

RT CASUALTY DIFFERENCE

RT Casualty remains committed to excellence and provides a winning combination of talent, technology and leadership. Throughout our 11-year history, we have invested in exceptional talent and are well prepared to deliver focused, creative solutions for 2021 and beyond.

MARKET OVERVIEW

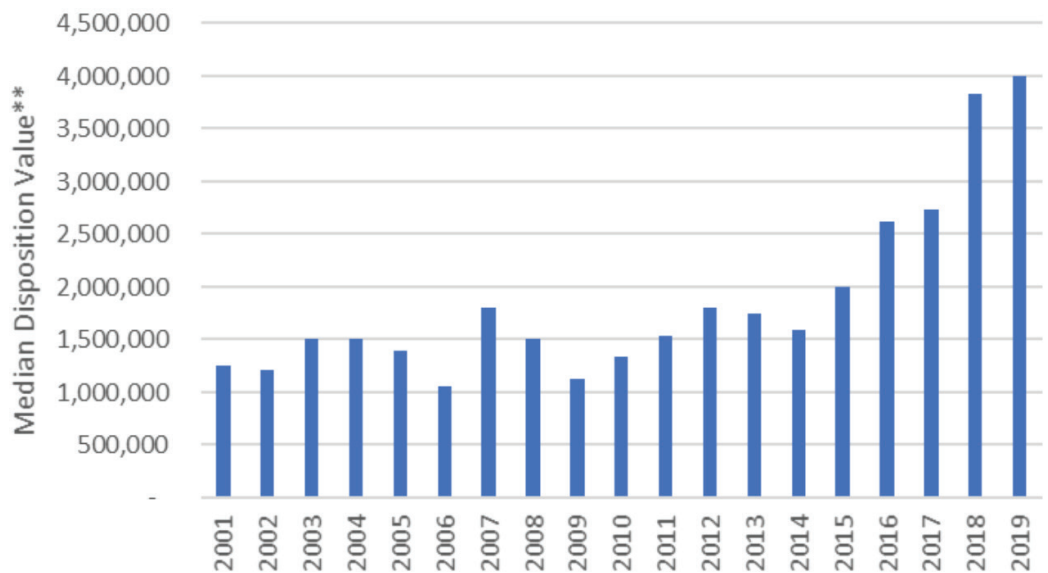
Looking back at 2020, the overall commercial insurance market continued to be challenging for most insurance buyers. The year began with COVID-19 becoming a worldwide pandemic, and it was soon accompanied by increasing social and political unrest. COVID-19-related liability losses are expected to be slow to emerge, but they could have a negative impact on further loss development over the long term. Additionally, the pandemic has created further scrutiny on commercial insurance policy language, and some have questioned whether retail businesses will be granted any legal immunity to limit their future liabilities after they reopen. Efforts continue at a federal and state level to invoke legislation that may significantly impact the extent of claims and lawsuits, creating further uncertainty around how they will be reserved and measured. RT Casualty will continue to closely monitor all regulatory and legal developments around COVID-19 and will report its potential impact on the insurance marketplace.

As we begin 2021, except for certain aggressive insurance lines, the casualty insurance market has begun to stabilize as it draws in

new capital and private equity investment. However, pricing and capacity offerings within the various segments of the casualty market can vary significantly. Workers' Compensation, as a profitable line for carriers over the past several years, has rates that are forecasted to remain flat, staying within single-digit variances. For primary General Liability, reporting in 2020 shows pricing increases from the mid-teens up to 30%, but renewal results can end up at a higher or lower percentage depending on the account size and industry segment.

In contrast, umbrella / excess lines pricing, depending on the hazard class, can be expected to continue upward and on an accelerated basis at least through mid-year. The deployment in capacity of \$5 million umbrella and excess layer offerings is now common, versus the \$10 to \$25 million blocks from a single carrier in past years. Business auto rate increases have generally been reported in the high single-digit to mid-teens range over the last quarter, but this excludes certain insureds within the transportation industry segment. The recent excess liability renewals for several motor truck carriers have

FIGURE 1: MEDIAN VALUE OF A SINGLE FATALITY BY DISPOSITION YEAR



Source: Advisen, Ltd., Social Inflation: Truth of Fiction, Advisenltd.com

CONTACT

For more information contact your local RT Casualty broker or underwriter.

resulted in several of these firms deciding to lower their program limits as a trade-off for significant price increases.

