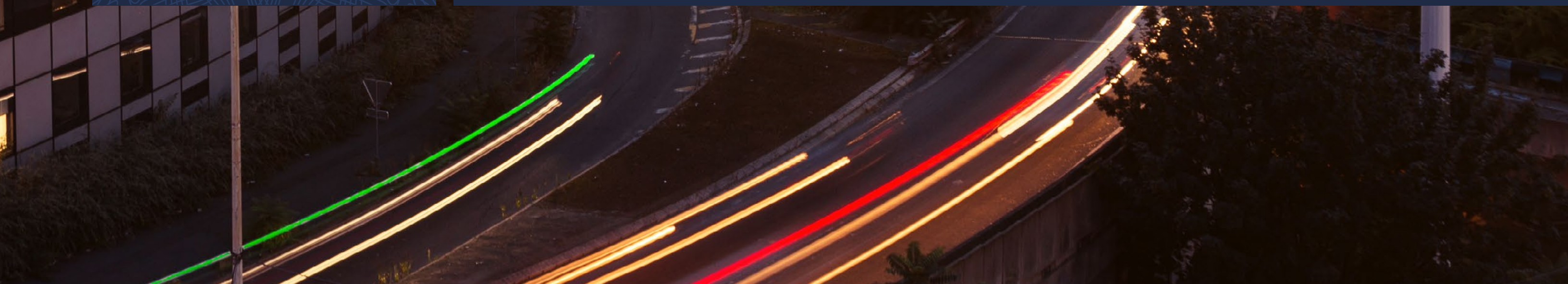
WOODRUFF SAWYER

Looking Ahead to 2022

PROPERTY & CASUALTY CONSIDERATIONS FOR THE COMING YEAR



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INTRODUCTION

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The last few years have been a reckoning for the insurance industry. Years of decreasing premiums were incompatible with the reality of frequent and more severe natural catastrophes, increasing jury awards in liability cases, and medical cost inflation. The impact on insurer balance sheets was unsustainable and insurance companies acted by increasing premiums and cutting limits, causing pain for insurance buyers globally. Just when we thought insurance buyers might feel relief, COVID-19 entered the picture and extended challenging market conditions into 2021.

The objective of our annual *P&C Looking Ahead Guide* is to give our clients guidance around what to expect in the coming year. In addition to premium forecasts, we offer actionable steps for buyers to mitigate risk. As we look ahead to 2022, we see signs of positive change for insurance buyers. We don't recommend budgeting for decreasing insurance premiums just yet, but the steep increases of the last few years appear to be leveling off. Our property, casualty, and middle-markets experts discuss the factors they expect to shape trends in 2022. Continuing a feature we debuted last year, we once again asked several cargo underwriters at Lloyd's of London to provide their perspective on both the market and how cargo insurance may help in the supply chain issues dominating the news headlines.

Having a knowledgeable and trusted insurance broker to help you navigate the complexities of risk is critical in all types of insurance markets. We help our clients untangle the complexity of both existing and emerging risk, advise on ways to mitigate risk, and provide creative solutions in insurance program design—our efforts are focused on helping you achieve your growth goals.

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US INSURANCE MARKET UPDATE

COMMERCIAL LINES FORECAST FOR 2022

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There is a noticeable shift in the wind in favor of insurance buyers in 2022, and we are optimistic for many, if not all, segments of the commercial lines market in the coming year. This time last year, COVID-19 was on everyone's minds because vaccines had not yet been implemented and most of the global economy was in lockdown. COVID-19 is still an issue and variants have led many to expect that COVID-19 is here to stay. The sentiment, at least in the insurance industry, has shifted from uncertainty to adaptation.

In our *Looking Ahead to 2021 Guide*, we commented that "no one was blinking." This comment was based on the observation that insurer balance sheets were relatively healthy, but rates continued to rise through 2020. In past years, healthy balance sheets led to a competitive buyers' market because insurers felt confident enough to take on more risk (by offering more limits) and/or decrease rates to capture market share. Unfortunately, we haven't seen much evidence of competitive actions like these in 2021.

Our friends at ALIRT Insurance Research summed up this unusual competitive situation in their "Three Months 2021" report, noting, "What appears to be pushing rates higher is not insurer's fear of insolvency (or substantial balance sheet deterioration) but rather the fear of subpar returns on equity. Put another way, the rate environment is not reacting to fear of the regulatory and rating agency but fear of the investor class." (ALIRT Insurance Research, 2021)

For their part, insurers cite "uncertainty factors" as contributors to continued elevated rates. In Q2 2021 insurer earnings releases, most of the largest US insurers mentioned "social inflation" as one uncertainty factor that will perpetuate the current rate environment for several quarters. According to a report recently released by the Geneva Association, social inflation "refers to all ways in which insurers' claims costs rise over and above general economic inflation," such as increasing jury awards, the litigation funding trend, and medical cost inflation. Other uncertainty factors that insurers mention are cyber and the impact of climate change. We'll cover cyber in more detail in our upcoming *Cyber 2022 Looking Ahead Guide*, to be released in January. Climate change includes increased frequency and severity of storms, wildfires, and flooding. We'll discuss this in more depth in our Property Update.

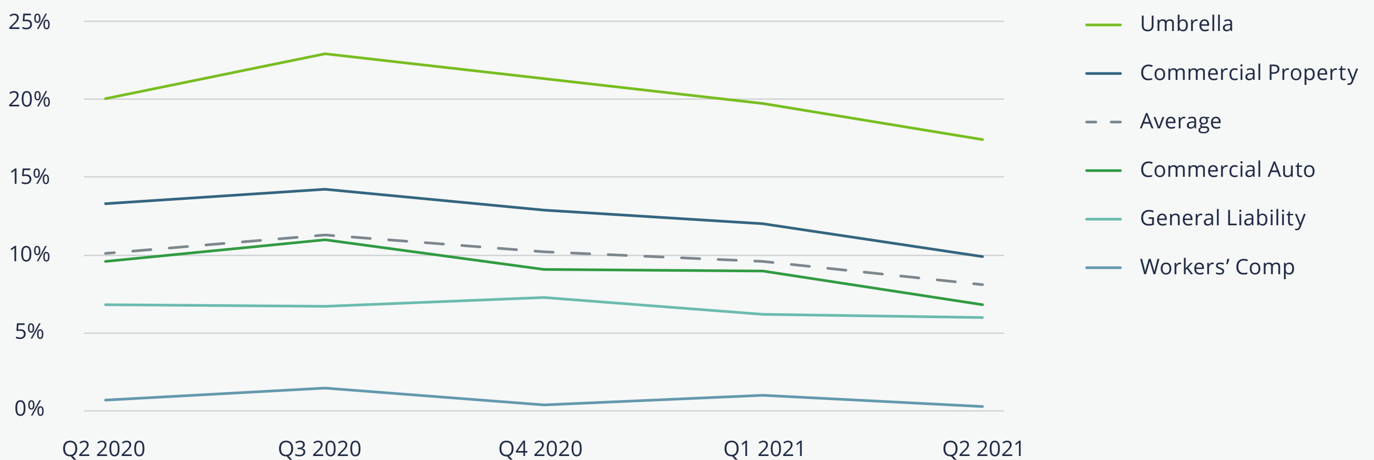
Our View of 2022: Optimism, with Pockets of Upward Trends

Our insurers' optimism around continued rate increases may be wishful thinking. The Q2 2021 CIAB survey reported that average commercial lines rate increases in the quarter were 8.3%, down from 10.0% in Q1 2021.

The magnitude of rate increases for average commercial lines rates has lessened since Q4 2020

In our experience, high-quality property and casualty placements are often oversubscribed, with rate increases less than 5%. Certain industries and risk factors remain challenging. On the property side, wood products, heavy manufacturing, and food & beverage are challenging sectors, and any risk with a wildfire exposure can expect rate increases. In the casualty segment, large fleet exposures will draw scrutiny and increased rates.

Our view of 2022 is that rate increases will flatten throughout the year, particularly in property and casualty. Almost every month in 2021 has brought news of a new market entrant—it takes time for new markets to get up and running, but most should be fully operational and quoting new business in 2022.



Source: The Council of Insurance Agents & Brokers

New market entrants increase competition, which should drive rates lower. High-quality risks may even see some rate decreases by late 2022. Our forecast of flattening rate increases also applies to the D&O market. See our *D&O Looking Ahead Guide to 2022* for a deeper dive into this segment of the commercial lines market.

Unfortunately, our optimistic view of 2022 does not apply to all segments of the commercial market. We expect cyber premiums to increase through 2022 as the industry struggles with massive ransomware losses. See our January *Cyber 2022 Looking Ahead Guide* for a more detailed analysis of trends in this market.

