

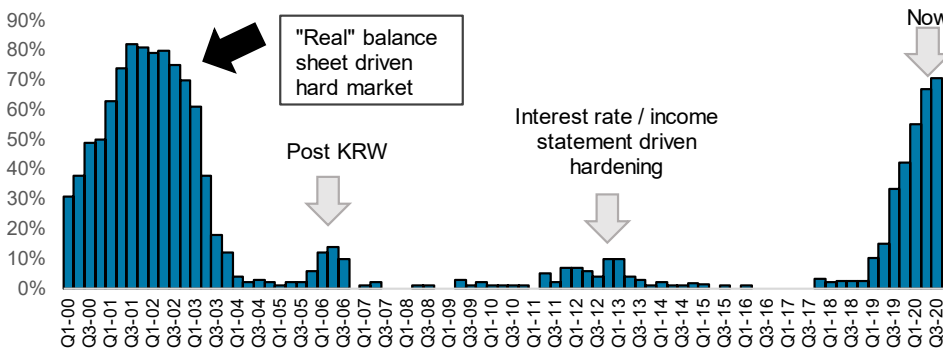
Hard market watch: CIAB Q3 edition

Earlier this week, the CIAB released its survey data for Q3 commercial rates. The main takeaway was continued rate increases in line with market intelligence from companies. Average premium increases across all account sizes were 11.7%, a sequential improvement from 10.8% in Q2 and 9.3% in Q1. [Details below.](#)

The CIAB data continues to show a “hardening” market with an increasing number of respondents indicating price increases of more than 10%. The share of respondents reporting 10%+ increases in large accounts reached 71%, up from 70% last quarter. This is substantially higher than the recent hardening cycles and approximately emulates the hard market of early 2000s.

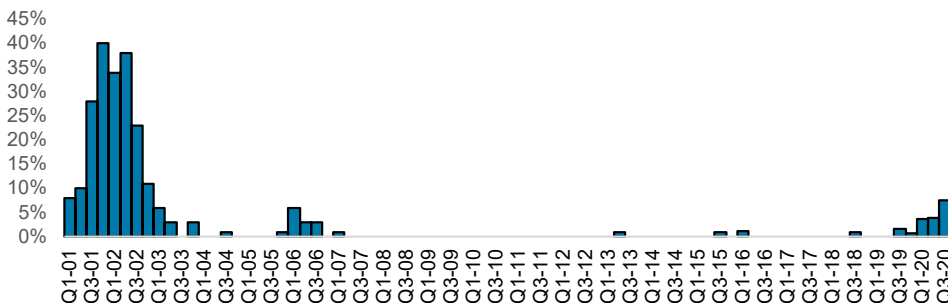
Exhibit: Large account: % of respondents indicating 10%+ price increases 2000-2019

Source: CIAB, Inside P&C



However, at the extreme upper buckets, the market does not seem nearly as “hard”. The share of respondents reporting 30%+ increases was at 8%. Although it is substantially less than the 10%-40% range reported back in the early 2000s, it is nearly twice as much as the 4% last quarter.

Exhibit: Large account: % of respondents indicating 30%+ price increases 2000-2019



This points to the fact that, despite the continued rate acceleration into double-digit territory, the market remains fairly orderly in this hardening cycle. This is in line with what we noted based on [Aon's pricing report](#) on D&O, one of the market’s hardest spaces.

Elsewhere, the survey suggests that it takes more time and effort to place and renew business due to the pandemic and recession impacts. Among other things, payroll volatility from insureds delayed submissions and slowed the placement of business – something which was exacerbated by stricter underwriting criteria at carriers.

