Hard Market Watch: CIAB Q4 Edition

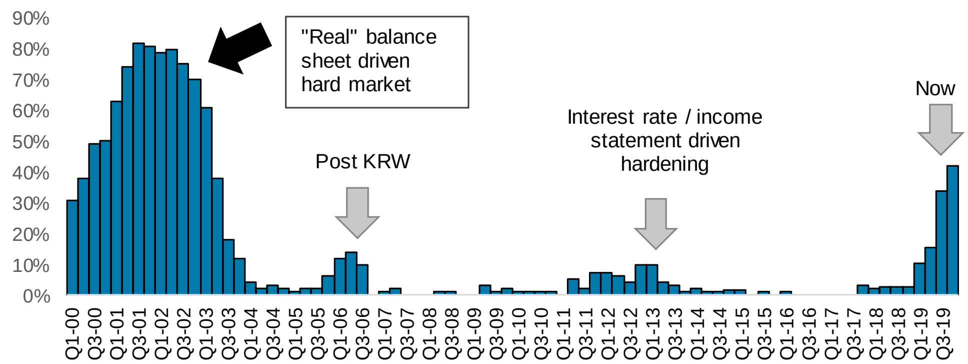
Last week, the CIAB released its survey data for Q4 commercial rates. The takeaways were co ntinued rate increases in line with market intelligence from companies. Average premium increases across all account sizes were 7.5%, led by large and medium accounts at 9.4% and 8% respectively. Details below.

We have previously outlined our view on the survey methodology (which we repeat below) relating to clustering issues in the data. However, one of the reasons we love it is because the granular data it gives on how it is calculated allows us to create some other metrics that enable us to quantitatively compare some measures of market abnormality (e.g. hardness or softness) through time.

To that end, we wanted to tell a story, focused on large accounts, in just two charts. Below is the number of respondents showing price increases of more than 10%, for us a reasonable proxy for a "hardening" market. It is clear the level is 2-3x of recent hardening cycles, but still about half of the amount of the early 2000s.

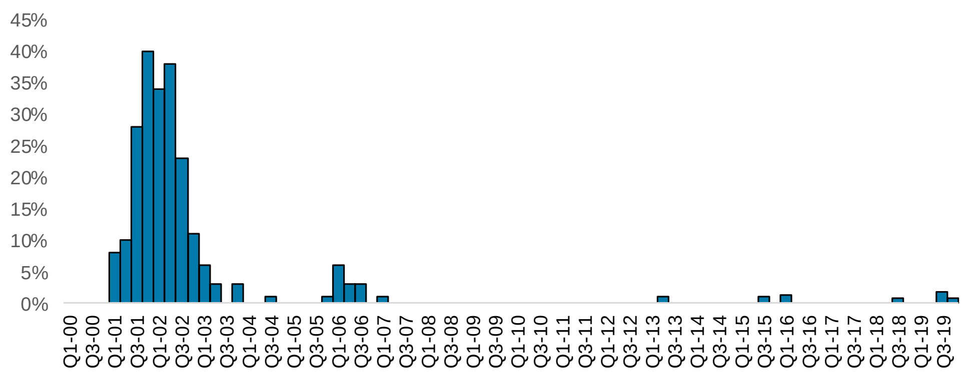
Exhibit: Large account: % of respondents indicating 10%+ price increases 2000-2019

Source: CIAB, Inside P&C



However, if we increase the threshold to the number of accounts with greater than 30% increases, the next "bucket" up from 10-30%, the picture changes. This current cycle has less truly "hard" pockets even than the post-Katrina bounce. For us, this gives a good quantitative illustration of where we are, and helps square commentary around a "transitioning" market but not a truly hard market.

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



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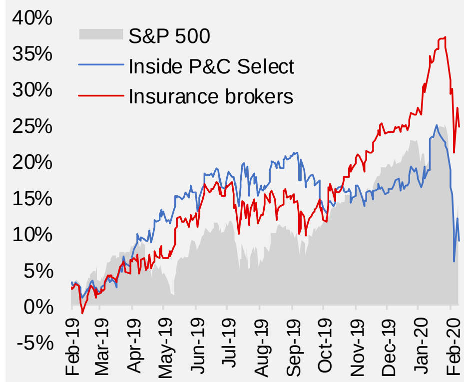
Composite	YTD px chg.	P/B
Large comm.	(10.7)%	1.0x
Regional	(8.1)%	1.6x
Specialty	(2.0)%	1.7x
Personal	1.3%	2.0x
Bermuda	(6.0)%	1.4x
Florida	(20.2)%	1.0x
Brokers	0.6%	-
IPC Select	(6.6)%	1.3x
S&P 500 Fin.	(13.0)%	-
S&P 500	(7.0)%	-