Cyber Insights: Stay up to date and get your Cyber *Looking Ahead Guide* in January 2022 >>

Regardless of whether rates are rising or falling, there are certain best practices insurance buyers can follow to improve renewal results:

Start early and establish relationships with your underwriters.

Work with your broker to gather detailed information about your risk. This will help differentiate you in the market.

Address loss control recommendations and discuss these efforts with your underwriters. Proactive loss control demonstrates to underwriters a commitment to risk mitigation.

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PROPERTY UPDATE

A CAUTIOUS BUT OPTIMISTIC MARKET

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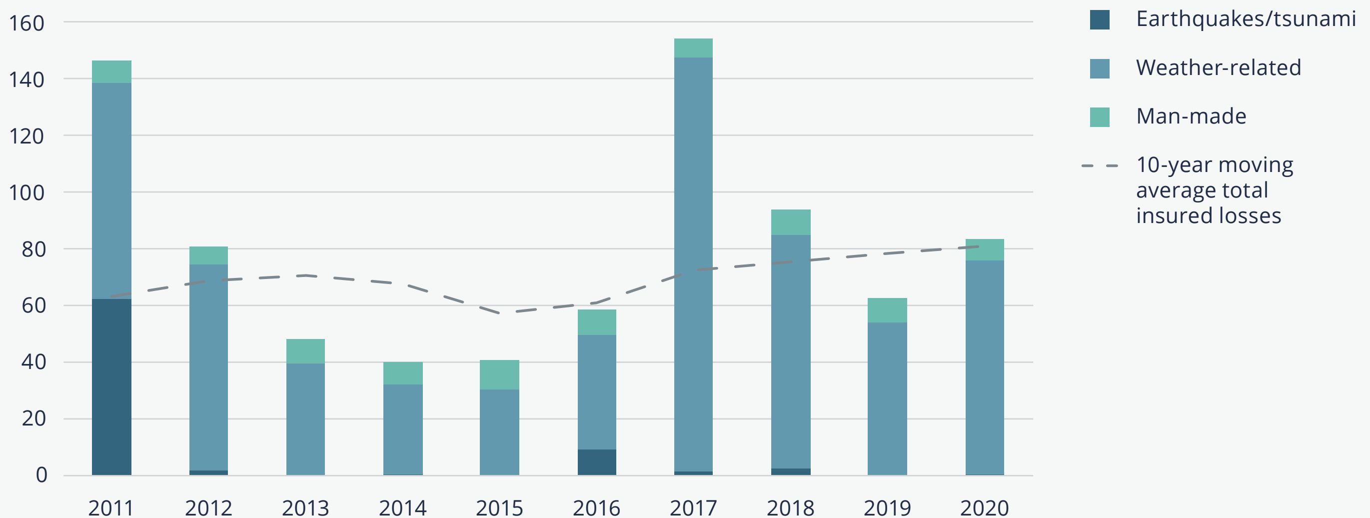
We're excited about 2022. The commercial property insurance market is moving in a more favorable direction for insureds. We're seeing increased competition among renewals, and additional capacity continues to enter the market. Carriers are developing creative solutions to address an ever-changing risk landscape, offering more capacity, and coverage is stabilizing.

The positive momentum isn't without challenges, though. Losses in the first half of 2021 are estimated at $40 billion—25% higher than the 10-year average of $32 billion. The largest contributor to 2021's first-half losses was Winter Storm Uri, causing estimated losses of $15 billion. Furthermore, we saw significant losses in Europe and Asia.

Europe experienced significant flooding, particularly in Germany, and severe convective storms throughout June and July. China experienced flood losses estimated to be $2 billion, and Japan experienced a 7.1 magnitude earthquake in February.

In addition, severe convective storm losses continue to plague property loss ratios.

> *"Secondary peril events accounted for more than 70% of the natural catastrophe insured losses, resulting mostly from severe convective storms (SCS) and wildfires. In the last 10 years, SCS have contributed more than half of global insured losses from secondary perils."*
>
> SWISS RE SIGMA REPORT



Source: Swiss Re Institute

Not to be outdone, projections for the second half of 2021 indicate a higher-than-average hurricane season. To date, 17 named storms have occurred, with Hurricane Ida, which made landfall on August 26th, causing significant damage. Fortunately, the improvements in risk mitigation and building codes since Hurricane Katrina in 2005 reduced the potential loss impact of the storm; however, inland flooding and loss amplification have increased insured loss estimates from $20 billion to $30 billion. What was initially thought to have a minimal impact on the insurance industry could now affect carriers' full-year profitability and ultimately increase the scrutiny around a peril already under the microscope.

On the West Coast, wildfires rage throughout the state of California, with the Dixie Fire continuing for over two months and nearing one million burned acres.

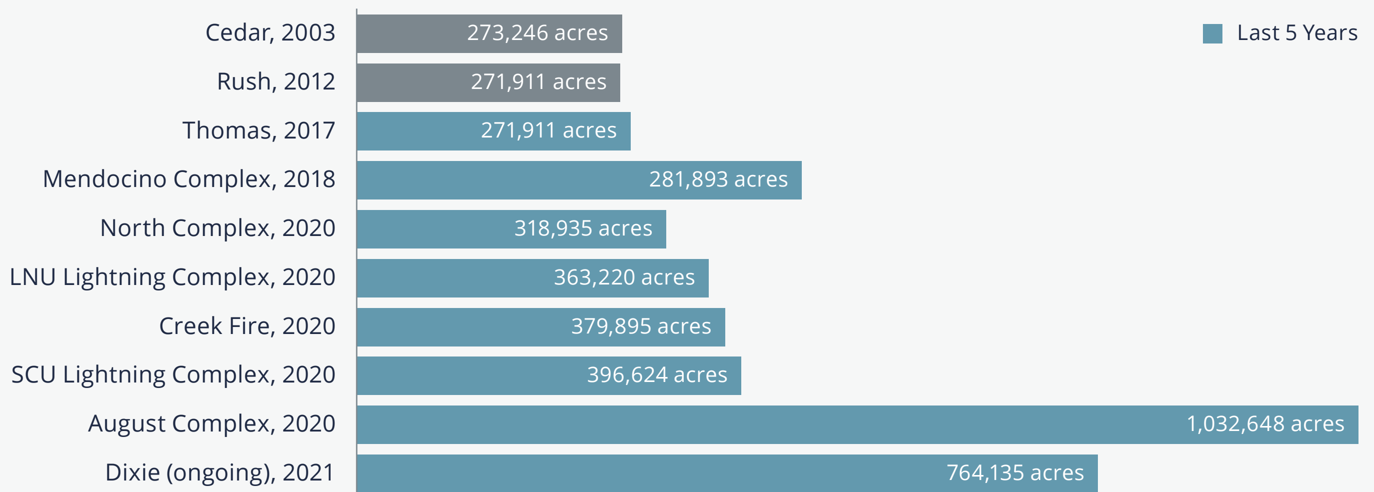
A higher-than-average hurricane season is predicted for the second half of 2021.

Predictions by:	CSU	NOAA	Average
Named Storms	18	18	14
Hurricanes	8	9	7
Major Hurricanes	4	4	3

The average is determined by the average number of each event per year, dating since the beginning of data collection.

