



# 2019 P&C Market Outlook: Executive Summary

## INSIGHTS FROM USI NATIONAL PRACTICE LEADERS

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The commercial property and casualty market dynamic today is driven by two powerful, conflicting forces: large catastrophic losses and excess capital.

Despite experiencing five of the 15 costliest global catastrophes in the past two years, coupled with multiple large wildfires and other major loss events, which collectively caused in excess of \$125 billion in total insured damages, the P&C industry remained stable in 2018, resisting significant and sustained market-wide rate increases. While the majority of P&C insurance buyers faced modest rate increases in the low-single digits, the steepest hikes were isolated to certain catastrophic property lines and a few liability lines.

Looking ahead to 2019, USI expects the rate trends to continue although the duration and magnitude will be difficult to sustain and may flatten out or possibly reverse for some lines. The majority of insureds are expected to experience flat to +5% rate changes, with rate variability rising or falling depending on the coverage line, program structure, loss history and market appetite. Pricing challenges are likely to persist in specific coverage lines such as property-exposed accounts in wind-prone areas, habitational risks and large commercial trucking fleets.

P&C market surplus will likely continue to grow, fueled by a booming economy, resultant growth in net written premiums and ever-expanding levels of alternative capital. In the face of competition from other carriers looking to deploy their surplus capital, incumbent markets are often reluctant to walk away from what they perceive to be below market pricing and will rather look to strike a compromise with clients and brokers to retain business.

Faced with underwriting challenges in the past year, carriers are more likely to ask for moderate-to-high rate increases for many insureds in the public company directors' and officers' space, employment practices liability and medical malpractice for healthcare providers in certain classes. By contrast, guaranteed cost workers' compensation buyers are expected to benefit from rate reductions despite rising loss trends in most states. For other liability lines, rates have likely bottomed out as markets focus on underwriting discipline.

### Highlights

- The P&C industry is well capitalized and surplus now stands in excess of \$760 billion. The industry's combined ratio as of mid-2018 is 98% per various rating agencies, however, this will likely approach 100% by year's end.
- The diversified global reinsurance market will continue to spread the impact of catastrophic losses out in an efficient manner.
- Alternative capital, such as insurance linked securities, continue to grow year over year and is expanding into casualty and other non-property lines, keeping pressure on both traditional insurance and reinsurance margins.
- The pace of insurer consolidation will continue but is not likely to reduce competition in most lines in 2019.
- Insurance companies are benefiting from years of investment in data and analytics, robotic automation, mobile solutions and other technologies.
- Rising interest rates, lower tax rates, and adequate loss reserves will bolster insurance companies' net investment income.

### Challenges

- Insureds in windstorm, flood and fire prone areas are likely to experience upwards rate pressure.
- Insureds in more hazardous industries or with deteriorating loss profiles may be forced to consider retaining more risk to maintain rate.
- Liability loss cost trends are still outpacing rate increases, which may be unsustainable in the long term.
- Changing social perspectives and a growing awareness of sexual misconduct over the past year have led to more reported accusations and heightened dialogue over equal pay, wrongful termination and harassment.

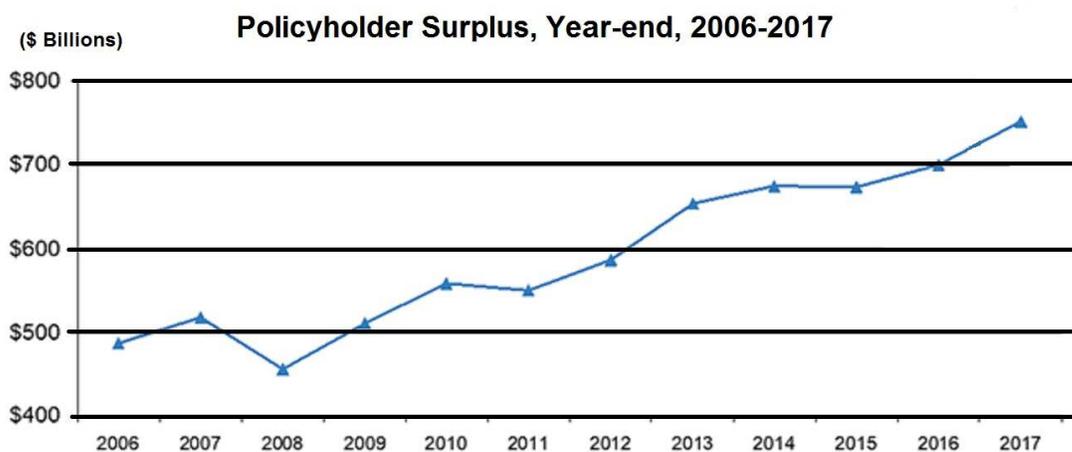
- Despite advances in technology, commercial automobile continues to be a difficult line to underwrite and remains unprofitable despite years of steadily increasing premium rates offset by multi-million dollar jury awards.
- Given the dangers to the public, potential damage to company brand and reputation, and the complexity of global supply chains, food safety is the biggest challenge facing the food and beverage industry and product recall insurers.
- Cyber risk including high profile data breaches and imposter fraud are now common events, increasing board-level focus on cyber, crime, and reputational risk loss mitigation.
- The steady uptick in punitive damage awards and emerging tactics such as legal financing trends are having an increasingly detrimental impact on the severity of liability losses.
- The National Flood Insurance Program and Terrorism are key legislative issues to watch in 2019 and 2020.

## How USI Can Help

Commercial insureds are entering 2019 with significant optimism about global economic activity. However, there is less certainty over how the recent spate of catastrophic losses and changing market dynamics would impact individual accounts.

In this time of uncertainty, USI is committed to helping clients gain greater control over insurance placement and program design decisions, rather than leaving the process to chance or the discretion of underwriters. Our experts will work with insureds to proactively articulate to carriers how their specific risk differs from other companies in the same industry.

USI's tools are designed to help clients compete in today's business environment. To analyze our client's business issues and challenges, the property and casualty team leverages USI ONE®, a fundamentally different approach to risk management. USI ONE integrates proprietary business analytics with a network of local and national technical experts in a team-based consultative planning process to evaluate the client's risk profile and identify targeted solutions. USI's **OMNI Knowledge Engine™**, a real-time interactive platform created from more than 100 years of solving the problems of over 150,000 clients, and the **Risk Performance Navigator**, a web-based exposure assessment application, provide critical insights that clients can use to differentiate their risk profiles from competitors and better navigate challenging market conditions.



**The P&C Insurance Industry entered 2018 in a very strong financial condition. Going into 2019, the industry surplus continues to strengthen and now stands at \$760 billion.**

Sources: ISO, A.M. Best

 For more information on how USI can help protect your business, contact a USI consultant. Click to read the full [2019 USI Insurance Market Outlook](#) report.