MARKET DRIVERS

Even as we see more stabilization ahead for the casualty market, the main drivers that initiated the cycle of tightening conditions remain present. These drivers include long-term increased loss cost trends, social inflation impacts on higher jury verdicts, low interest rates reducing carrier investment income and rising reinsurance cost. All these factors translate to a higher degree of underwriting discipline by the carriers. However, to reduce the impact of these drivers, several mid-size and large insureds have decided to take on higher retentions and restructure their liability programs, which has helped offset the pressure on the current market.

It should also be noted that casualty programs in the larger account segment have been more negatively impacted by the increased pricing and capacity restrictions versus the more muted increases seen in the

small commercial segment. As it relates to the impact of social inflation in recent years, refer to the Advisen chart (Figure 1) noting the significant and recent upward trend for the medium cost of a single fatality.

The current tightening conditions do not reflect the same underlying conditions of past hard markets. Except for some distressed classes of business and certain challenged industry segments, the current capacity restrictions are more driven by the carrier's appetite as they attempt to reduce or withdraw from underperforming lines, which is in contrast to past tightening cycles, where insurance and reinsurance capacity were reduced in availability.

Even with the current tight casualty market conditions, new capital is entering the market and private equity has begun to facilitate more new company entries. Another investment mechanism bringing in new / additional capacity to the insurance market has been special purpose acquisition companies (SPAC). A formation of a SPAC facilitates a reverse flow takeover / IPO, which

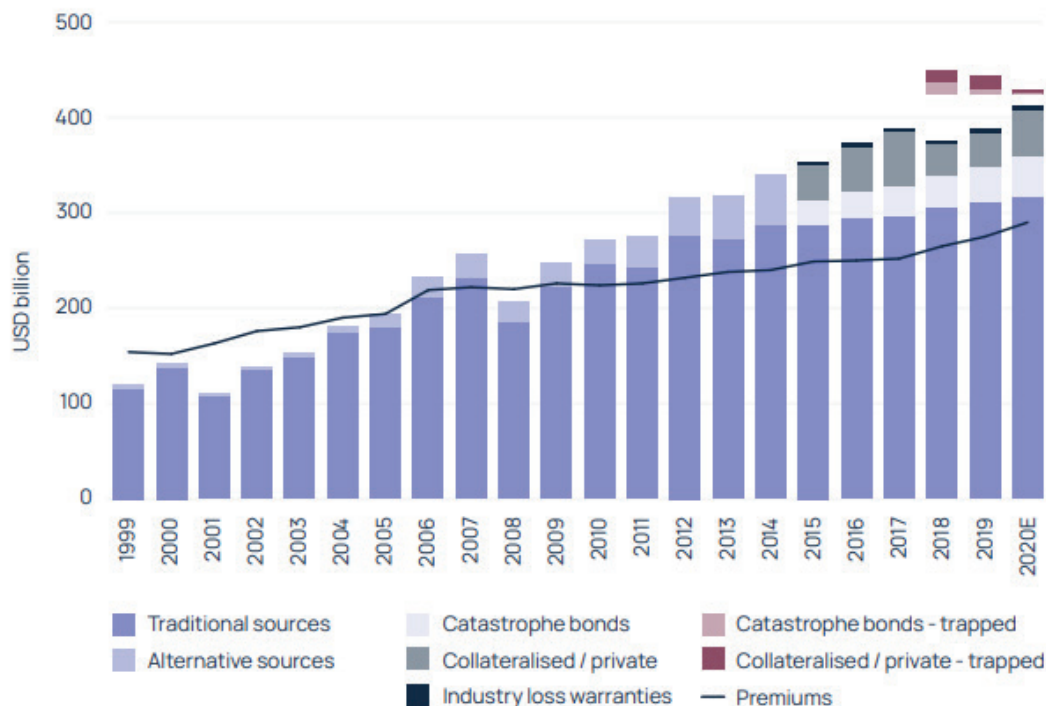
are formed to raise capital to the acquire or merge with an existing company. Once they have gone public, the SPACs have two years to undertake an acquisition or they return the funds raised to their investors. In 2020, there was a surge of interest in SPACs within the reinsurance segment.