Source: Colorado State University and National Oceanic and Atmospheric Administration

8 of 10 Largest Wildfires in California History Occurred in Last 5 Years, due to Warmer Weather and Lack of Precipitation

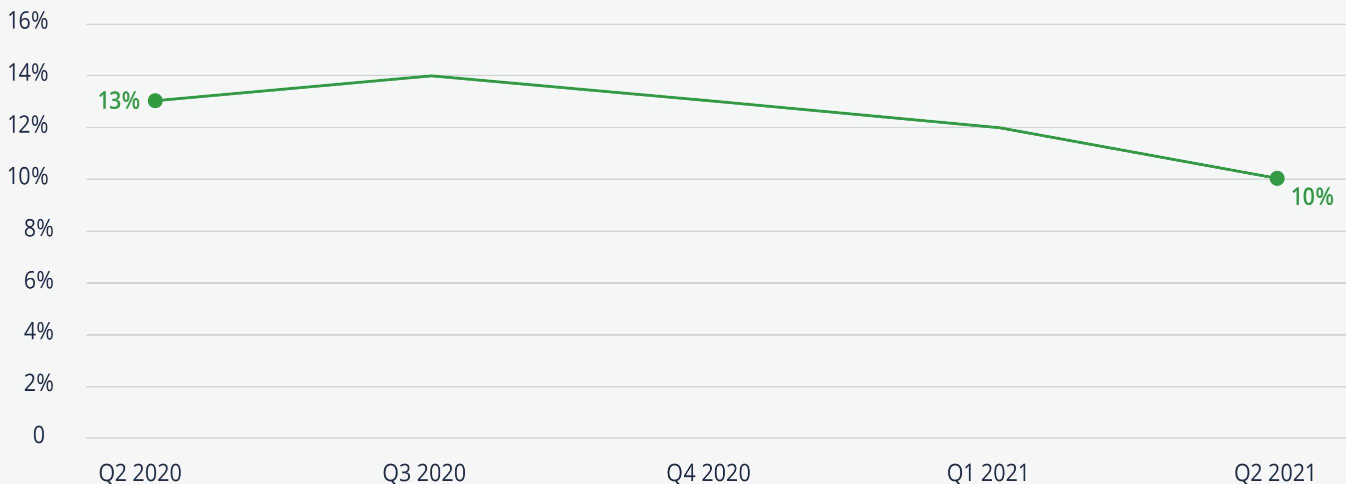


Track Your Wildfire Risk with Mapping >>

Yes, risk increases daily, and we're seeing the impact of increased loss activity. However, the commercial property market continues to move in a positive direction. The average property rate increase YTD2021 is 8%. Additionally, we have achieved rate reductions on multiple renewals by creatively restructuring programs and introducing new capacity. We expect even better results in 2022 for insureds that continue to prioritize risk improvement.

New capital will continue to have a favorable impact on commercial property insurance renewals. For what seems like the first time since 2017, underwriters have new business goals, which will generate competition in 2022. In addition, clients' risk mitigation efforts of the past four years are bearing fruit, with incumbent carriers looking to expand capacity and offer more favorable terms and conditions.

In 2022, we will continue to see the adoption of alternative means of risk transfer. For example, we've seen a renewed interest in parametric products. A parametric product defines specific parameters, such as the intensity and location of an earthquake, and, if the conditions are met, payment is made within days of the event. We will also see the increased involvement of MGAs and continued development of AI, improving claims payment abilities, automatic capacity, and policy reviews.



Source: The Council of Insurance Agents & Brokers

While we are looking forward to what 2022 brings, uncertainty still lies ahead. Some risks continue to see pressure from property markets due to risk quality, valuation, reduced appetite for certain occupancies, and/or continued losses. Climate change is having a major impact on carriers' ability to underwrite and offer insurance. According to NOAA, "In the US, 127 million people live in coastal counties. That's as much as the entire population of Japan. If they were their own nation, the coastal counties of the US would rank third in the world in gross domestic product, beaten only by China and the US as a whole. Coastal areas are also far more crowded than the US as a whole; population density is over five times greater in coastal shoreline counties than the US average." Risk and the potential losses associated with these types of changes become magnified. Historical losses are not adequate to predict the future, as the correlation between economic activity and projected losses continue to merge.

The questions remain: Are past losses still indicative of future losses? Can all risk be transferred? Or does there need to be a greater focus on risk mitigation? What is the impact of the migration to climate-affected areas on underwriting? Insureds need to be considering these changing dynamics.

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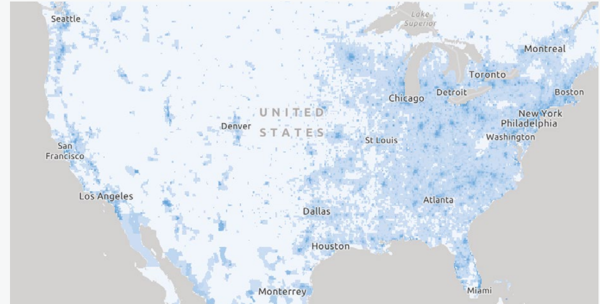
US coastal areas are far more crowded, magnifying risk and potential losses



Population Density 2020

Source: National Geographic

We Untangle, Advise, and Solve for You

Property insurance does not need to be a mystery. But it does need to be reviewed carefully and often—by experts who know your business and the market. Woodruff Sawyer's comprehensive process reveals a broader view of your risk within the context of an evolving risk landscape.

With expertise in loss control, risk mitigation, alternative risk funding, and cost-of-risk analysis, we'll help you navigate the complexities of insurance, ensuring that your programs are well-priced and carefully tailored.

CASUALTY UPDATE

MARKET OUTLOOK AND RENEWAL STRATEGY FOR 2022

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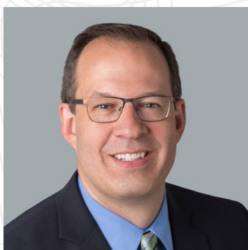

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The outlook for 2022 looks like it will be a difficult environment for most lines of coverage, with some notable exceptions. Auto, general, and umbrella liability rates remain strained by increasing claims costs and poor underwriting results. By contrast, workers' compensation and high excess casualty are stabilizing and attracting reinvigorated insurer competition.

The current market, while difficult, provides an opportunity for risk managers to rethink how they manage their overall insurance portfolio, while also refocusing on basic risk management best practices that may have been deprioritized during the peak of the COVID-19 pandemic. In this section, we provide guidance on the rate environment for major casualty coverage, advice on structuring an overall program in the current market, and recommendations for strengthening employee safety and liability controls.

Workers' Compensation: Best-Performing Line

Heading into 2020, the COVID-19 pandemic and resulting economic uncertainty signaled an inflection point for workers' compensation. Rates seemed to have bottomed out after five years of decreases. Concerns that huge numbers of workers would contract COVID-19 while on the job terrified insurers. Underwriters sought modest rate increases for the first time in five years.

What's clear now is that workers' compensation (WC) remains the most competitive and best performing major property and casualty insurance line. Insurers' ability to drive rate increases is minimal. According to the Council of Insurance Agents and Brokers Q2 2021 Rate Survey, rates increased by just 0.3% in the beginning of 2021.

COVID-19 losses were financially immaterial to WC insurers

Estimated small losses of 0.62%

While the pandemic slowdown cut into overall written WC premium, loss trends remained favorable with only a slight increase in medical and lost wage expenses, partially offset by a decline in loss adjustment expense, per the National Council of Compensation Insurers. COVID-19 losses were financially immaterial to WC insurers, generating an estimated $260 million of losses on $42 billion in premium. While the Delta variant poses serious public health concerns, increasing vaccination rates and employers' abilities to mandate either vaccination status and/or masks suggest COVID-19 WC losses are under control.

The New Normal: Post-Pandemic Workers' Comp Claim Challenges and Opportunities >>

Get an overview of both the positive and negative developments in WC claims, the impact on employers, and new claim strategies.

Rate Forecast for 2022

Risk managers have an opportunity to use their workers' compensation renewal as a stabilizing force for their overall insurance program. Fueled by solid underwriting results and recent increases in investment income, insurers are competing vigorously to write workers' compensation coverage for well-managed risks.

Organizations with strong employee health and safety programs, comprehensive COVID-19 controls, and proactive, data-driven claims management strategies can expect two perks: they're able to both negotiate favorable WC rates and leverage the WC program to drive insurer competition for tougher lines of coverage—namely general/products liability, commercial auto, and umbrella liability. We anticipate rate movement of -5% to +3%.

Commercial Auto: Still Rising

Providing auto liability coverage remains a hugely risky proposition for US insurers. At first glance, underwriting results seem to be improving, bolstered by years of successive rate increases. Fitch Ratings calculates that the combined ratio for commercial auto improved 7.8% to 101.6% in 2020.

Combined Ratio Refers to the Percentage of Total Losses and Underwriting Expenses Relative to Premium Collected

Any combined ratio over 100% indicates an underwriting loss.

The overall result is a bit misleading. The volume of auto claims declined 25.6% during 2020, as the pandemic limited driving activity for many businesses. Yet the average payments for auto accidents increased 14.3% over that period. With auto repair and medical treatment costs still on the rise, insurers are concerned that auto losses will surge once driving activity rebounds to pre-pandemic levels. Insurers obtained a 9% average rate increase for auto in the first quarter of 2021.

There was a 9% average rate increase for auto coverage in the first quarter of 2021

Rate Forecast for 2022

We anticipate modestly slower rate increases of +6% to +10% for auto as insurers creep toward profitability.

Commercial General Liability

The continued forces of increasing litigation rates, jury awards, and settlement amounts continue to drive up rates for primary general and products liability. Per CIAB, rates rose 6% on average in the first half of 2021, though increases were steeper for businesses in high-hazard industries: manufacturers of tough products (e.g., kids goods, auto or medical parts, chemicals), habitational real estate owners and operators, sharing economy firms (on-demand delivery or services, home sharing), and companies with material wildfire exposure (utilities and forestry concerns).

