PROPERTY & CASUALTY MARKET OUTLOOK

2019 - 2020

Employee Owned

SCOTT

Est. 1864

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INTRODUCTION

At Scott Insurance, our clients often ask us to predict how their insurance costs will change year-over-year. While each company has their own unique characteristics that affect pricing, we can make some general market observations to help clients prepare for the future.

Looking back, 2017 brought near-record highs in U.S. catastrophe losses due to the hurricane trifecta of Harvey, Irma and Maria. While 2018 saw a reduction in these losses (down to $37 billion versus $53 billion*), hurricane Michael and historic wildfires in California made it the second highest loss year since 2011. Despite two near-record-setting catastrophe loss years, carriers are posting lower combined ratios due to a combination of diligent underwriting discipline, moderate price increases, favorable loss development and higher interest rates.

What does this mean for the buyer? You will most likely see premium increases across one or more coverage lines. That being said, while we anticipate some rate fluctuations for certain lines of coverage and classes of business, we predict a stable overall outlook the U.S. property and casualty insurance market.

In this report, we will look into some of the drivers of the current market conditions and examine some of the more popular coverage lines and pricing expectations. Remember, Scott Insurance is here to help your organization find the appropriate insurance coverage. Contact one of our dedicated insurance professionals today to discuss your coverage options.

** Source: AM Best, a global credit rating agency focused on the insurance industry.*

MARKET FORCES

Change is inevitable when it comes to the property and casualty insurance market. Insurance companies have to re-imagine their approaches to catastrophes, evolving technology, cyber threats, terrorism, emerging litigation trends, reinsurance, etc. These challenges all impact profitability and force insurance carriers to adjust their appetite and pricing models, as well as the way they interact with their commercial policyholders. Carriers have tightened up on their underwriting discipline as a result.

PROFITABILITY

Maintaining underwriting and pricing discipline in the face of the aforementioned market forces is key if the industry wants to maintain profitability. In lieu of most carriers applying a broad-brush approach with increased rates, we're seeing a softer approach with gradual adjustments to pricing and underwriting in order to retain business and avoid a sudden market turn.

In addition to increased rates on auto and catastrophe-exposed industries and locations, we're seeing coinciding premium increases across workers' compensation due to payroll increases, and liability lines due to companies generating higher revenues tied to U.S. employment levels.

Despite premium increases, profitability still remains a challenge. AM Best expects the property and casualty industry to post a third consecutive underwriting loss in 2018; however, they are forecasted to be below those posted in 2017. Combined ratio estimates for 2019 are not far off and are estimated to improve slightly by 0.3 points. The industry has not seen a combined ratio below 100 since 2015.

U.S. PROPERTY/CASUALTY - PRODUCT LINE UNDERWRITING TRENDS

	Net Premiums Written		Combined Ratios						
	2018E		Actual					Estimates	
Product Line	**Share**	**Growth**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019P**
Private Passenger Auto	38.7	7.6	101.6	102.3	104.6	106.3	102.6	102.9	102.2
Homeowners & Farmowners Multi Peril	15.0	5.2	90.5	92.7	91.8	93.1	107.1	105.5	98.0
Workers Compensation	8.3	4.0	102.4	100.9	95.8	95.6	92.5	92.5	93.8
Commercial Auto	6.6	18.3	106.9	103.4	108.8	110.5	111.1	112.9	113.3
Commercial Multi Peril	6.0	7.1	97.7	99.2	94.7	101.8	107.9	106.0	101.9
Fire & Allied Lines[1]	4.8	7.1	83.5	86.4	85.6	89.7	123.9	106.0	97.2
Inland Marine	2.1	8.2	83.8	83.3	83.8	84.0	89.9	89.5	87.3
Medical Professional Liability	1.3	-1.0	89.5	103.6	102.3	106.5	101.7	104.2	105.6
Other & Products Liability[2]	9.3	14.3	100.4	101.4	103.4	111.1	101.0	104.2	103.4
All Other Lines[3]	7.9	23.6	84.4	79.5	84.0	87.2	103.6	113.7	113.3
Total All Lines	**100.0**	**9.1**	**96.4**	**97.4**	**98.3**	**100.9**	**104.0**	**101.5**	**101.2**

E=Estimated, P=Projected

[1] Fire & Allied Lines includes earthquake, multiple peril crop, and federal flood.

[2] Other Liability includes professional liability, D&O, excess casualty/umbrella, environmental/pollution, general liability, and EPLI.

[3] All Other Lines includes accident & health lines, mortgage guaranty, financial guaranty, ocean marine, aircraft, fidelity, surety, burglary & theft, boiler & machinery, credit, international, excess of loss reinsurance and miscellaneous.

Source: Best's Statement File Supplement – Insurance Expense Exhibit (IEE) – P/C, US (2013-2017)

PROPERTY

The property market began to shift towards the end of 2018. While not hardening, we began to see some firming. This continued into Q1 of 2019 and has further accelerated in Q2. Insurance carriers are still looking to put premiums on the books and write accounts aggressively that underwrite favorably; however, industry risks such as habitational, large real estate, recyclers, open lot and catastrophe-exposed locations are seeing double digit increases.

