COMMERCIAL PROPERTY & CASUALTY MARKET OUTLOOK
MID-YEAR MARKET FORECAST
Insights from USI National Practice Leaders
RATE FORECAST BY PRODUCT LINE

Anticipated rate increases at year end 2018 have gained momentum in certain lines of business during the first half of 2019 as illustrated in the chart below. Reduction of capacity being offered for selected lines of business has also been an increasing trend since the first of the year. We anticipate these trends to continue through the end of 2019 and perhaps beyond.

<table>
<thead>
<tr>
<th>Product Line</th>
<th>December 2018</th>
<th>Mid-year Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property non-catastrophic with good loss history</td>
<td>Down 3% to up 3% *</td>
<td>Up 10%</td>
</tr>
<tr>
<td>CAT property with minimal loss history</td>
<td>Flat to up 5%-10%</td>
<td>Up 10% to 40%</td>
</tr>
<tr>
<td>CAT or non-CAT property with poor loss history</td>
<td>Up 10% to 15% +</td>
<td>Up 10% to 40% +</td>
</tr>
<tr>
<td>Primary general/products liability</td>
<td>Flat to up 5%</td>
<td>Flat to up 15%</td>
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<tr>
<td>Primary automobile liability with good loss history</td>
<td>Up 5% to 10%</td>
<td>Up 5% to 10% +</td>
</tr>
<tr>
<td>Primary automobile liability with poor loss history</td>
<td>Up 15% +</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>Excess Automobile Buffers</td>
<td>----</td>
<td>Up 15% to 20% +</td>
</tr>
<tr>
<td>Umbrella &amp; Excess Liability</td>
<td>Flat to up 3%</td>
<td>Up 5% to 20% - Limits possibly reduced</td>
</tr>
<tr>
<td>Workers’ Compensation Guaranteed Cost</td>
<td>Down 10% to up 5%</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>Workers’ Compensation Loss Sensitive</td>
<td>Down 3% to up 3%</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>International Liability</td>
<td>Down 5% to 10%</td>
<td>Flat/Auto up 15% +</td>
</tr>
<tr>
<td>International Property</td>
<td>Flat to up 5%</td>
<td>Up 5% to 10% +</td>
</tr>
<tr>
<td>Medical Malpractice</td>
<td>Flat to up 15% +</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Commercial Construction</td>
<td>Down 5% to up 5%</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>Employment Practices Liability</td>
<td>Up 5% to 20%</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Network Security &amp; Privacy (Cyber)</td>
<td>Flat to up 5%</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>Technology &amp; Professional Errors &amp; Omissions</td>
<td>Flat to up 10%</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Public Company Directors’ &amp; Officers’</td>
<td>Up 10% to 20%</td>
<td>Up 10% to 30% +</td>
</tr>
<tr>
<td>Private Company Management Liability</td>
<td>Flat to up 5%</td>
<td>Up 5% to 10%</td>
</tr>
<tr>
<td>Aviation</td>
<td>Up 5% to 10%</td>
<td>Up 10% to 25%</td>
</tr>
<tr>
<td>Crime</td>
<td>Down 5% to up 5%</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Fiduciary</td>
<td>Up 5% to 10%</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Environmental Pollution Legal Liability</td>
<td>Down 5% to up 5%</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>Environmental Contractors Pollution</td>
<td>Flat to down 10%</td>
<td>Unchanged *</td>
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<tr>
<td>Environmental Combined general liability/pollution</td>
<td>Flat to up 7%</td>
<td>Unchanged *</td>
</tr>
<tr>
<td>Kidnap &amp; Ransom</td>
<td>Down 5% to up 5%</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Representations &amp; Warranties</td>
<td>Down 5% to 10%</td>
<td>Unchanged</td>
</tr>
</tbody>
</table>

Our discussion of the rapidly changing red highlighted lines and selected * other items follow below.
**Property**

We have seen a significant transformation in the market over the last 60 days and the upturn surprised many given the more gradual change anticipated. We are now seeing 10% to 40% + rate increases across all categories with the higher end of the range applying to CAT exposed properties, loss leaders and frame multi-family properties. The impact of these changes in capacity, pricing, and limits is sweeping across the entire market with a clear focus on underwriting profitability as the direction forward.