Rate Forecast for 2022

We anticipate rates of +4% to +9%.

Umbrella and Excess Liability

The excess casualty market can be characterized by a mix of both good news and bad news.

The Bad News

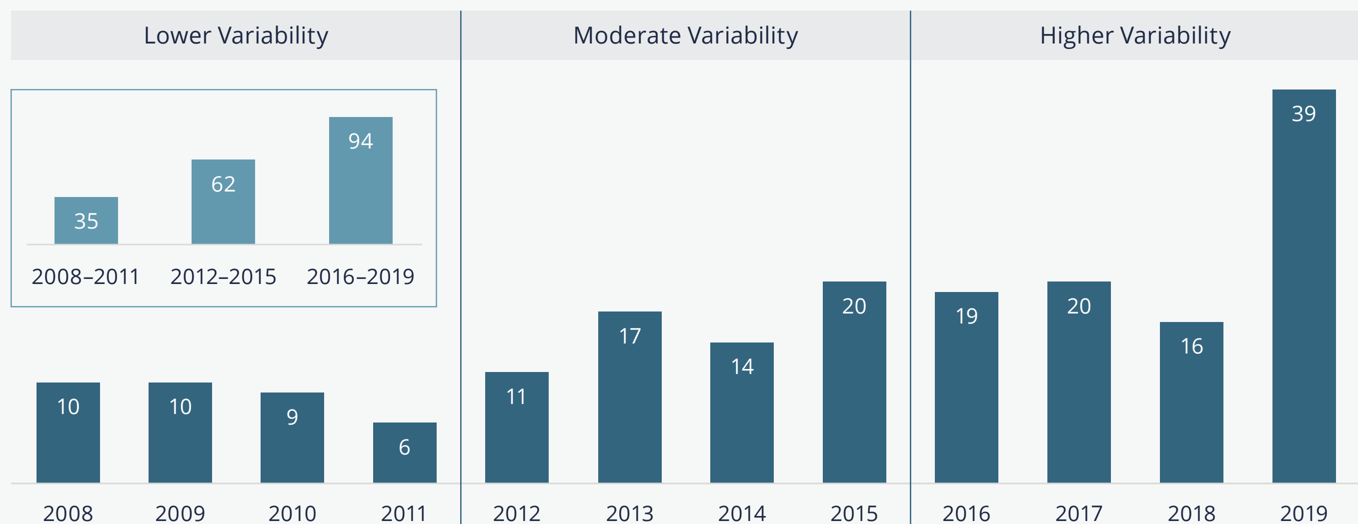
The frequency of severe ($15 million or greater) liability losses is expected to continue to grow as a result of social inflation, which is the phenomenon of increasing claims costs due to changing societal factors, such as legal advertising, litigation financing, the appeal of class action lawsuits, and growing public distrust of corporations.

Westfleet Advisors estimates that litigation financing, in which private investors fund claimants' litigation against corporations, grew 18% to over $11 billion in 2020.

Woodruff Sawyer's analysis of Advisen large auto liability claims data illustrates the impact of social inflation. We looked at four-year windows in order to eliminate the impact of year-to-year variability. The number of auto liability claims with settlement and judgment value of $15 million or greater increased 168% from 35 for the 2008–2011 window to 94 from 2016–2019.

Advisen Data Shows Catastrophic Auto Liability Claims On the Rise

Analysis considers US-only Auto Liability cases with recorded settlement or award value greater than $15 million. Losses are sorted by year of settlement or judgment.



Analysis considers US only Automotive Liability cases with recorded settlement or award value greater than $15M. Dollar amounts are not inflation trend adjusted.

Source: Woodruff Sawyer, Advisen MSCAD

The increasing frequency of severity has led to huge underwriting losses for excess casualty insurers, particularly in the umbrella and lower layers of an excess casualty tower. Insurers have reacted by demanding significant umbrella rate increases for essentially all risks with meaningful products, auto or premises exposures, while simultaneously requiring higher underlying limits in order to bump up umbrella attachments for certain accounts.

Over the past two years, higher excess layer underwriters have further compounded the pain. Insurers slashed capacity while setting prices for reduced layers at much higher ratios to the umbrella than in prior years

The Modestly Good News on Excess Casualty

At least $100 million of new underwriting capacity has entered the US casualty market, chasing newly increased rates and driving competition for layers of excess towers above $25 million.

How should a strategic insurance buyer approach the tumultuous excess casualty market? For the challenging umbrella layer, the key is to develop a data-rich narrative of risk management and safety controls to present to underwriters, while also leveraging relationships with the incumbent umbrella insurer and other insurers represented in your broader portfolio.

Consider, say, packaging a profitable workers' compensation program with more difficult auto and umbrella coverage. For the higher excess layers, seeking to arbitrage different layering structures and engaging an array of incumbent insurers and new market participants is critical in optimizing the overall excess tower cost.

For large companies (revenues of $1 billion), we anticipate rates of **+10% to +20%**

For small commercial and middle-market firms (less than $1 billion+), we anticipate rates of **+15% to +30%**

Revisiting Workers' Compensation Best Practices and Ergonomics

COVID-19 required risk and safety managers to quickly reprioritize employee protections from the virus above other critical risk functions (such as auto fleet safety, product quality control, and other workplace conditions). As employees continue to return

to workplaces and adapt to life with COVID-19 more controlled, risk managers have an opportunity to revisit basic workplace safety and ergonomics policies.

Most employers have experienced some disruption in their workforce and the ways that jobs are done and safety programs function. This is true for manufacturers, processors, financial institutions, technology firms, and almost all other employers. In some instances, the impact on safety programming has been negative.

As you review injury trends and costs from this past year, you will likely see some familiar categories in those losses. Redeveloping or maintaining a focus on those exposures causing loss is important for the future of your programs and their performance, both now and post-pandemic.

Common Disruptions and Their Solutions:

Fleet

Motor vehicle accidents (MVAs) are still the number one cause of work-related fatalities. Auto loss awards are continuing to grow, and the commercial auto liability market is employing tighter underwriting controls in an attempt to control losses. Insurers continue to ask for more and more information and require tighter controls to obtain coverage and favorable terms.

Telematics, motor vehicle report (MVR) monitoring, strict electronic device policies, and other controls are, in some cases, being looked at as basic controls. As employees start to get back on the road in owned or non-owned vehicles to conduct business, these types of controls and a way to communicate them to your carrier are advantages.

Hazardous Energy Control / LOTO and Guarding

Some shifts have run shorthanded, and production demands have been high on those continuing to produce goods. These pressures can result in shortcuts, lack of training, and a less formal safety effort around machinery.

This is a good time to do an audit of your controls around machine-based exposures.

Ergonomics

Ergonomic-based injuries are among the top drivers of workers' compensation losses for most employers. While COVID-19 forced some employers to create more flexible assessment methods and equipment policies to address at-home work, it also forced other employers to produce goods with fewer available employees.

Ergonomic-based injuries are among the top drivers of workers' compensation losses for most employers

Investing in engineering controls, ergonomic committees, and leveraging ergonomic expertise can yield larger dividends in this atmosphere.

Safety Meetings

If your safety committee meetings have been on hold or focused solely on COVID-19 prevention, you may wish to conduct a trending and mitigation exercise to reinvigorate loss prevention in other areas.

Safety Observations

With many employers facing staffing shortages, safety observation programs have suffered in some instances. If you utilize observations to help drive losses down, be sure they are up to date and, if needed, restarted.

Post-Injury / Incident Investigations

If you have contact-tracing fatigue, you may feel like this topic is a bit torturous—but it is a necessary measure. If your post-injury investigation process has been pushed aside or is a bit behind, be sure it is brought back online. There is no better way to add detail to high-level trends than to dig into your actual losses.

Safety Policy and Procedure Review

Periodic review of safety policies and procedures is something many companies do during slower times of the year. If the pandemic has kept your safety team and/or committee busy, you may find that general safety policy and procedure review has fallen behind. Keeping your policies up to date and relevant is one key to staying in compliance and preventing injuries.

COVID Return-to-Work Resource Center >>

Get checklists, templates, and sample plans to help you make your return-to-office program successful for your employees and your business.

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MIDDLE MARKET UPDATE

FIRMING RATE CONDITIONS PERSIST

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The property and casualty middle-market sector comprises firms with $10 million to $500 million in annual revenue. This broad and diverse segment of the economy contains over 200,000 businesses across the United States. A whopping 85% of firms are privately held and account for about 33% of total GDP and employment.