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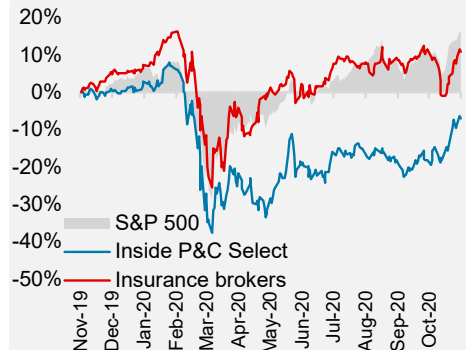
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Composite	YTD px chg.	P/B
Large comm.	(11.9)%	0.9x
Regional	(21.4)%	1.3x
Specialty	(5.2)%	1.6x
Personal	9.5%	1.9x
Bermuda	(14.1)%	1.1x
Florida	(39.4)%	0.8x
Brokers	5.4%	-
IPC Select	(7.5)%	1.2x
S&P 500 Fin.	(10.3)%	-
S&P 500	12.3%	-

1YR Price Performance



Notably, as increasing number of carriers [call a pending turn](#) in the workers' comp market, the survey recorded a quickly diminishing number of market participants reporting price declines.

[More details on CIAB Q3 pricing survey below.](#)

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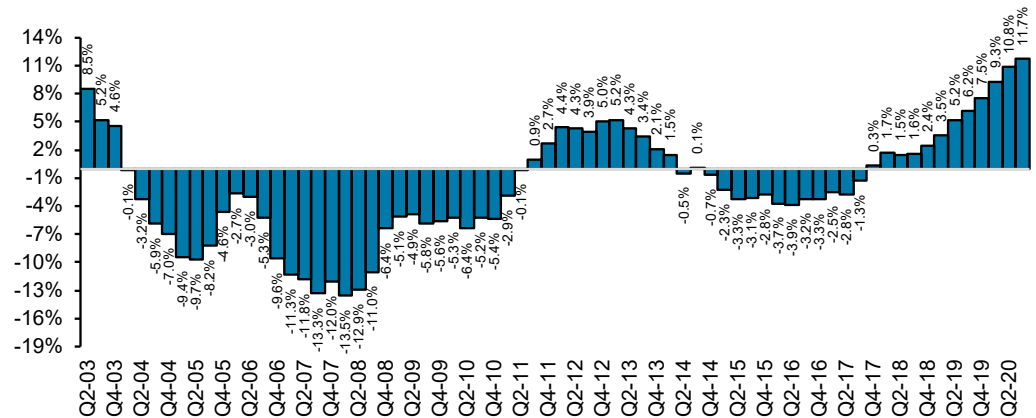
The survey's headline results show a market that continues to harden, with respondents reporting "increased premiums, higher underwriter scrutiny and carriers denying coverage of specific lines of business".

According to the survey, most industry players believe Covid-19 exacerbated existing industry trends, including the effects on pricing, availability of coverage, underwriting trends and renewals. Furthermore, some of the industry struggles were associated with the uncertainty around payroll and revenue data, which resulted in delays in clients' ability to provide renewal data, as well as slower response time from underwriters.

Average premium increase across all account sizes was 11.7%, the ninth sequential improvement in a row since Q3:18.

Exhibit: CIAB survey average price increase of all account sizes

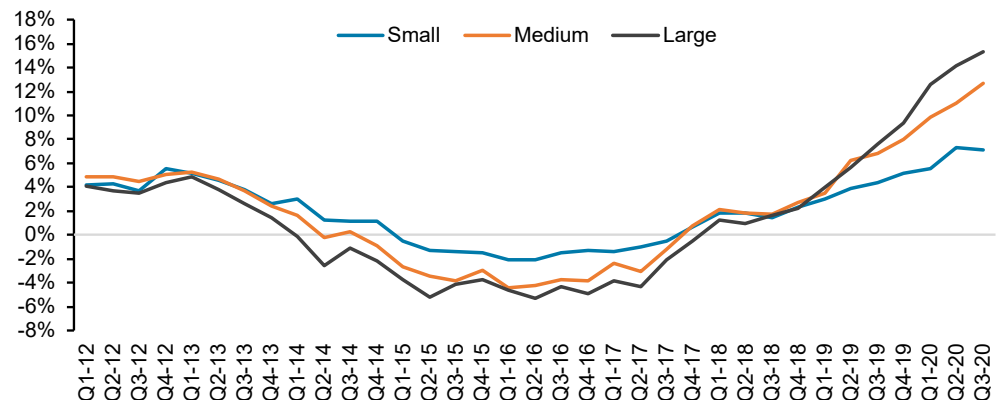
Source: CIAB



By account size: The headline price increases were driven by large-sized accounts, where prices increased by 15.3% during the period. Medium-sized accounts were +12.7% and small accounts somewhat behind with prior quarters at +7.1%.

