MARSH

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UK Property and Casualty Insurance Market Update

Marsh data indicates that the UK property and casualty (P&C) insurance market is in transition. The average rate change for Q1 2019 is largely consistent with Q4 2018, but there has been a change in the trading environment and achieving these results has been more challenging than before. Market conditions are changing quickly, particularly in natural-catastrophe-driven property, and large limit international casualty. The changes in average rating may be subtle but, when compared with year-on-year rate reductions, they do indicate a shift in the market.

Insurers are focused on rating adequacy rather than top-line growth – new and increased premium income is important, but not at the expense of profitability. There is also less evidence of insurers taking a view on overall premium income with individual companies; they are instead focused on technical underwriting in each silo. This is a shift in approach and means that market engagement strategy, market selection, and good quality submissions are crucial to secure the best possible renewal.

Property

The UK property insurance market is unpredictable and in transition. Insurers are focusing on profitability and some are willing to lapse renewals if rating is not adequate. This approach may even apply when there is a wider or long-term relationship. Insurers are reviewing their entire portfolio, and some insurers are requiring immediate material change in rating for some renewals.

There are examples of rate reductions being achieved, but these are rarely more than 10% and they tend to be for placements with limited natural catastrophe exposure.

Follow and excess capacity continues to be in good supply. So far, it has not generally been difficult to complete programmes (except on waste and power), although it is necessary to see a greater number of markets to secure capacity.

Insurers are focusing more on terms and conditions, with non-damage cyber cover not readily provided and additional premiums being applied. Contingent business interruption sublimits are also being reviewed.

The facultative reinsurance market is subject to upward pressure on rates, as Lloyd’s of London capacity contracts. Natural catastrophe pricing is increasing and insurers are passing on the increased cost of reinsurance.

Casualty

Insurers continue to look for opportunities to increase rate, but reductions are still possible for the right risk. There is an increased focus on capacity deployment, policy terms and conditions as well as an appetite for co-insurance support. Some insurers are reducing capacity to £25 million, and will seek ventilation in order to participate elsewhere on the programme. In some cases, lines have not been renewed due to pricing and, in order to ensure that coverage remains consistent, restructuring of programmes is often required.

The Prudential Regulation Authority has set out new guidelines for insurers assessing cyber risk, with specific consideration to non-affirmative cyber risk exposures (that is, where cyber is silent on a general liability policy). As a result, general liability policies now contain a cyber exclusion to reduce the unintended exposure to this risk.

The EU's General Data Protection Regulation (GDPR) has also been a focus for insurers, all of which are now sub-limiting coverage for data protection due to uncertainties in the frequency and severity of claims. It is anticipated that only small sublimits will be available as this develops over the next year, with casualty insurers increasingly viewing this as a specialist cyber risk.

Long-term agreements are increasingly restricted (that is, higher level referral is required before they can be proposed) and some insurers are applying rate increases in the second year, instead of maintaining a flat rate or flat premium over the period of the agreement (however, there is greater flexibility for new business). This is already an accepted practice in the international casualty market, and indicates that insurers believe the market may be subject to further upward pressure on rates, and greater scrutiny of terms and conditions.

FIGURE 1

P&C Rate Changes

SOURCE: MARSH

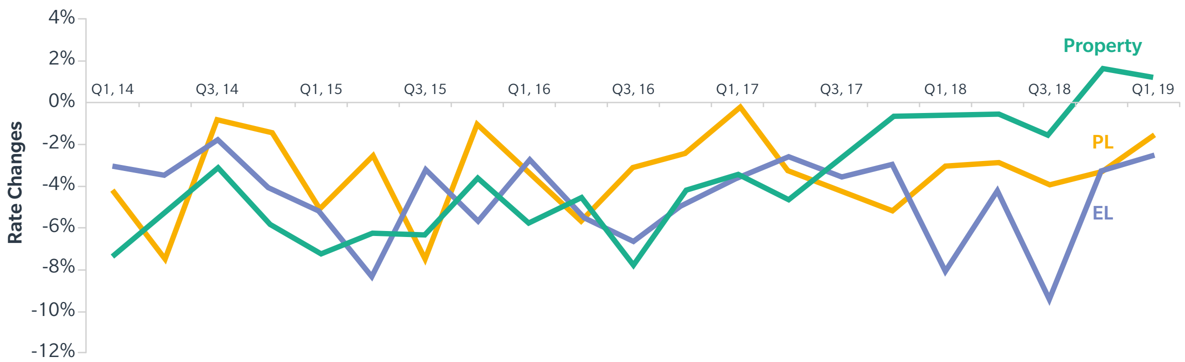
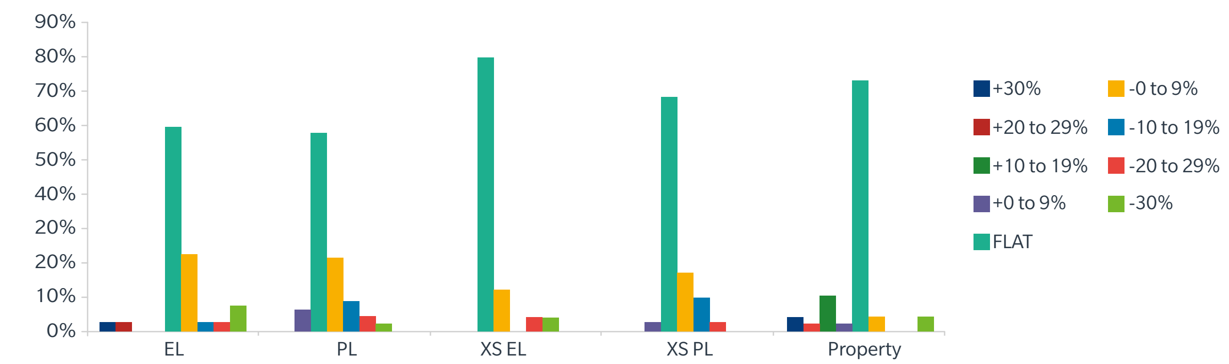


FIGURE 2

Rate Changes

SOURCE: MARSH



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