85% of firms are privately held and account for about 33% of total GDP and employment

At the end of Q4 2020, middle-market firms were showing annualized revenue growth rates north of 8% and employment growth exceeding 5%. According to the 2021 Chubb Middle Market Indicator report, a survey of firm management indicated that 70% of respondents would be spending a marginal dollar earned on investment.

This bullish sentiment was prevalent across firm sizes, geographies, and industries. This means that companies are growing, hiring, and investing, which presents risk management challenges and higher insured exposures. Mid-size businesses should proactively consider the workplace safety impacts as new hires are added and trained. Expanding product lines and new facilities require an insurance program that grows with your company to meet new exposures.

What is the State of the Insurance Market for Mid-Size Companies?

Challenging market conditions still exist for middle-market companies. Social inflation is driving tort costs higher, impacting automobile, general liability, and umbrella rates while underwriting capacity is difficult to source. Medical and cost of goods inflation is creeping up, driving carriers to seek adequate returns through higher rates, increased deductibles, and more restrictive terms and conditions.

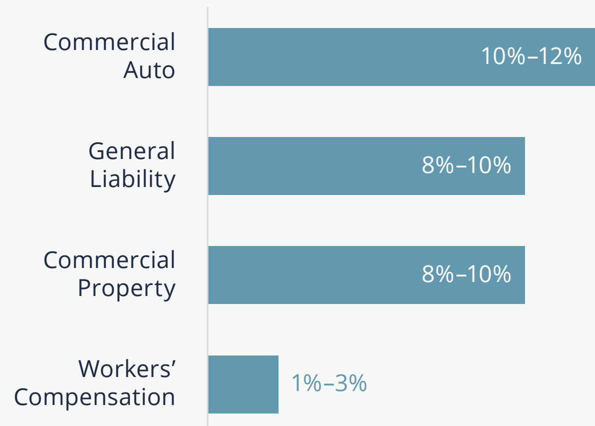
Low interest rates continue, with investment yields dropping 30 basis points from 2019 to 2020. Despite concerns about inflation, interest rates are likely to remain at historically low levels that don't generate meaningful investment portfolio returns for insurers. Low interest rates pressure carrier investment income as policyholder premiums are invested. This means carriers must make more profit from underwriting. The impact on policyholders are higher rates, lower capacity, and increased deductibles.

We expect that carriers will need to earn an adequate return from their books of business, which results in firming prices for middle-market buyers. Volatile investment markets pressure both fixed income and non-fixed income portfolio returns for carriers, which will further exacerbate this trend.

Weather-related losses that aren't connected to natural catastrophes continue to increase in both severity and frequency. Attritional property losses from the pandemic include vacant buildings and water damage claims, which are forcing carriers to increase rates in the middle-market space. This means that losses continue to accelerate, and we expect carriers will continue to increase rates, tighten terms, and raise deductibles across their portfolios.

The COVID-19 pandemic continues to impact firms across the US middle market. Cash is short, supply chains continue to face disruptions, working capital is being actively managed, and management revenue estimates for the next 12 months are unclear. Some firms that were severely impacted by the pandemic in the retail, hospitality, and restaurant industries face tough decisions about expanding payrolls, and many are deferring expansion plans while pulling back on investment in capital equipment. All of these trends may cause premiums to increase as insured exposures, payrolls, and property limits grow.

See our Middle Market Underwriters Survey section to get carrier insights into the insurance rate environment for 2022 >>



Market for Packaged Insurance Programs

Many middle-market firms bundle several lines of insurance together in a packaged program. The carriers we work with view this as a highly profitable and desirable part of the market. Limits are often lower than the large account segment, making it slightly easier to find capacity. The middle-market package product type has performed differently from the large and small account segments of the market. When insureds bundle their policies with a single carrier, it allows profitable lines to offset unprofitable lines and may result in a more stable program during a firming market. As a result, there is a strong new business appetite for high-quality middle-market accounts from our carrier partners.

Travelers is one of the largest middle-market insurers in the US, with over $9 billion in written premiums in this segment. According to the carrier's Q2 earnings report published in July 2021, the middle-market segment posted rate plus exposure growth of 9.1%. Within this portfolio, a whopping 84% of accounts experienced a rate increase during Q2 2021.

Our Expectations in 2022

- Economic recovery will continue as consumer spending and payrolls increase.
- Historically low interest rates will persist, which will keep insurers focused on underwriting profitability.
- Increasing premiums and reduced capacity will likely continue for companies with less-than-desirable risk profiles.
- Reinsurance capital raising should accelerate, but not to the extent we saw after the 9/11 attacks in 2001. Most new capital raised is going to existing companies or new companies with experienced management teams. For example, Beazley, Hiscox, and Conduit Re raised over $1.1 billion in new capital.

TAKE ACTION NOW

Five key questions to consider for 2022

1. How is your current broker increasing the value of your business?
2. Are you sure that you are properly covered?
3. What would happen if your largest location were shut down?
4. When was the last time your program was benchmarked or reviewed?
5. How are you using data and analytics to reduce your total cost of risk?

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MIDDLE MARKET UNDERWRITERS SURVEY RESULTS

Our middle-markets premium growth estimates are based on what we have experienced in recent insurance placements and what our brokers are hearing from underwriters. We also recently surveyed underwriters specializing in middle markets at 12 insurers to learn whether our experience matches the underwriters' view of the market. We've summarized our survey results here, which includes responses from insurers such as CNA, Chubb, The Hartford, Liberty Mutual, and Travelers.

Auto & Workers' Comp

The survey results are consistent with the trends we are seeing. Auto continues to be an unprofitable line for insurers, and buyers should expect premium increases until this situation improves. Workers' compensation is a bright spot for insurers, especially now that the fear of large COVID-19 losses has passed. Workers' compensation premium increases that buyers experience will likely be due to exposure increases (i.e., payroll) as opposed to rate increases.

Expect premium increases in auto insurance and workers' comp.

General Liability

The underwriters' responses around general liability expectations were somewhat surprising in that the majority of respondents expect premiums to either stay flat or decrease by no more than 5%. Almost 40% still expect an increase of more than 5%, but the expectations of the majority are worth noting. A challenge in forecasting middle markets premium is that this segment includes a variety of exposures. An underwriter will have a very different view of the general liability exposure of a software company versus a chemical manufacturer. Regardless of industry distinction, the underwriter sentiment is encouraging.

The majority of underwriters expect premiums to remain flat or decrease by no more than 5%.

Coverage Expanding or Narrowing

Our survey result in this area is promising for buyers, as the majority responded that coverage will either stay the same or broaden. About 40% believe coverage will be more restrictive, but our experience is that underwriters only seek to reduce coverage on a risk-specific basis as opposed to narrowing coverage for all buyers. We also asked specifically about potential wildfire exclusions on umbrella/excess liability policies because we've seen a few insurers attempt to add this exclusion. The good news is that a resounding majority of underwriters do not plan to exclude this from umbrella/excess liability policies.

The majority of underwriters said coverage will either stay the same or broaden.

ASK THE UNDERWRITER

CARGO MARKET PERSPECTIVE

Will Ripley

GAWS of London

wripley@gawsof.london

LinkedIn

Underwriting losses over the past three years led to a reduction in capacity of cargo insurers globally. The contraction in capacity, coupled with poor underlying results in the cargo risk code, led to a hardening of the market in London and the rest of the world. Common rate rises on accounts had ranged from 10%–50%, depending upon loss record and industry. Coverages have been stripped back, removing the "coverage creep" of the soft market, and policies are now reverting back to traditional "physical loss or damage" triggers.

In 2021, particularly in Q2, we saw the London market return to a growth focus with new capacity entering the market and many existing syndicates, which have had limited growth targets over the past few years, now entering growth mode following the market correction.

The new capacity established outside of Lloyd's does not have the restrictive parameters Lloyd's places on syndicates' business plans, and the enhanced growth appetites of existing syndicates are allowing alternative options on risks, creating certain competitive tensions in industries and more vertical limit and capacity to be placed within the Cargo/STP market.

Though the market has been through a sustained period of correction, the previous 10 years of soft- market reductions in rate had left pricing threadbare in areas. As a result, we now find ourselves in a "stable," not "soft," market. Underwriting discipline and rating adequacy continues to be a focus, but London insurers remain committed to supporting existing and new clients alike, ensuring they build insurance programs tailored to their needs.

As Head of Marine & Cargo at GAWS of London, I interviewed two newly established cargo insurers with experienced underwriters leading their cargo teams and two established and well-respected London cargo syndicates to get their views on the market and what insurance buyers should expect in 2022.