Exhibit: CIAB survey by account size

Source: CIAB, Inside P&C



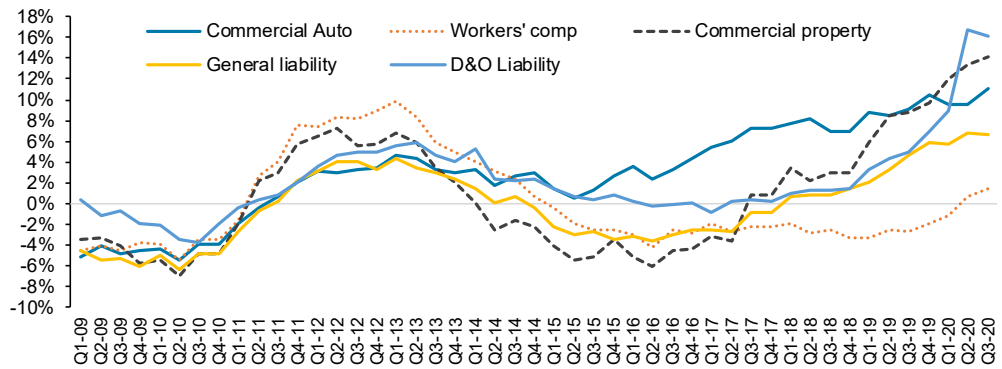
By line: Among major lines of business, commercial auto returned to a double-digit increase at 11%, the highest since Q2:03.

The data also showed that umbrella and D&O remain the hardest markets with 22.9% and 16.1% price increases logged in the quarter respectively. Respondents indicated that umbrella and excess liability markets were “flooded” as putting layers together became even more challenging.

Workers’ comp showed a 1.5% increase, the second straight quarter with positive pricing change and sequential increase from 0.7% in Q2. One respondent highlighted that carriers are turning away from the business in states with presumptive laws.

Exhibit: Rate changes by LoB

Source: CIAB, Inside P&C



Hard market watch – a more granular look

Our understanding of the survey is that the headline numbers are calculated by taking a weighted average of the percentage of respondents in each “bucket”. The wide ranges around zero, where most of the data lie, can therefore make the data somewhat misleading. For example, if 100% of accounts renewed at +2%, the survey would show a ~5% increase (100% multiplied by the mid-point of the 1%-9% category).

As such, the survey is not optimal at capturing small movements around normal levels, /with the headline averages driven by the number of data migrating up or down a category. In other words, the headline pricing data of the survey has an inherent bias to overlook movements within buckets and magnify the effect of crossover moves between buckets.

That said, one significant advantage of the survey is that it provides a granular disclosure of the data points beneath the headline numbers, by the “buckets”, lines of business and states.

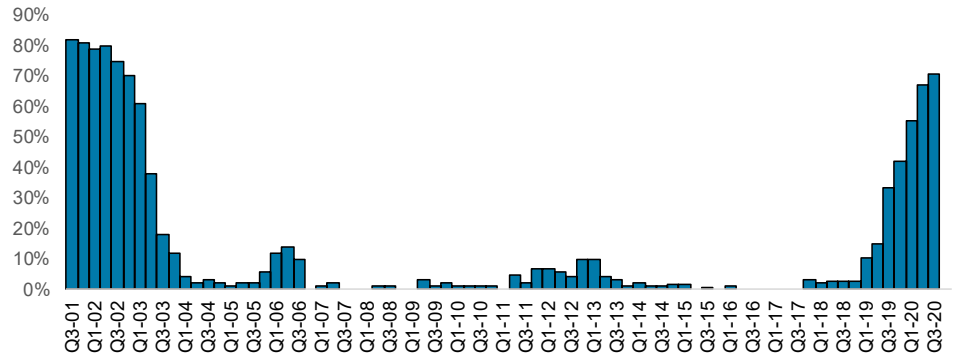
For us, the examination of individual buckets at extreme levels of pricing change provides the most valuable insights on the state of any individual market. We use the proportion of respondents indicating 10% or more price increase as a proxy for the percentage of the space in a “hard market”. We think this is instructive in the current market.

