, marketing volume increased this quarter, notably in the Eastern US, near the quarter end. Aggressive marketing, either blanketed across many insurers or targeted to specific carriers, has produced higher rate reductions for some, but not all, clients. Risks with above-average loss activity have experienced changes in underwriting from multiple years of flat rate programs to renewal terms with increases and/or coverage restrictions targeted only to address specific claim scenarios. Nonrenewal notices have been issued on accounts where loss history is severe and where significant loss experience continues to deteriorate.

Certain accounts with “one-off” large losses were not immune to this market contraction and in limited instances found their most favorable renewal terms ranging between flat and a small rate increase, even when the incumbent was put in competition. Declinations are on the rise for specific risk classes, including chemical, pharmaceutical, and hospitality, and those industries considered not socially or environmentally responsible.

Accounts with average losses and stable or growing exposure mostly remained with their incumbents. Where marketed, those incumbents fended off most challenges via “last looks” to discount rates to maintain attractive risks. One carrier has attempted to erase years of underwriting unprofitability by raising rates across the board on their primary foreign casualty accounts, which has led to their book being heavily marketed this quarter. Most insurers are open to lowering rates to avoid well performing accounts from going to market, and approaching the current underwriter early for a rate decrease to avoid competition remains fruitful.

With rate and capacity restrictions in the umbrella/excess arena, certain accounts have sought premium indications for higher primary limits. This has produced lower overall casualty cost for some clients, but not all have found the increased primary premiums appealing.

For those clients that have moved to a new insurer partner, rate and premium remained the most persuasive factors in their decision-making process. In addition to cost, an underwriter’s understanding of the client’s risk and their ability to furnish a timely quote, inclusive of specific coverage grants, influenced binding choices. Opportunities were created for competitors when incumbents added, or failed to remove, material exclusions at renewal.

Regional differences in insurer flexibility and pricing persist, with less rigidity displayed in the Central and West Zones. To attract greater interest in their proposals, a few of the newer market entrants have contracted with prominent global insurers to strengthen their worldwide network. Carriers that furnish robust technology with user-friendly platforms have maintained a small advantage over competitors that lack online data accessibility particularly for IPP clients.

Loss-sensitive accounts remain stable, with most renewing with flat collateral and fronting fees absent a deteriorating loss pick. Efficient and accurate transfer of funds between the client and their carrier partner, along with timely reimbursements where appropriate, remain key factors that influence a client’s satisfaction with their insurer.

As guaranteed cost rates rise, clients consider alternate program structures with greater interest. One jumbo account recently restructured their program to a captive front after twenty years of risk transfer due to the significant reduction in premium they would pay to the commercial market. Although these accounts market with less frequency, competition can be steep where there is a genuine opportunity for movement. Despite attractive competitor offerings, the vast majority of loss-sensitive accounts have remained with their incumbent due to the complexity of these arrangements.
LARGE RISK CONTROLLED MASTER PROGRAMS (CMP)
- Good to average risk profiles largely renewed with rates ranging from -5% to flat for guaranteed cost general/product liability buyers; however, accounts with substantial claims activity consistently experienced rate increases. Higher rate reductions were achieved earlier in the quarter despite increased marketing closer to the quarter close.
- Controlled auto programs continue to experience rate increases related to higher loss ratios, and flat renewals remain the exception. Rates fluctuate between flat and single-digit increases for most auto CMP renewals. Double-digit rate increases have been imposed on accounts directly associated with increased loss activity or where loss control has failed to reverse a high claim volume or costs. Where the program includes GL or FWVC/EL, underwriters offset auto losses with positive experience on the other lines to eliminate or reduce any auto-driven increase to retain accounts. A few large clients have inquired about the potential of instituting a controlled auto program so far this year, but few have made the decision to do so. Difficulty in obtaining valid local data, tacit renewal obligations, scarcity of US carriers offering primary auto cover and lower local pricing has reduced the desire for US-based controlled auto programs.

INTERNATIONAL PACKAGE POLICY (IPP)
- Flat to 8% rate decreases led IPP renewals for good to average risk profiles in Q3, with flat renewals comprising the majority of account bindings this term. Carriers were willing to walk away from underperforming accounts rather than continue to renew them at premiums they did not find supportable. One insurer’s intractability on removing certain exclusions has opened the door for other carriers to win new business. Many underwriters have benefitted from the increased submission flow.
- Improved technology, whether broker focused or service based, has been positively received on IPP programs. The ability to streamline renewals and achieve greater efficiencies through technologic improvements remains highly valued.

DEFENSE BASE ACT (DBA)
Capacity remains available for well-performing DBA accounts, and competition is vigorous for these profitable risks. The driving factor for determining insurer interest and rate remains loss experience. “One-off” loss scenarios have been largely accepted in this market, but claim frequency has consistently resulted in rate hikes and premium increases.
- Insurer focus on risk control, including predeployment medical screening, continues to be a means to mitigate claims cost. Underwriters remain concerned about flight concentrations, high-risk operations, and coverage of specific countries.
- Some clients seek coverage on an “If Any” basis instead of reporting payroll exposure. Certain DBA carriers can accommodate this request, including AIG and Arch; but others, such as Chubb and CV Starr, are not able to offer quotes on this basis.
- Prompt quote turnaround continues to influence insurers’ DBA success ratio. Many clients have limited notice of employee trips that require DBA and premium increases.
- The Hartford is writing DBA coverage attendant to their domestic WC cover for existing clients and targeted accounts but does not presently furnish stand-alone DBA policies.
- AWAC has experienced challenges with offering timely quotes this quarter due to staffing changes.
- Safety National is the newest entrant in the DBA marketplace, and their targeted risks include aviation, security, construction, engineering, and base maintenance and administration.