GAWS of London is a Lloyd's of London licensed broker and a joint venture between Woodruff Sawyer and our UK Assurex partner, Griffiths & Armour.

The following underwriters were interviewed:

Chris Hicks

Underwriting Manager
Marine Cargo - UK & Europe

Liberty Specialty Markets

LinkedIn

Chris McGill

Head of Marine Cargo
Cargo / Active Underwriter

Ascot Group / Syndicate 1796

LinkedIn

Henry Maughan

Head of Cargo & Specie

Navium Marine Limited

LinkedIn

Jack Bryan

Deputy Marine Cargo Underwriter

Tokio Marine HCC

LinkedIn

Q:

The past couple of years have been challenging for cargo insurers. Where does the cargo market find itself today?

Chris Hicks: The conversation for many carriers has now moved from rate rise to rate adequacy. This level will differ for each insured based on their own risk profile but will also vary between carriers based on their data and risk appetite. While the pricing environment for carriers has undoubtedly improved, this was from an historically low base, and questions remain around whether pricing has increased enough to support the increase in loss trends and natural catastrophe activity that has occurred in the last 10 years.

Jack Bryan: Today I believe the market finds itself in a much-improved position. A wave of discipline has reached most corners of the market, from realignment of appetite-influencing risk selection, pricing which now truly reflects industry sector, to client-specific loss records with more intellectual understanding and insight through actuarial modelling of claim frequency and severity. There is a better consideration of the future and emerging risks of tomorrow. This is occurring alongside concentrated efforts on managing coverage relative to a client's needs and a focus on the bottom line, whether that be linesize participation, gross to net positions, or sensibility for the capital/capacity being offered. All in all, there seems to be a common purpose to achieve a long-term, sustainable market that is relevant and capable of serving our clients' needs for years to come.

Henry Maughan: In my opinion, the cargo market is in a more stable position than it was 24 months ago, but I would not say that it will be plain sailing from here on. There are still some headwinds that need to be addressed. Having said that, the compound rate rises we have seen over the past few years have allowed underwriters to claw back some of the losses of the previous soft market.

Q:

2021 would appear to have brought far more stability on rating and coverages. What has been the driver of this?

Chris McGill: The market had shown signs of stabilizing in early 2021; however, the influx of capacity and also existing syndicates that had been dormant but started to come back into growth mode meant leader terms would mostly be completed without adjustments to terms.

Jack Bryan: I think the urgency that was rightly applied to the market correction in the past years got much of the cargo market portfolio to a pricing and coverage level deemed adequate quite quickly, although it was painful for all. I use the word "adequacy" lightly, as the world is moving at an alarming pace both industrially and naturally, where change and increased risk must be recognized, and today's terms and conditions may soon become inadequate.

There are many market dynamics that can influence the market's current stability. Client retention must be considered. How many years will a well-performing client accept a material rate and potential cash rise in premium without seeking alternative terms? Market capacity drives the basic supply and demand economics of a marketplace.

There has been an influx of market entrants in 2021 that seek to participate in a perceived healthy rating environment. I would add that technology in the industry has also had an effect. It demands more data to bring the desired efficiencies. This increased insight results in better underwriting decisions. It could also be said that following the Lloyd's decile 10 performance review, not everybody was able to continue trading; there was a certain flight to quality.

Henry Maughan: With so much remedial work being done by underwriters in London since 2018, most portfolios are getting closer to "rating adequacy." This has resulted in several companies and syndicates looking to grow their premium base again. At the same time, there are several new entrants into the market, and these are two of the factors that are assisting brokers and clients in obtaining more subdued rate rises for their 2021 renewals. The capacity crunch we saw in 2019 and 2020 has seemed to have subsided as we move through 2021.

Q:

What significant losses have we seen in 2021, and how do substantial industry losses affect your underwriting approach?

Chris McGill: 2021 has not been without large losses. Those that I'm aware of include $120 million of fire losses, $100 million of misappropriation, several large GAs, and containers lost overboard.

Chris Hicks: The first half of 2021 has started poorly for many London cargo carriers with a number of container ship incidents in the Pacific and Suez Canal, flooding in Germany and China, and wildfires in Southern Europe. In addition to this, the London cargo market has seen a number of large-risk losses, such as arson from Durban SRCC, a pharmaceutical truck fire, commodity misappropriation in the UK, and a Japanese warehouse fire. This loss activity is likely to push rating momentum upward and lead to more significant correction in problematic sub classes.

Jack Bryan: Across the board, the increased limits being granted to a policy, which are usually (but not always) linked to stock exposure, seem to have inflicted painful losses and hard lessons to learn from.

I'd say the underwriter always has two tools at their disposal: risk selection and linesize.

We still need to get better at the detail with greater understanding of the property factors that can contribute to a loss to the stock/inventory. We have the same ability to assess natural catastrophes as the non-marine market, but building quality is often overlooked beyond sprinkler systems and basic COPE information. Some losses are unavoidable, however, and this is where large limits and over-courageous lines in hindsight could be tempered.

Ultimately, though, if there is a run on losses to a specific industry, I'd look to continue writing the next risk while addressing the current problems. Ask each client how they are approaching this element of risk. Is this client even exposed to that peril/issue? If so, I'll share my approach with theirs and hopefully find a compromised position to offer coverage at an acceptable set of terms. Examples in our market are misappropriation, wildfire, processing of goods, vehicles in general, and transits of pharmaceuticals.

Henry Maughan: The cargo market continues to see large losses affect several industries and geographies. Large warehouse fires in Asia and the US have impacted certain syndicates, and there is a worrying trend of new misappropriation losses creeping into some of the commodity accounts placed in London. We are also seeing increased CAT losses again from flooding, wildfire, and hurricanes. All these factors need to be remembered when we price up our renewals, as the risks of CAT and large losses from individual accounts within our portfolio remain acute.

Q:

With increased global supply chain pressures (large marine losses, port congestion, container availability, etc.), what coverage is available under a cargo/STP Insurance program that can support clients facing these challenges?

Chris Hicks: Despite the tightening of coverage, a stock throughput policy (STP) still provides end-to-end coverage and flexibility for clients to deal with disruption in the supply chain. Common policy extensions such as accumulation clauses and deviation clauses mean goods are protected if, through no fault of the assured, goods accumulate at a port and breach the policy transit limits, or a vessel is unable to complete its intended voyage.

The subscription market means brokers can build far larger towers of coverage than may be available from a single carrier. This flexibility has become advantageous in recent months as insureds have grappled with securing container slots on vessels. We have begun to see a trend of assureds shipping far larger numbers of containers onto single vessels in order to secure space, and the market has responded with excess transit policies to cater to these increased limits.

Jack Bryan: In short, a usual London STP will cover all risks of physical loss and damage with named non-fortuitous exclusions. The capacity is still there to cover larger marine accumulations both on vessel and at port.

The reinsurance market is also still intact behind us, so I'd like to think London is the most relevant and capable market in the world to provide comfort to clients in these times. We are very much aware that we could have multiple clients affected in a single maritime occurrence. The Ever Given highlighted this recently even though there was minimal, if any, physical loss or damage claims arising out of the incident. London is, however, ensuring that they are not deviating from its core principles of physical loss or damage.

For trade disruption insurance and delay, you'd need to seek specialized markets. The pricing currently does not allow much margin for wider terms or increased claims experience. Container coverage became a sore point following the Hanjin Shipping Co. insolvency. Extra expenses and the like have since been sublimited. Ultimately, we provide flexibility to match the client's agility to navigate these times with last-minute warehouse, vessel, and routing changes.

Henry Maughan: The flexibility that a comprehensive cargo stock throughput can give to a client can be a huge benefit when they ship their goods across the globe. The seamless coverage provided will give comfort that even in the event of unforeseen delays or rerouting of a vessel, the cargo will remain covered for physical loss or damage. Sublimits for extra expenses can also be purchased, and this can assist in clawing back some of the charges associated with supply chain disruption. Clients should be very clear with their brokers on what their individual concerns are so that bespoke coverages can be purchased that fit their needs.