Furthermore, to evaluate whether a market is being severely disrupted, we look further up the spectrum at the 30%+ bucket. As of the third quarter, only the umbrella space showed the signs of high degree of disruption.

In Q3, ~71% of respondents indicated large account rises of more than 10% – more than six times the highest level at the peak of the last hardening cycle in 2011-2013 and the highest level since Q3:02.

Exhibit: Large accounts: % of respondents indicating 10%+ price increases

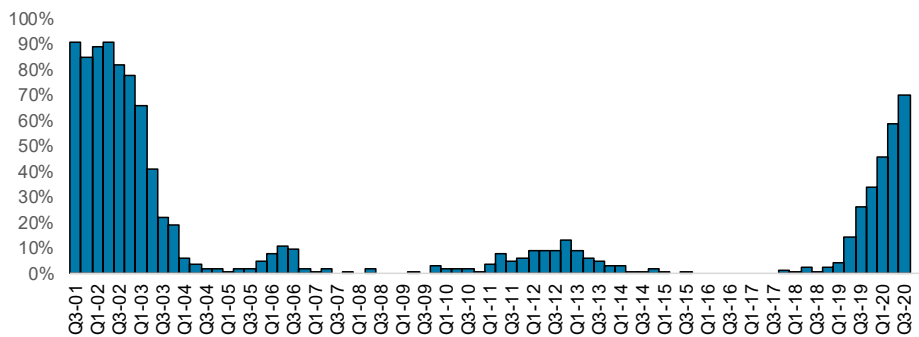
Source: CIAB, Inside P&C



Similarly, for medium-sized accounts, 70% of respondents classified rates as up more than 10%, the highest since Q4:02 and more than five times above the highest level in the last market tightening.

Exhibit: Medium accounts: % of respondents indicating 10%+ price increases

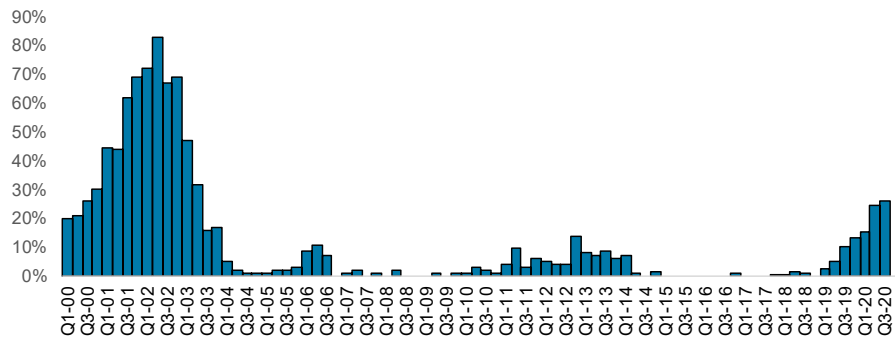
Source: CIAB, Inside P&C



Small accounts continue to appear less disrupted than other segments of the market, though pricing appears to be accelerating somewhat.