Two consecutive years of adverse property results, 2017 losses exceeding $200 billion and 2018 in excess of $80 billion have left both insurers and reinsurers worldwide unprofitable. This has been exacerbated by unfavorable loss development resulting in carriers pushing a more rigorous review of the adequacy of insured values. Ultimately, carriers are pushing to drive rate and manage aggregate exposures by reducing natural catastrophe limits offered. This sweeping change is impacting rates, retentions and sublimits, with actual risk selection becoming a major part of the risk transfer process. This push to disciplined underwriting should carry through the balance of 2019.

We are seeing carriers ask for and achieve increased rates, increased deductibles, and reduced coverage especially in the distressed areas of real estate, i.e. multi-family. All carriers are benefitting from this market change, seeing increased submission flow and allowing them to be more selective. This workflow unfortunately also results in timing issues with quotes offered very near to the inception date which leads to frustration in the renewal process. In addition, the market capacity is negatively impacted by several large standard carriers non-renewing accounts. This ultimately favors underwriters who can now be highly selective and pass on accounts that lack submission quality.

**How USI Can Help**

- Start the renewal process early.
- Data quality and integrity must remain paramount and must be communicated to markets properly to achieve optimal results.
- Insureds should look to obtain secondary modifying characteristics for the most accurate modeling output.
- Meet with the underwriter(s) early and often to develop and foster relationships.
- Restructure break points on layered and quota-shared program
Primary General/Products Liability, Workers’ Compensation and Umbrella/Excess Liability

While the marketplace is still flush with capital, there has also been an increased focus over the past 6 months on casualty underwriting discipline and profitability, particularly for primary general liability and umbrella/excess liability. Rate adequacy in the lead umbrella marketplace has been insufficient for many years and this correction is considered long overdue by many umbrella underwriters.

Multiple years of a protracted soft market, adverse large loss trends magnified by liberal jury verdicts and litigation financing trends have contributed to creating an environment where premium rates are not adequate to absorb long tailed liability costs resulting in an insufficient return on surplus for numerous insurance companies. Specific to umbrella/excess liability, clients with large auto fleets or clients with poor loss experience began seeing rate and/or increases in underlying limits requirements over 2 years ago. However, over the last 6 months rate increases have been assessed against clients in almost any industry regardless of loss experience, risk management protocols or tenure with their incumbent insurers.

Compounding this problem, insurers are reducing their limits from an average of $25 million to $10 million/$15 million with no corresponding rate decrease in the price per million dollars of coverage. In other words, the premium an insured was formerly paying for a lead $25 million is now the same premium for a $10 million or $15 million lead. Attachment points for lead umbrella programs are also ticking up on average. Although automobile liability attachment points have been a concern for the past 3 to 4 years, it is now not uncommon for a lead umbrella insurer to require a primary attachment point for an insured with a fleet size of 500 or less to be at least $2 million per accident.

We are also seeing primary general liability limits increase from an average of 1/2/2 to 2/4/4. Per location aggregates are becoming harder to obtain for clients with multiple locations. We are seeing aggregate limits at 4-5 multiples of the policy aggregate but no longer per location. In the middle market space, more automobile and umbrella markets are requiring other lines of business, such as workers’ compensation, to make the account profitable. Coverage terms and conditions are also being more closely examined than in prior years.

Over the past 6 months of 2019 we have experienced rate increases for primary general liability of 5% and 10% to 15% for lead umbrellas while the average limit of liability for a lead umbrella has been reduced to $10 million or $15 million. Managing the timing of primary and excess placements is extremely important. Since the buffer or umbrella/excess cannot quote until after primary terms are received, delay in receiving the primary pricing has a cascading effect.

For the remaining calendar year, we expect the situation to intensify. For primary general liability, we expect that more guaranteed cost or low deductible programs will have to consider higher retentions in order to reduce rate. Primary limits of liability for many insureds may also have to increase to accommodate the lead umbrella insurer’s minimum attachment point requirements.

How USI can help

- We recommend starting the renewal process 120 to 150 days ahead of inception. This timing addresses the need to run complete analytics such as loss projections, retention, collateral, cash flow, safety and loss control practices and effective claims management. Getting an early start also allows for pushing incumbent markets to provide early indications on their position at renewal so you know what your options are on limits, retentions, coverage and which carriers can deliver best on the desired options.