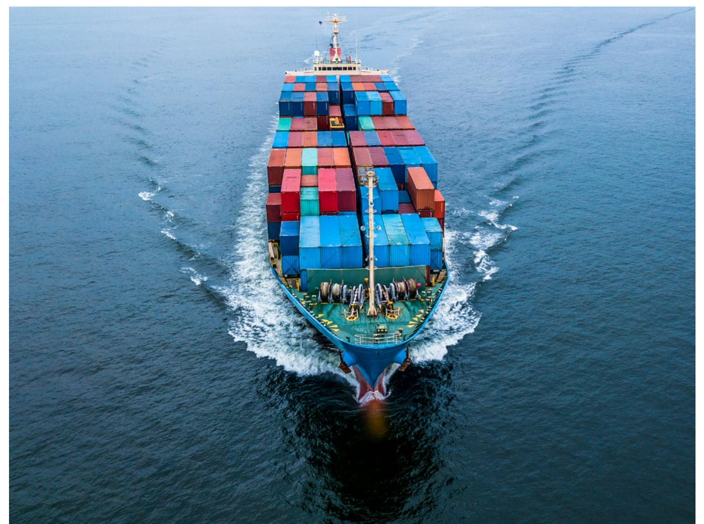
Q: What is your prediction/outlook for 2022?

Chris McGill: Depending on what happens for the remainder of the hurricane season, I expect more predictability and appetite for cargo business in 2022 for those writing profitably.

Jack Bryan: So far, it would be prudent to follow the trend of 2021 and continue the positive momentum. We are in a mid-Atlantic hurricane season that is predicted to be more active than usual, with Ida recently causing unprecedented flooding as far northeast as New York City. Although different circumstances, there could be similar results to Hurricane Sandy for New Jersey and New York, which incurred material losses to the cargo market. This was meant to be a 1-in-250 event. It has been less than 10 years since. Brutally, Ida was a direct hit on NOLA on Katrina's 16th anniversary, a 1/150 event. The window of time is narrowing. Underwriters need to factor this return period adjustment to a sustainable model.

We will wait to see what the impact is and if we truly are at pricing adequacy as more storms form, more wildfires burn, and other events unfold.

Henry Maughan: The market is definitely changing at a pace. I think the pressures of 2019 and 2020 resulted in most companies keeping their heads below the parapet, but as the remedial work on portfolios starts to bear fruit, new capacity is entering the market, and several existing markets are looking to grow. The next 12-24 months will see underwriters focusing on their "best" clients and ensuring that the most profitable areas of their portfolios do not begin to shop around for alternatives. There is still work to be done in certain areas, and I think price rises will continue for the more distressed classes of business and areas of the world.



Q: There has been significant movement in both personnel and new capacity within the cargo market in London; how will this affect the market going forward?

Chris McGill: The new capacity coming in is all part of a functioning market cycle. It's not unexpected; however, it does not necessarily come with the expertise required to lead business or adjust claims. It does, however, mean that more vertical limits and capacity can be placed in the STP market.

Chris Hicks: In recent months there has been an influx of capital into the London cargo market attracted by price increases. Given the questions around the extent that the pandemic depressed loss patterns in 2020 and the renewed large loss activity in 2021, it may be that this is premature, and it is unclear whether new capacity has an understanding of the longer-term loss trends in the market.

The impact of new capacity is likely to be muted since it is predominantly set up to follow established market leaders and does not have the capability, data, or infrastructure to lead business. This problem is compounded by the struggle many new entrants have faced to find underwriters with the right skill sets to build sustainable portfolios.

Jack Bryan: There are two types of new capacity and two types of people moving. Most of the time they are aligned.

There are existing and well-established Lloyd's or global insurance carriers adding cargo as a line of business with the intention to add value. They intend to lead business with claim-handling capability and by hiring an established team, who have likely been part of the major market accounts in the past. The other is equally opportunistic with their timing but happy to add capacity to the market in a follow capacity. This is needed for brokers and clients at the moment to complete placements, but it shouldn't get to a stage where it undermines the hard work of the market in the past years to seek the goal of long-term profitability and sustainability.

The lessons learned have been too hard, and to unravel them would be catastrophic. The client always has the final say on what security they have behind their balance sheet. Insurance is a product. Differentiators are clarity, long-term partnership, durability, and claims payment. As the saying goes, "Buy cheap, buy twice."

Q:

Of the significant new capacity entering the London market this year, a large portion of these carriers have entered the market without a Lloyd's vehicle; what are the advantages of this, and what are your plans going forward?

Jack Bryan: The Lloyd's decile 10 clamped down on top line focus and really trimmed a lot of business plans back until they were able to demonstrate profitable returns. In the period between a mass exodus of capacity and showing positive returns, there was missed opportunity. A large pot of clients caught in the crossfire, as well as misunderstood sectors, were struggling to find coverage. Those who did not solely report to Lloyd's had more flexibility with their capital and could continue to participate in profitable business with bigger shares at higher prices.

The gap in supply and demand was still so great that it became apparent that a two-pronged approach would be advantageous to a carrier. Lloyd's has a suite of benefits, and being a Lloyd's underwriter is something to be proud of, but business is about being agile. Lloyd's, at the time, prevented a lot of trading ability and forced a more formulaic business plan execution to achieve its performance targets. I personally look to write on both securities, and it's usually driven by the client's needs and licensing requirements. Should the market turn again, I can be nimble and act quickly through an internal business planning process if I were to write more through the company stamp.

Henry Maughan: It is no secret that Lloyd's has had its issues over the last few years. The draconian measures put in place during the decile 10 process did help correct the poor pricing in the market but has hindered the entrepreneurial spirit that Lloyd's has traditionally been known for. With costs and reporting pressures increasing, new capacity has looked to more flexible options outside of Lloyd's. Having the ability to be nimble and react quickly to a changing market will hopefully allow some of these new entrants to establish themselves over the coming months and years. At Navium we will be offering a viable alternative to more traditional cargo markets in Lloyd's, and we will be focusing on listening closely to clients' individual needs and ensuring we provide first-class claims service on any contracts we lead.

Q:

In the current market cycle, what are the advantages of being an established syndicate and recognized leader?

Chris Hicks: When partnering with a carrier, insureds and brokers should consider the reputation of the leader and their infrastructure, especially around claims service. The ability to promptly pay valid claims while supporting recovery in the event of a loss is an essential element of selecting a carrier.

The current market has demonstrated the value of insureds investing in relationships with carriers and buying insurance for the long term. Our experience is that they have been rewarded with more favorable terms and conditions and a smoother renewal experience as carriers transition changes over multiple years.

Chris McGill: Having an established portfolio and being a leader is always vital, but, at this stage, being a lead syndicate in my mind has never been more important. Capacity can come and go from the market along with the cycle, but underwriting expertise and relationships with established leaders will be constant. Those clients who stuck with underwriters during soft and hard markets always benefit over those who chop and change their carriers. Having an existing portfolio means you don't have to "write everything" and have the luxury of appropriate risk selection, sticking to the business you know and understand well.

Q:

Has the London market reestablished itself to write mid-market business competitively?

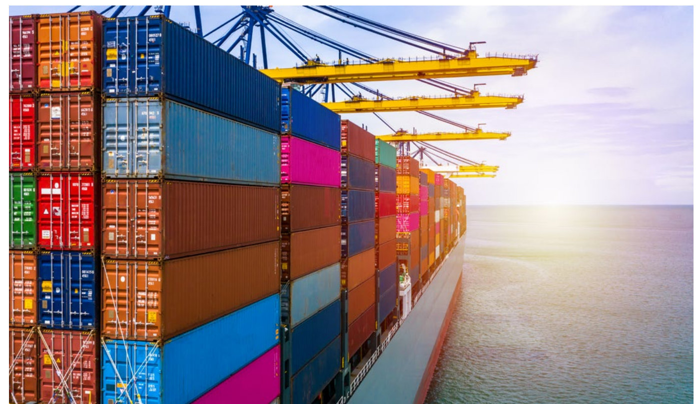
Chris McGill: Absolutely, we saw some pretty dramatic appetite and "minimum premium" requirements hit the market a few years ago. That's why we set up the A2B consortium with Beazley to address the mid-market business that was being neglected. Ultimately, to us, mid-market business is extremely important. It gives us balance to what can often be a highly volatile and CAT-heavy book of business.

Chris Hicks: The market has established a better proposition for mid-market business than at the bottom of the last cycle. Some of the issues that carriers faced were less to do with the size of the business and more to do with poor risk selection decisions.

London market carriers are using the data they have gathered to make better risk acceptance decisions and to offer a price closer to the cost of risk. They have also found more efficient ways to be able to service this business either via lineslips, consortia, or 100% placements.

The key in the longer term is to find innovative ways to service this business, bringing technology and data to the distribution process.

Jack Bryan: Yes, I think certain players have remained constant, consistent, and present in this space but through technology, data, and broker and client collaboration, it has become easier to re-engage with this sector. It can offer balance to volatile large businesses, and I think more are seeing this benefit. The demise of many underperforming lineslips and binders, which removed the ability to deploy the two important tools—risk selection and linesize—as mentioned earlier, now give carriers an opportunity to make their own decisions on this business.