Exhibit: Small accounts: % of respondents indicating 10%+ price increases

Source: CIAB, Inside P&C

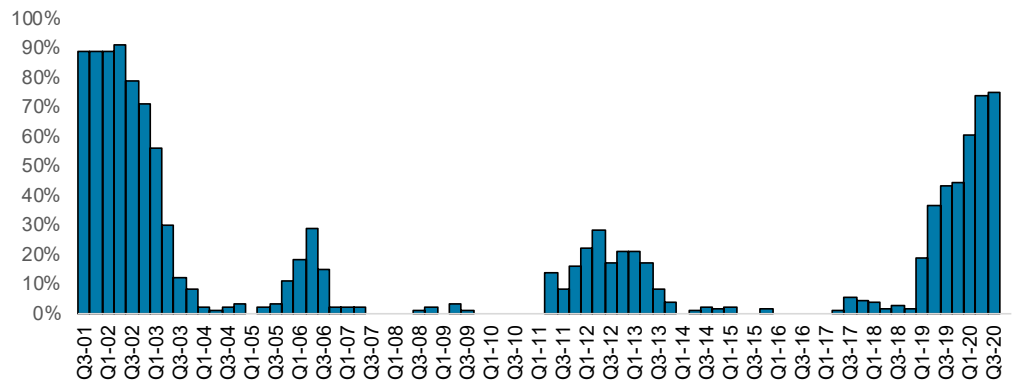


Umbrella, D&O and commercial property remain the hardest markets

In commercial property, 75% of respondents are now indicating +10% moves or greater, the highest since 2002. This is hardly surprising given the recent elevated weather losses that span almost every cat-exposed area of the country, which follow heavy cat losses in 2017 and 2018. Reinsurance rates are also rising, making outwards protection for property writers more expensive.

Exhibit: Commercial property: % of respondents indicating 10%+ price increases

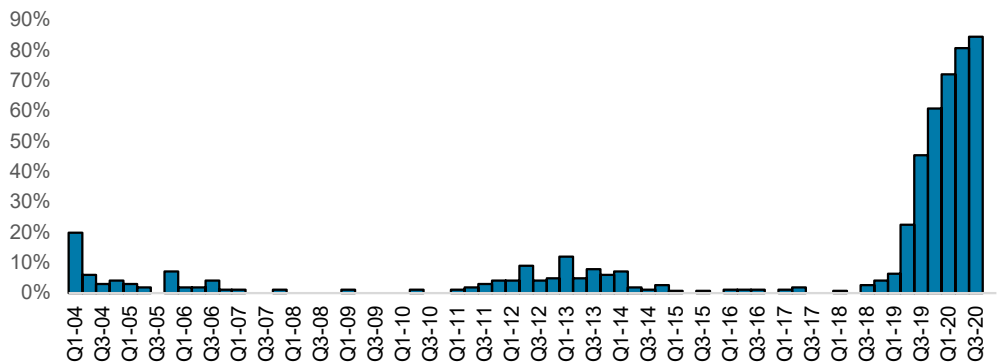
Source: CIAB, Inside P&C



The number of respondents indicating umbrella at +10% or more price increase rose to 88.5% from 83.0% last quarter. This is the highest level since 2002 and is the hardest major line of business in the industry for the time being.

Exhibit: Umbrella: % of respondents indicating 10%+ price increases

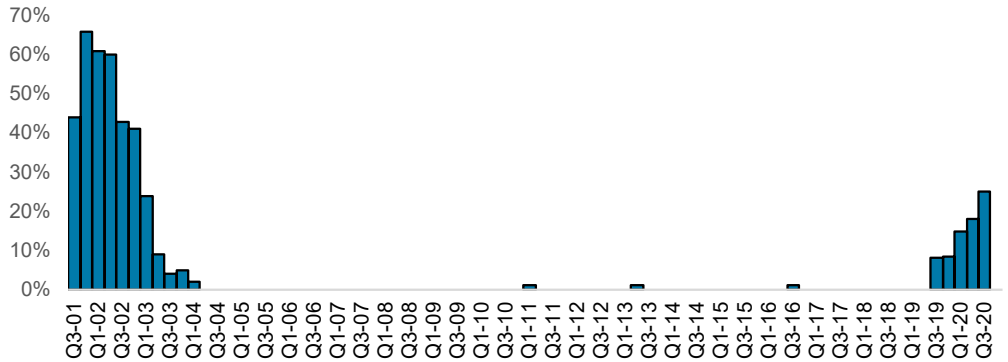
Source: CIAB, Inside P&C



Furthermore, umbrella is the only space that is showing signs of severe disruption, with 25% of respondents reporting 30% price increase or more, the highest among all lines. The rate changes reflect elevated severity resulting from social inflation and the increasing challenges of getting placements completed due to severe limit compression from insurers.

