Insurance Cancellations, Reinsurance, & Rate Increases

Anthony Morales & Pat Tolland

When do insurers utilize reinsurance?

To cover catastrophic losses like natural disasters where the payouts would be immense.

When the risk for one particular project, property, or file is high. Ex. condo developments etc.

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Types of reinsurance

Treaty reinsurance - one party agrees to take on the financial risk for one specific class of policy of that insurer. Ex. all auto policies

Facultative reinsurance - one party agrees to take on the financial risk of one specific policy or package of policies. Ex. they will insure a stadium

Insurance Company
Reinsurance Company
INSURANCE PREIMUM
INSURANCE PREIMUM
INDIVIDUALS PURCHASE INSURANCE POLICIES
INSURANCE LIABILITY CREATED
CESSION
INSURANCE LIABILITY TRANSFERRED

- Swiss Reinsurance Company Ltd., based in Zürich, Switzerland
- Munich Reinsurance Company, based Munich, Germany
- Hannover Rück SE, based in Hannover, Germany
- Berkshire Hathaway, based in Nebraska, United States
- SCOR SE, based in Paris, France
- China Reinsurance Corp., based in Beijing, China
- Reinsurance Group of America Inc., based in Missouri, United States
- Lloyd’s, based in the United Kingdom
- Everest Re Group Ltd., based in Bermuda
- PartnerRe Ltd, based in Bermuda

WSIA Updates

Wholesale
Specialty
Insurance
Association

San Diego for the WSIA Conference (brokers, carriers, reinsurance carriers)

- Wholesale Specialty Insurance Association
- 40 meetings over a 3 day period with various property markets

REINSURANCE—MONTE CARLO COMMENTARY

- **The Insurer:** "Spiraling inflation will mean most cedants will need to buy at least 10 percent more limit just to stand still." **That means direct carriers will be purchasing ~$20BN more Reinsurance coverage for US CAT property…ie: Reinsurance costs go up**.

  - Capital markets volatility and higher interest rates have had the effect – at least in the short term – of reducing reinsurance industry capital

- **Aon's Reinsurance Solutions:** CEO Andy Marcell sums it up as inflation, concerns over the impact of climate change on peak and secondary perils, a lack of confidence in models, stress on capital from investment volatility and the impact of the strong dollar.

  - "There's uncertainty and when there's uncertainty people want to charge more for that uncertainty," he observes.

- **Guy Carpenter:** The firm highlighted [in pre Monte Carlo briefing] "clear capacity constraints" in property cat and retro across the global marketplace.

  - The emerging theme at the broader renewal was of reduced reinsurer appetite for cat risk, reflecting the impact of secondary perils and concerns over climate change.

- **Howden**: "Pressures are particularly accurate in the property-cat space, where reduced capital inflows and rising inflation, along with a succession of expensive 'secondary' peril losses (due in large part to climate change), have strengthened reinsurers' resolve to demand higher returns…the property cat market is currently in the eye of a price, risk, and supply chain storm"

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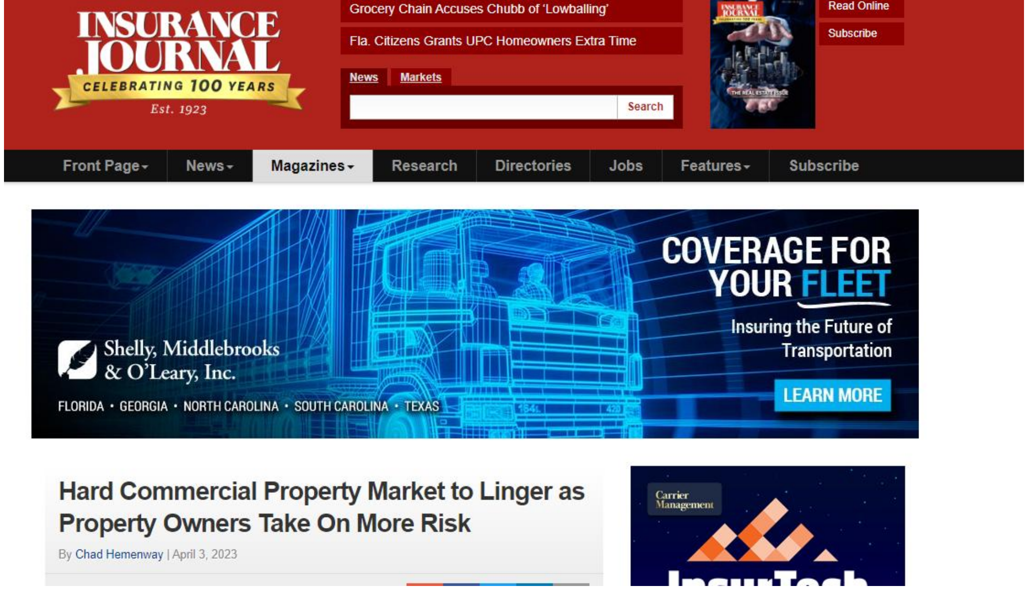
Hard Commercial Property Market to Linger as Property Owners Take On More Risk

By Chad Hemenway | April 3, 2023

The loss environment over the last five years has seen "huge volatility," not just from hurricanes and tornadoes, but from severe convective storms, winter freezes, flooding, wildfires, mud slides, straight-line winds, and man-made losses (fires, water damage, civil commotion), added Derek Talbott, Chubb Group division president for North America property and specialty lines.