- It is imperative that the qualities of each risk be clearly identified and described in the carrier submission. The
objective is to get the submission to the “top of the stack.” Risk quality comes in several forms including – safety, contractual risk management, risk mitigation, capital expenditures, willingness to engage risk control and overall risk management philosophy. Together, our ability to communicate the risk specific attributes can change the carrier underwriting process and achieve the most economically efficient outcome.

**Commercial Automobile Liability**

The market for Automobile Liability continues to be volatile with no improvement since we released our 2019 market conditions in December of 2018. Profitability issues persist for commercial automobile underwriters as claims severity trends continue to increase. Primary markets continue to shrink from writing this coverage and lead umbrella insurers are requiring higher primary auto attachments of $2 million per accident for insureds with fleet sizes of 500 or lower with potential higher attachments for larger fleets. There is an increased need for automobile buffer layers to bring underlying up to required umbrella minimums. Markets continue to exit the excess/buffer automobile market leading to limited capacity and increased pricing. Insureds with moderate to large fleets are experiencing significant cost increases. We recommend considering higher retention levels to maintain expiring pricing. An exodus of capacity over the past 2 years has not helped this coverage line.

**How USI can help**

- Update driver lists and safety protocols. Provide complete analytics on loss history and exposure. Provide a data rich submission with clear underwriting goals from the client’s perspective.

- Clients can work with risk specialists to review CSA scores and take corrective actions. The CSA score, which is used to rate motor carriers in various categories, such as unsafe driving, crash indicator, hours-of-service compliance, and driver fitness, is now the first underwriting factor used by insurers to assess a company’s risk profile and what they should pay for coverage.

- State-of-the-art analytics and modeling tools can be used to pre-determine the appropriate pricing and deductible impact, a process that helps to strengthen the company’s hand during negotiations with carriers and level the pricing playing field.

**Workers’ Compensation**

Workers’ Compensation is the one casualty line which continues to show a relatively stable market. Despite premium rates in most states declining over the past 5 years, favorable loss trends, stable or declining medical costs, redundant loss reserves, rapid gross premium growth and improving investment gains have resulted in a low combined ratio overall. While expense ratios in many of the larger payroll states are beginning to tick up, eroding profitability somewhat, the appetite for this line remains stable for the time being.

For the remainder of 2019, we expect guaranteed cost buyers to continue seeing a competitive environment with low single digit rate reductions in most states. Clients with adverse loss results, declining financial results, residing in difficult state jurisdictions or in more difficult industry classes will see some moderate upward rate adjustments. This upward movement will be evident more in the guaranteed cost arena than in loss sensitive program structures.

**How USI can help**

Clients should re-evaluate the effectiveness of pre-loss safety and post-loss claims handling mitigation efforts and dialogue with their broker and insurer partners to ensure they are achieving optimal results from both initiatives.

- Work with your broker to leverage proper loss and financial analytics to determine your capacity to assume risk at various retention levels.

- Revaluate applicable collateral alternatives, premium levels at various retentions and loss allocation methodologies.

- Ensure experience modification factors are properly calculated

- Ensure payroll by classification codes are accurate

**International**

Multinational carriers are keeping rates flat to slight increases for General Liability despite larger awards in the UK on premises losses and in the EU on products liability claims. The market for Automobile Liability continues to be volatile with awards in the UK and EU increasing and reckless drivers being held
more accountable for their actions. As a result, the profitability of commercial automobile coverage continues to diminish, and rates and deductibles are increasing sustainably well over 15%. There continues to be an exodus of major carriers from writing this coverage.

We are seeing 5% to 10% average rate increases on international property renewals. Concentrated catastrophic risks are experiencing rate increases over 20% combined with reduction in capacity on limits and layers. We are also seeing increased deductibles in catastrophic zones.

How USI can help

- For companies with a decentralized insurance program, conducting a global risk assessment is recommended. Clients can achieve anywhere from 25-to-70% rate reduction on premiums through this process, and more importantly eliminate gaps in coverage.
- Accurately report international exposures on a timely basis.
- Push standardized loss control and safety procedures across the organization.

Construction

The Construction market has performed about as projected in our December 2018 report with the following comments:

1. Builder’s Risk – Frame projects. Capacity is shrinking because of losses largely due to the most recent natural catastrophes and wildfires. With the reduced capacity, rates are starting to increase substantially. It is critical to have protective safeguards such as fencing, guards and CCTV on these projects in order for markets to respond.