Q:

What benefits does a tripartite (Insured, Broker, Insurer) relationship bring an insured where their business is presented by a broker to their insurers in a principled, collaborative, and connected approach?

Chris Hicks: The relationship between the key parties in the distribution chain is key to building long-term, sustainable relationships and ensuring a smoother pricing experience over the whole insurance cycle.

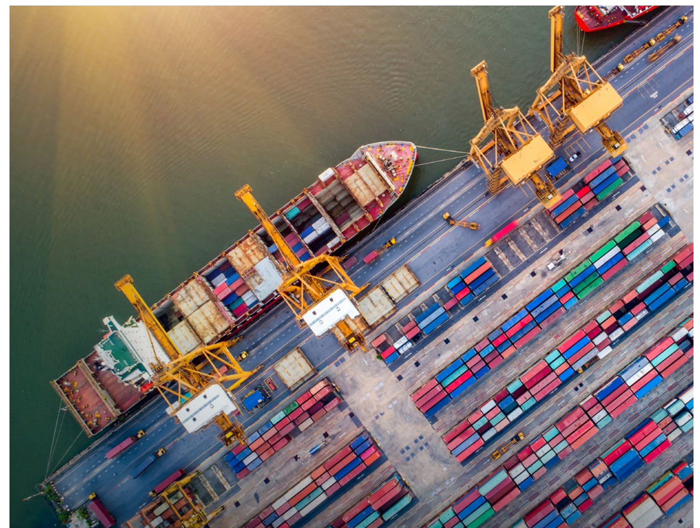
We always look to engage with both the broker and the insured in an open, honest way. We are keen for brokers and insureds to be transparent with us about the risks in their business so that we can tailor our product offering to fit our client's needs.

We appreciate flexibility and creativity from clients to consider different policy structures, retention, or coverage options.

Jack Bryan: It's critical. Terms and conditions will be more reflective and accurate for that individual client based on their actual exposures. Insight and understanding will be greater, which instills confidence in each other as business partners, and conversations become more fluid and approachable to find a solution for most needs. Insurance and Lloyd's business is unique, as we are influenced by emotion as well as data.

Insurance plays a role in society to indemnify and bring prosperity back to those who have lost. We want to hear your story and be part of it should you ever need to lean on us.

Henry Maughan: Including a skilled and well-connected broker into the insured/ insurer relationship can be a huge benefit for a company. The ability to discuss your bespoke needs with an agent who is working on your behalf can help achieve a much more competitive and suitable insurance contract.



Q:

How can clients continue to present their risk in the best possible light and advantageously differentiate themselves from their peers?

Chris McGill: Sometimes less is more, but it depends on how much information is provided at the beginning! GAWS has worked on presenting risks in a formulated and consistent manner (using quote spreadsheets is really helpful). Especially with the new and changing trading dynamics we're working in at the moment.

Chris Hicks: Relationships continue to be hugely important. Clients with long-term renewals where they have taken time to meet underwriters and explain their business (either in person or virtually) and the challenges they face are treated differently from clients who have not invested their time in carriers. Early information provision is vital. Carriers appreciate honesty and openness. More information provision is usually better than less. It is prudent to expect further investigation if issues have been identified in survey reports/information. You need flexibility and creativity to explore different coverage options or retentions.

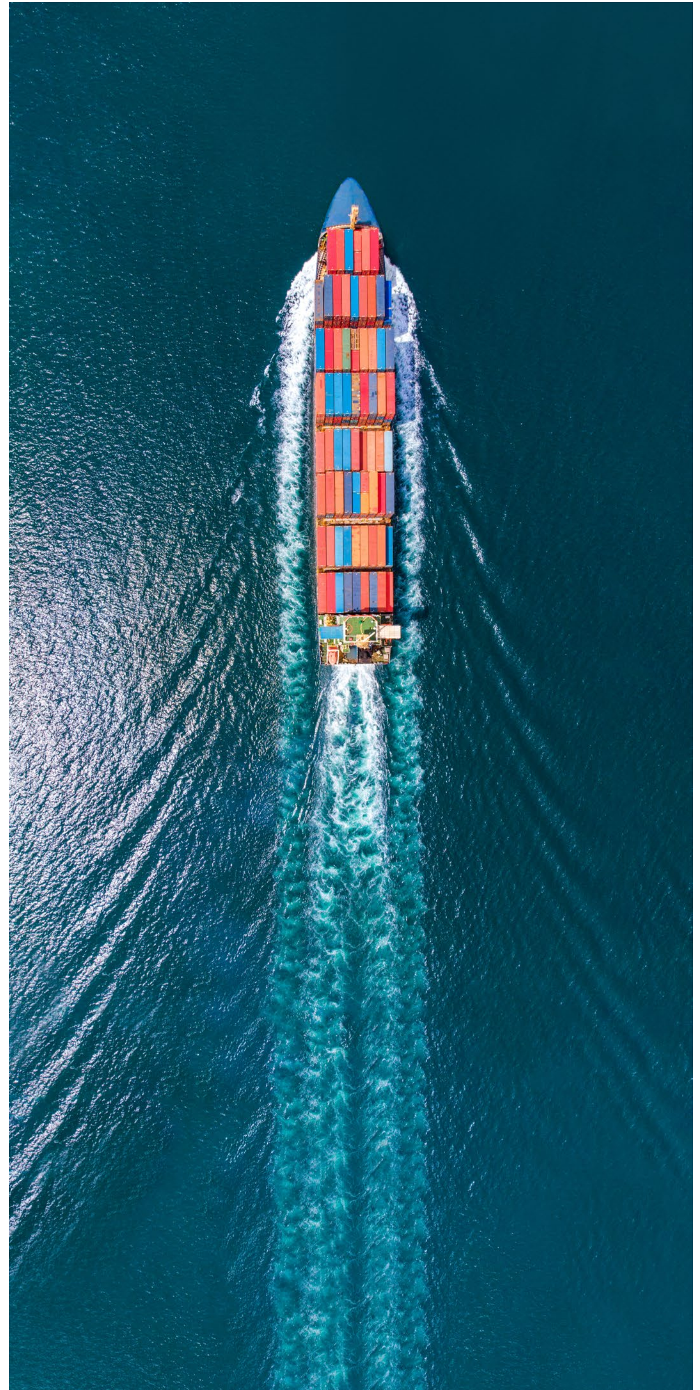
Jack Bryan: Anticipate all material information as much as possible rather than being asked for it. Present in formats that are easy for insurers to process. Data is easier to process than paper. Share lessons learned from previous issues and show progressive changes. What do you do better than your peers? Share CAPEX and benefits of it. Ask for options on insurance structures rather than accepting and declining a single set of terms Bring your risk to life—surveys, pictures, underwriter visits, or examples. Share justifications of why things are important to you or highlight your key criteria so we can focus on those for you.

Henry Maughan: The more information a client can provide that shows a true understanding of their risk and that their business takes every reasonable measure to mitigate that risk will be viewed positively by an underwriter. As an underwriter, I look for long-term partnerships that help us make a fair return and help our clients obtain consistent and competitive pricing and coverage for their business needs. Communication is absolutely key, and we want to be able to understand what our clients require. Conversely, we want to be able to explain our rationale behind our pricing and the insuring conditions we offer.

Looking Ahead to 2022: Summary Perspective on Cargo Market

Should no significant CAT losses further affect the cargo market, 2022 looks set to offer far more stability for insurance buyers. We have seen a sustained period of insurer reformation over the past three years, and market correction has taken effect. Insureds have received challenging messaging and renewals, but the remediation looks to have brought stability and longevity to the market. New capacity entering the market, with the ability to add value and lead business, will only have a positive effect for buyers.

The stability will be most evident to those clients who have performed well, value relationships, and have an openness to sharing data. The market will most likely continue to see smaller rate rises than previous years, but those better-performing clients will be positively selected for by carriers, as insurers look to hold market share on well-performing business.



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As one of the largest insurance brokerage and consulting firms in the US, Woodruff Sawyer protects the people and assets of more than 4,000 companies. We provide expert counsel and fierce advocacy to protect clients against their most critical risks in property & casualty, management liability, cyber liability, employee benefits, and personal wealth management. An active partner of Assurex Global and International Benefits Network, we provide expertise and customized solutions to insure innovation where clients need it, with headquarters in San Francisco, offices throughout the US, and global reach on six continents.

Looking to understand the fundamentals of P&C insurance and risk management?
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