"All these factors in terms of creating a loss environment has been very challenging for insurers so rates continue to rise" as the industry chases profitability with adequate pricing to match increases in losses and exposure, he said.

From 2012 to 2017 there was one catastrophe loss of $10 billion or more. In the next five years there were nine such losses, explained Purviance.



However, the "straw that broke the camel's back," said Purviance, came with Hurricane Ian last year, just several months before the January 1 reinsurance renewals. Treaty renewals were the most challenging in decades as capacity tightened and rates and retentions increased.

"The issue is not lack of capital," Rouse explained. "Capital levels are at all-time highs. The issue is profitability for the broader property market."

Clients need to "figure out ways to look as attractive to the market as possible" to create competition, Woode said.

"The questions that carriers often bring up are 'How has your risk improved since last year?' and 'Why are you a better risk than the next submission?'" said McEvoy of Woodruff Sawyer. "You can't control the market, but you can improve your risk and foster relationships."

- **Valuation will continue to be the most important aspect of markets' initial risk analysis.** Based on underwriter specific comments about Q4 2022 and Q1 and Q2 2023 renewals, **we are highly encouraging our clients to have conversations with their insureds about continuing to adjust values for inflation.** Direct quote from multiple market underwriters: "insured's that submit an SOV with the same values will be heavily penalized in terms of rate and terms".

    - We want to be on the forefront of communicating with our clients, and we would highly encourage you to have conversations with your insured about what values to submit to the market. It is much easier and more favorably received to address values on the front end rather than have to negotiate them during the renewal process.

    - **Showing some type of year over year change will be important even if values were "corrected" last year.**

- **Limits**—Line size reduction in buffer/excess markets was the most significant reason for the increases in rate this past year. With average lines in the 2.5M-5M range on E&S business, minimum premiums for max line size drove buffer/excess pricing to multiples of the previous years price. We don't anticipate any major further reduction in capacity, however, **there are no signs that anyone is looking to increase their exposure/line size.**

- **Timing**-- Carrier's continue to be super understaffed. Everyone is trying to hire, but there is a major shortage of available talent. Policy counts are way up. **We expect response time, modeling, quote timing, policy issuance, etc. to continue to be a major challenge**. Wholesalers (firms and individuals) without significant premium leverage, resources, and historical relationships will likely struggle to get their submissions to the top of the stack.

Post-Ian Updates

- There has now been a major CAT (or more) five of six years in a row; carriers and reinsurers are now having to plan on a major CAT event taking place each year, representing a new mindset;
- Total damage is estimated at $28B - $47B
  * $22B - $32B Wind Damage
  * $6B - $15B Flood Damage (covered by NFIP)
- Hurricane Ian's eye wall was 30 miles in diameter, 4x larger than Hurricane Charley.
- This is the most significant loss since Hurricane Andrew.
- It’s currently estimated that there will be less claims filed for Ian as compared to Irma.
- Ian is causing additional stress as 1/1 reinsurance discussions begin to take place;
- AmRisc has just rolled out additional rate and deductible increases:
  - Anticipate rate increases of a larger magnitude than pre-Ian, such as 20%-50% depending on account specifics;
    - Any required valuation increase is in addition;
- Similar to what AmRisc experienced at the end of 2021 leading into 2022, AmRisc may see one or more of their 12 supporting carriers exit the panel or sign down their capacity for 2023.
- As AmRisc has continually and successful done over the years, AmRisc is actively looking to add or upside carrier participation within their panel.
- The net result of carriers exiting/signing down and carriers being added/upsized within AmRisc’s carrier panel may be a reduction of deployable PML for 2023.

Impact on Rates

- 718 Condominium Statute 3 Year Proposal
- Population Growth
- Reinsurance Doubling Since 2019
- Claims Activity/Open Claims
- Roof and Building Age
- Structural Engineering Report
- Wind Mitigation

Impact on Rates

- Opening Protection
- Flood Evaluation
- 2021 General Liability
- Broker?
- Citizens
- Wind vs X-Wind
- Wind Buy-back Deductible

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