2. Auto – The entire industry is getting hit with auto increases, so this is not indicative of Construction only. We are seeing carriers request increased rates from high single digits all the way up to 25%, although not with much success at the high end.

3. Umbrella – While capacity is ample, there is increasing pressure on umbrella markets to drive rates up because of poor underlying performance. Again, this is not construction specific. Industry-wide issues are at work here.

4. Labor Shortage is plaguing the industry and driving up workers’ compensation costs. There are three issues – skilled labor shortage, aging workforce and temporary labor. These issues are putting pressure on safety protocols as well as claims management in order to get workers back to work as well as effectively manage the cost of the claims. When more seasoned workers get injured, they’re out of work longer with a tendency for larger claims driving severity. For newer workers, there is a propensity to have more claims because they’re still learning their job which drives frequency. Temporary labor is causing different issues around who is responsible for the injured employee, so clear contract language is needed in both the contract with the leasing firm as well as the insurance policy in order to manage the risk appropriately.
How USI can help

- Start discussions early at the design phase to create a construction risk assessment plan.
- Identify and assess risk in order of importance with the right risk management partners.
- Using the construction risk assessment plan, monitor risks at each stage of the project and address any real or perceived risks in real time.
- Understand the construction project risk management goals with a clear understanding of the exposures which can be transferred.
- While capacity for construction insurance remains competitive, insurers are becoming increasingly selective with capacity deployment.
- USI expects construction firms that are proactive and disciplined on their risk management philosophy and approach will be viewed in a better light by the insurance community. Having a strong safety culture and the ability to articulate an organized and developed claims trend and strategy are critical points to highlight in market submissions.
- It is important for clients to work with risk advisors on developing analytics around various risk financing opportunities. This will help better decision making and favorable outcomes. Also, as decisions are made concerning material purchasing, construction firms should work with their risk advisors to ensure property and builder’s risk policies are structured properly to minimize cost and maximize coverage.

Public Company D&O

In our 2019 Market Outlook report published at the end of last year, we purposefully adopted a relatively bearish position in terms of our estimated rate forecast for 2019. But, in hindsight, our guidance of 10% to 20% premium increases underestimated what we are now seeing for some recent renewal placements.

There has been more upward rate movement in the first few months of 2019 than we have witnessed in the past 15 years and we have clearly now transitioned into a sellers’ market. Most clients with 1Q 2019 renewals saw 10% - 15% premium renewal increases and market pricing has deteriorated significantly since then. Clients with perceived higher risk profiles and/or those in certain industry sectors (such as biotechnology) and/or pending D & O claims are suffering significantly higher renewal increases. Of note, the market appetite for Initial Public Offering (IPO) clients is particularly challenging, with very few carriers interested in quoting primary layers. Underwriters are very frugal and selective about deploying capacity; $10 million retentions for Securities Claims are not uncommon and premiums can reach a 10% rate on line.

For many clients with layered programs, excess rates are going up even faster than primary premiums. Insurance carriers are demanding much higher ‘rates to underlying’ and are willing to walk away from business if they feel they cannot obtain adequate rates. Minimum premium thresholds are also increasing and excess carriers are carefully evaluating pricing even at the highest excess and Side A tower levels. There is decidedly less underwriting competition for business. On a practical level, it takes longer to secure quotes and build programs as underwriting authority is getting pulled back.

There are several factors contributing to this hardening market, but the main driver is simply increased loss costs eroding insurer profitability. More companies are getting sued for securities claims than ever before and post-Cyan, shareholder claims are now being prosecuted in both state and federal courts which is driving up defense expenses. 441 companies were named as defendants in federal Securities Class Action (SCA) lawsuits in 2018 which is roughly twice the historical norm. In addition to the elevated frequency in the number of SCA filings, the average and median settlement amounts of SCA claims settled in 2018 also increased significantly. In fact, the aggregate value of all SCA settlements in 2018 was $5.3 billion versus a total of $1.3 billion in 2017. Beyond SCA filings and settlements, some notable and very large derivative claims settlements have adversely impacted D & O insurers’ bottom lines as has a near record level of regulatory enforcement actions against public companies and their directors and officers.