Over the past year, there also has been an increase in the amount of new startup operations announced in Bermuda, in addition to other new entrants coming together in the U.S. domestic, London and European markets. Several of these facilities are focused on filling in the diminished capacity in casualty lines, especially in the excess layers. These new startups are in various stages, and several will require more time to set up their investment fundraising and underwriting operations. Overall, we should start to see their impact further stabilize the casualty market as we move into the second half of 2021.

REINSURANCE

The recent January 1 treaty reinsurance renewals resulted in pricing outcomes

FIGURE 2: Dedicated Reinsurance Capital and Global Gross Reinsurance Premiums (all lines) – 1999 to 2020



experiencing more modest increases (single digits), versus initial estimates that predicted much higher outcomes. But for cedent insurer carriers experiencing successive years of losses or overall poor performance, their reinsurance treaties resulted in much more significant pricing corrections. Policy wordings regarding the pandemic and silent cyber have been under some scrutiny. Unlike from a property treaty perspective, the casualty reinsurance terms relating to communicable disease resulted in little change, except for workers' compensation.

The casualty reinsurance cost headwinds are connected to several of the same factors as mentioned previously, such as social inflation, adverse loss development, reserve inadequacy and the uncertainty with long-term impact of COVID-19. Social inflation includes the issues of an aggressive and active plaintiff's bar, higher litigation cost, developing anti-corporate sentiment, nuclear jury awards and the growing use and upward trend of third-party litigation financing. This is all coupled with the macro financial factors of the general market volatility. These factors are offset by the strong capitalization that continues to support the reinsurance market, pockets of rising demand for reinsurance products and the continued new growth opportunities seen by investors in the commercial insurance market.

Supporting the maintenance of strong capitalization in the reinsurance sector, dedicated reinsurance capital increased marginally to \$416 billion in 2020. Incumbents and new players raised close to \$20 billion of new capital, taking advantage of market opportunities.

Refer to the chart from the Howden reinsurance market report (Figure 2) and note the increase coming from traditional sources.

LOOKING FORWARD

Overall, the carrier balance sheets remain strong and capitalization for insurers, reinsurers and facilities have proven markedly resilient. As we move towards mid-year, we are expecting to see the casualty market stabilize with more predictability, but with continued price discipline. Certain lines of coverages and industry segments that continue to be most affected by increases in long-term loss cost trends will be the exception and expect the current tightened conditions to continue aggressively in those sectors. The future potential impact of COVID-19 claims is another overriding factor to take into serious consideration. For umbrella / excess casualty coverages, continued double-digit price increases will remain a major challenge. On a positive note, the increasing number of new startups and the steady flow of reinsurance capital

are expected to mitigate the impact to the insureds as we move further into 2021. Keep in mind, however, that certain industries will lag behind the others, such as the transportation segment.



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RT CASUALTY RECOMMENDATION

RT Casualty strongly recommends starting renewal planning early to allow adequate time for the evaluation, development and vetting of a comprehensive renewal strategy. High quality, detailed risk descriptions and a comprehensive loss history will likely be required with all underwriting submissions, and RT Casualty can assist its retail brokers in the preparation for renewals and new business negotiations. As a result, our retail agent and broker clients are in an excellent position to receive favorable pricing and coverage response from the current marketplace.

WELCOMING ALL RISKS TO THE RT SPECIALTY TEAM!

RT Casualty is excited to have the professionals from All Risks, with their talented team of insurance specialists, onboard and off and running as a part of the RT Specialty team. The combination of RT and All Risks further builds and expands the RT Casualty practice's broking talent base. Already, it has opened expanded trading partner channels and new product innovations, all focused on providing excellent solutions to our retail broker clients and their insureds. This combination brings our RSG employee count to 3,300+, with more than 70 offices across the United States, the United Kingdom and Europe.