Exhibit: Umbrella: % of respondents indicating 30%+ price increases

Source: CIAB, Inside P&C

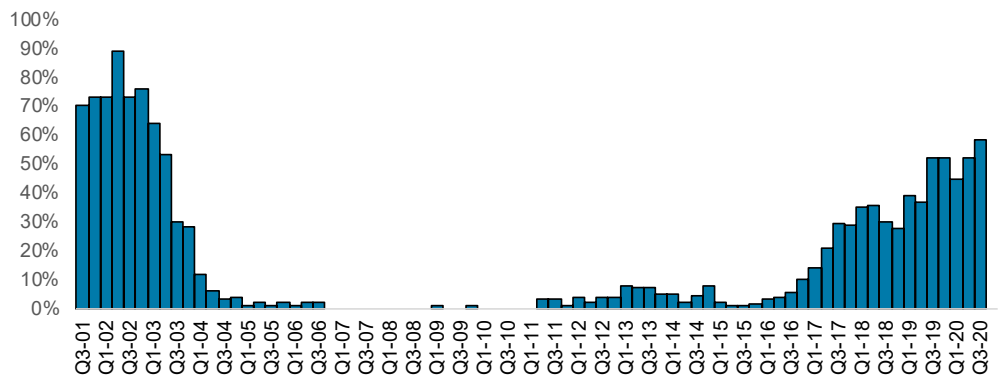


Commercial auto pricing appeared to continue its rise, with more respondents signifying rate increases over 10% than at any point during this hardening cycle.

Some 58% of respondents indicated +10% or more increases, up from last quarter’s 52%.

Exhibit: Commercial auto: % of respondents indicating 10%+ price increases

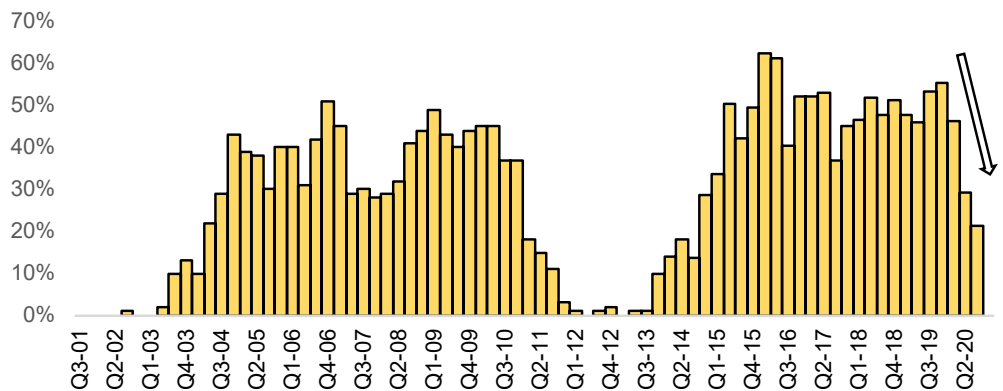
Source: CIAB, Inside P&C



The survey results on workers’ comp pricing echoed the [recent calls](#) for “near inflection” in the Q3 conference calls. The number of respondents reporting price declines of up to 9% dropped to 21%, from 29% in Q2 and 46% in Q1.

Exhibit: Workers’ comp: % of respondents indicating price declines of up to 9%

Source: CIAB, Inside P&C



This research report was written by Insider Publishing's Research team which includes Gavin Davis, James Thaler, Gianluca Casapietra, and Dan Lukpanov.

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