At this point, we don’t see this as being a temporary or short-term market correction. If anything, the pace of ‘hardening’ has picked up and we believe that the current difficult market environment may continue to worsen over the coming year.
How USI can help

- Preparation is key.
- Stay closely tuned to the market and keep your finger on the pulse.
- Above all take pains to set proper expectations with all stakeholders

Private Company D&O

While not as pronounced as Public Company increases in D & O premium and retentions, Private Company D&O is seeing a faster than anticipated rise in rates than late 2018 and early 2019 projections. “Flat” has morphed from 5-10% premium increases being seen post Q1 and into Q2 2019 on average. For private companies who have suffered losses or are expanding/changing operations, premium and SIR increases are typically higher, i.e. 10%+ premium and 25%+ SIR increases on average for these accounts. The major drivers of these changes are the increasingly diverse number of claim types hitting the D & O policy and increased costs to defend these claims. The private company excess market, especially second layer excess and up, remains competitive at flat with some pricing decrease on excess of $25 million layers, etc.

Side A and Side A DIC coverage increases are typically 5% or less offering a potential good value to protect individual D’s and O’s with cost effective policy types. USI has been successful in negotiating improved D & O terms and conditions both on panel coverage and individual accounts – seeking to offset premium increases with improved policy terms. Additionally, USI is working with clients and prospects to identify specific emergent risks that could trigger D & O policy coverage and seeking ways to craft language to address these specifically.

How USI can help

- Develop a strong marketing strategy with your broker by establishing renewal goals, setting expectations and targeting strong potential carrier partners.
- Provide underwriters an early and comprehensive submission that highlights strong internal controls and commitment by the executive team to risk management.

Aviation

As predicted, 2019 has seen dramatic change in the aviation insurance marketplace. Rates continue to climb as reinsurers exit the market and losses of unprecedented levels are being realized before we even reach the mid-year point. After years of unprofitable underwriting, the market has finally responded to the trend of reduced capacity and mounting claims with tighter underwriting standards, reduced limit availability, increased premiums and a selective attitude in writing new risks.

London syndicates are being pressed to prove that they can back up the threat of increased premium levels and a return to profitability after Lloyds has repeatedly experienced losses due to a flurry of disasters that have taken billions from the market.

The Boeing 737 losses with Ethiopian Airlines and Lion Air have the potential to represent the largest non-war aviation loss in recent history. The direct losses resulting in 346 fatalities along with the grounding losses will erode years of global premium in the aerospace marketplace. The claims will occur in the aircraft
hull and liability sector but also in other areas such as grounding liability coverage, product liability sector and some have suggested D & O claims could be a factor as well. Boeing has announced that the grounding has cost them at least $1 billion so far.

In addition to these losses there have been a host of aviation related judgements awarding more than $100 million to single individuals. Judgements against airports and other aviation companies have soared and are predicted to continue climbing.

All lines of aviation including general aviation, airports and municipalities, service providers and product manufacturers are seeing increased renewal premiums and tighter underwriting standards. Depending on loss level and class of business, increases can range from 10% to as high as 25%. Reduced limits, fewer supplemental coverages and increased scrutiny to operational protocols such as pilot training are being experienced by even the larger aviation risks. This trend is expected to continue throughout the remainder of the year.

How USI can help

- Present your broker with the most relevant, updated information on your business and highlight the focus on safety.
- Keep an open dialogue with your broker about what to expect at renewal and how many markets will be available to quote your business.
- Work with an aviation professional who can negotiate the best coverage for your premium using their knowledge of the small niche aviation market.

Environmental

Our original 2019 Market Forecast in December 2018 was accurate in predicting what has transpired over the first 6 months of the year, but we could emphasize 3 issues:

1. Mold Claims – Mold discovery during renovations projects and from storm events is becoming quite common. Markets are reacting with coverage restrictions on certain classes of risks from hotels to properties prone to hurricane events. Restrictions include higher self-insured retentions, per unit/room limits or retentions, Time Element coverage, and Storm Event aggregates. The volume of mold claims in the marketplace is likely not sustainable at current pricing points. We may see an upward trend on premiums as respects mold coverage, although excess capacity is market keeping pricing stable.

2. Long Tail Product Pollution exposure – With high toxic tort damage awards, such as $2 billion for a California couple from Roundup, coverage for Roundup or other pesticides/ herbicides is difficult to get in the market without significant SIRs and may not be available at all. It is also very difficult to achieve product pollution coverage for other products that contain PFOAs/PFOS. Toxic tort liability from certain products is trending upwards, and more companies are seeking specialized environmental cover.