In addition to rate increases we are seeing adjustments in building values, reductions in limits and higher deductibles to offset the adverse loss development of the last two years.

PRICING PREDICTION

Flat to +7.5% (non-catastrophe-exposed properties)

+5% to +10% (catastrophe-exposed properties)

+15% and up (catastrophe-exposed properties with losses)

CARGO / STOCK THROUGHPUT

Historically Stock Throughput policies have provided coverage and pricing advantages for companies with cargo and warehousing exposures. The bulk of these policies are underwritten out of the London market, which has been materially affected by the performance management occurring at Lloyd's. Capacity has shrunk by approximately 20 percent, which means that accounts that haven't had any losses are seeing up to double digit increases. For this coverage, a true broad-brush approach is being applied.

PRICING PREDICTION

Up to double digit increases

WORKERS' COMPENSATION

PRICING PREDICTION

-5% to flat

We saw a continued downward pricing trend in workers' compensation in 2018. Loss-sensitive programs tended to have greater reductions than guaranteed cost programs; however, both saw moderate to significant decreases.

Underwriting margins for this line of business remain healthy despite most states filing rate reductions in 2019. With allocable capital remaining strong in the industry, we don't expect to see the workers' compensation market hardening; however, price reductions through the end of 2019 may not be as drastic as we've seen in the past two years. Medical cost inflation is expected to rise 6 percent, which will have an overall effect on claims costs and profitability in the years to come.

Traditional package carriers and standalone workers' compensation carriers are continuing to attempt to differentiate themselves to attain and retain business in the current competitive marketplace. Dividend and retroactive plans have made headway over the last year offering a competitive option for most companies who maintain a favorable loss history year over year.

AUTO

Auto remains the worst performing line of business. Commercial auto writers are striving to achieve lost cost adequacy after eight consecutive years of combined ratios in excess of 100. Frequency and severity of claims continue to be the leading issue, as does distracted diving. Technology can be blamed not just for distractions, but also for higher repair costs and advancements in medical care which lead to increased claim costs. While insurers have taken steps to address their most problematic exposures, previous years' loss reserves are still adversely affecting current calendar results. Overall, loss development results have shown some improvement decreasing in 2018 and again into 2019; however, additional rate hikes are expected throughout the remainder of the year coming off the heels of two consecutive years of rate increases in 2017 and 2018.

PRICING PREDICTION

+6% to +12% across the board

GENERAL LIABILITY

General Liability remains stable outside of accounts with heavy and/or unique products exposure. While we expect continued competitive pricing in primary general liability throughout 2019, rates are anticipated to climb slightly. Competition will likely remain less aggressive for more volatile industries such as pharmaceuticals, heavy construction, defect-exposed clients and energy. Additionally, companies and carriers need to be mindful of the increased variability tied to emerging trends such as technology, sharing economy/workplaces, and violent events.

PRICING PREDICTION

Flat to +5% for most risks

EXCESS / UMBRELLA

PRICING PREDICTION

+5% to +15%

Many of the catastrophic auto losses that adversely affected that line of business also bled into the excess/umbrella space. This market began to respond in 2017 by raising attachment points for certain industry classes and reducing limits for auto liability. Additionally, buffer layers are being required particularly on tougher auto fleets. These trends continued throughout 2018 and into 2019. Some carriers are exiting the mono-line umbrella market all together, while others are increasing their attachment points and rates on certain lines are approaching 100 percent of the underlying. We expect to see more disruptions and adjustments throughout 2019 as losses from prior years continue to develop into excess layers.

CYBER LIABILITY

PRICING PREDICTION

-3% to +5%

Cyber exposures continue to evolve and expand as new scenarios play out daily. High-profile data breaches and impostor fraud are now common events, increasing board-level focus on cyber, crime and reputational risk loss mitigation. Despite the public awareness of such events, capacity remains ample, with more and more carriers throwing their hat in the cyber ring. As a result, cyber policies are expected to see decreases of up to 3 percent where buyers can demonstrate increased security and internal controls but may rise as much as 5 percent in other cases.

DIRECTORS & OFFICERS

D&O coverage results remain challenged, most notably in the public company space. Underwriters are becoming increasingly concerned with public D&O profitability. Claims have been driven by mergers and acquisitions, class actions, shareholder activism, and overall loss costs with higher attorney and settlement values. Carriers are pulling back on capacity levels on primary layers as well as Side C risks as a result. While the market is firming, we do not foresee it hardening across the board. Private and not-for-profit companies are seeing less rate increases; however, financial health and industry are key factors here. Companies in emerging industries or start-up phases, as well as those with antitrust exposure, will likely see increases in the upcoming year with upward retention adjustments and/or coverage restrictions. Those that are financially strong and look to package coverage with other lines such as Employment Practices and Fiduciary Liability can still expect competitive coverage and pricing.

PRICING PREDICTION

+5% to +20%
for public companies (primary)

Flat to +10%
for public companies (excess)

Flat to +15%
for private and non-for-profit companies

-5% to +5%
for Side-A/DIC

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ABOUT SCOTT INSURANCE

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