3. PFOA/PFOS -- the discovery by various States that PFOA/PFOS are being found at toxic levels in drinking water supplies is becoming an enormous environmental liability issue across the US. The EPA and various States are currently studying potential thresholds for cleanup, which will likely be expensive as the chemicals are difficult to treat. With the uncertainty on cleanup standards, the markets are applying coverage exclusions for this exposure for those sites with the exposure. This includes manufacturing, airports (from fire foam materials that contain the chemicals) and municipalities that treat drinking water. This likely could also become a big issue for real estate firms as the chemicals have found to be ubiquitous in the environment, so acquiring or developing properties could have the added risk of these chemicals. We are likely to see built in exclusions for these chemicals in the pollution policy forms be developed.

How USI can help

- Create an environmental risk profile to identify exposures associated with an operation, qualify and quantify the impact on the organization, set retention levels and how to manage the risk.
- Develop customized risk maps which identify potential fines and penalties, known and unknown remediation, closure of facilities, and toxic tort liability.
- Develop sophisticated risk modeling platforms that can include the use of Monte Carlo analytics to look at a range of probabilities and to forecast potential liabilities over a long horizon.
Develop internal educational tools, loss mitigation strategies, and identify the proper resources in environmental consulting and engineering to address environmental, health and safety matters or complex legal liability matters.

Network Security/Privacy Liability (Cyber)

Unlike the market for many other lines, the market for cyber insurance remains competitive. Many carriers look to cyber as a growth area as well a way to round out their product offerings. The requirement for growth fuels the fire of competition resulting in better pricing and broader coverage.

Additionally, many lines of coverage, like property, offered cyber at virtually no cost and with little to no underwriting information. These markets suffered significant losses and are now reconsidering their approach to cyber and network risk. As a result, coverage is expanding to address broader business interruption and dependent business interruption.

Insureds with large losses or poor data and network controls may not benefit from the competition as the underwriting process for cyber continues to evolve. Carriers are developing in-house information technology expertise or outsourcing certain parts of the underwriting process to ensure that they have a better understanding of insured. Many carriers are offering a risk assessment as part of the underwriting process and many policies come with value-add services like development of an incident response plan or a phishing campaign.

For many clients with layered programs, excess rates are being reduced, even if the primary carrier secures an increase in premium (usually due to claims activity).

The hardening of the greater insurance market, the constriction of coverage in other lines and/or a catastrophic cyber event could turn the market very quickly, but the expectation is that this competitive market will last until, at least, the end of 2019.

How USI can help

- A complete and thorough submission focused on operations and controls will help get markets comfortable with a risk thereby resulting in more competitive terms.
- Clients should take advantage of carriers’ value-add services and electronic applications to maximize the value of their insurance spend.
- A broker needs to demonstrate market knowledge and an understanding of detailed terms and conditions. There are pockets of competitive capacity and coverage is continuously evolving.
- Establishing and maintaining a relationship with markets is increasingly important in managing premium and retention levels.

Potential Future Developments

The Property & Casualty Insurance Industry finished 2018 with a combined loss and expense ratio of 99.2% and near record surplus as a function of liabilities. This is not the kind of financial performance that usually leads to a hard market. While it is clear that certain lines of business have been unprofitable and long overdue for rate adjustments or other underwriting improvements, we have to wonder at what point new capacity will begin to flow into the market seeking expanded market share on the improved terms being achieved.

One future scenario would have rate increases begin to level off in the 4th quarter of 2019 and into 2020 as more markets begin to deploy their capacity and compete for business if they deem rates adequate to be profitable in the wake of adverse loss trends. Capital markets in search of higher yields than are currently anticipated in equities or fixed income might look to the insurance market as a good source of uncorrelated risk and potential higher returns.

An alternative scenario would see loss trends continue to deteriorate, perhaps in tandem with worse than average CAT losses for the year, resulting in a continuation of hard market conditions into 2020. Underwriters seem to believe the hardening market will continue. We are currently working on a January 1, 2020 renewal program in which the lead umbrella market has already declined to renew. Market response so far suggests the current $25 million lead being reduced to $10 million for close to the same premium and the next $15 million going at the market price with the whole program ending up with a 20% increase in premium.

For our clients’ benefit, we certainly hope the former scenario becomes a reality.