Day's best performer	**GLRE +6.8%**
Day's worst performer	**AFG -5.8%**

1YR Price Peformance

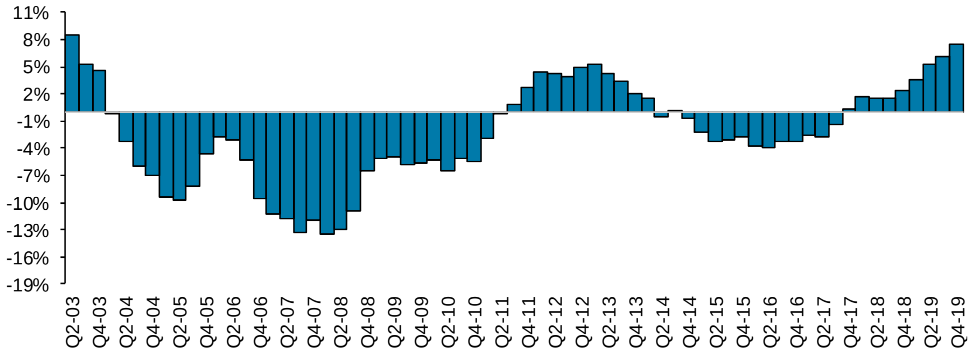


Hard market watch: CIAB Q4 edition

Last week, the CIAB released its Q4 rate figures. The headline results show a market that continues to harden "with respondents reporting rising premiums, stricter underwriting, and carriers denying to cover specific lines of business". Average premium increase across all account sizes was 7.5%, led by large and medium accounts at 9.4% and 8% respectively. Small accounts saw an increase of 5.2%.

Exhibit: CIAB commercial insurance pricing survey

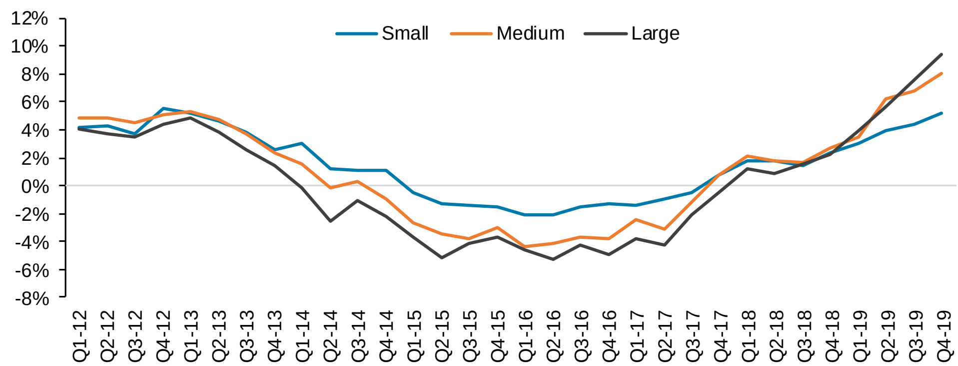
Source: CIAB, Inside P&C



By account size: The headline price increases were driven by large-sized accounts, which increased +9.4% during the period. Medium sized accounts were +8% and small accounts somewhat behind in line with prior quarters at +5.2%.

Exhibit: CIAB survey by account size

Source: CIAB, Inside P&C

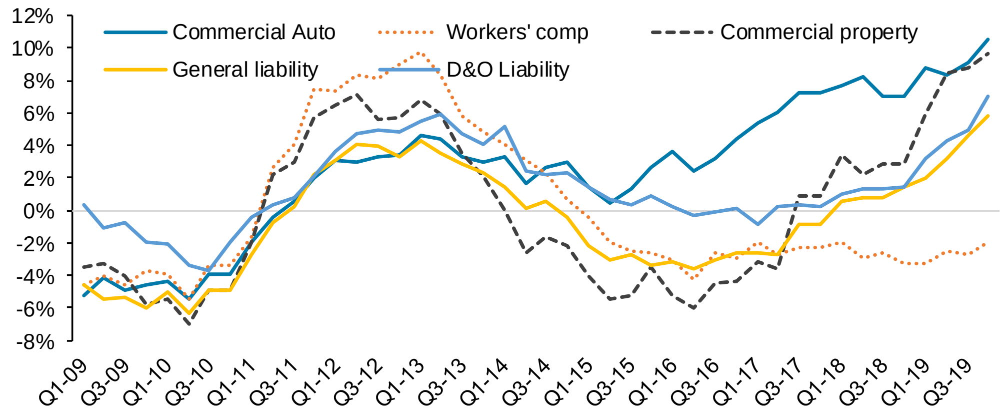


By Line: Among major lines of business, the most significant takeaway was the surging pricing of commercial auto which hit 10.5%, the highest since Q2:03.

The data also showed another spike in umbrella pricing which hit 13.6%, the highest since Q2:03. According to CIAB release, respondents indicated that the price increases in umbrella lines may be due to increased severity of claims that boosted demand for the umbrella products.

Exhibit: Rate changes by LoB

Source: CIAB, Inside P&C



Hard market watch, a more granular look

However, we think the CIAB methodology makes the survey headline numbers less interesting than they might appear. We do not mean to criticize, as there is always a trade-off between complexity of survey design and response rates, and we're glad to have the data. However, it is worth noting that ~90% of the responses are typically contained within 3 of the 13 possible survey responses (= between -10% down to +10% up).

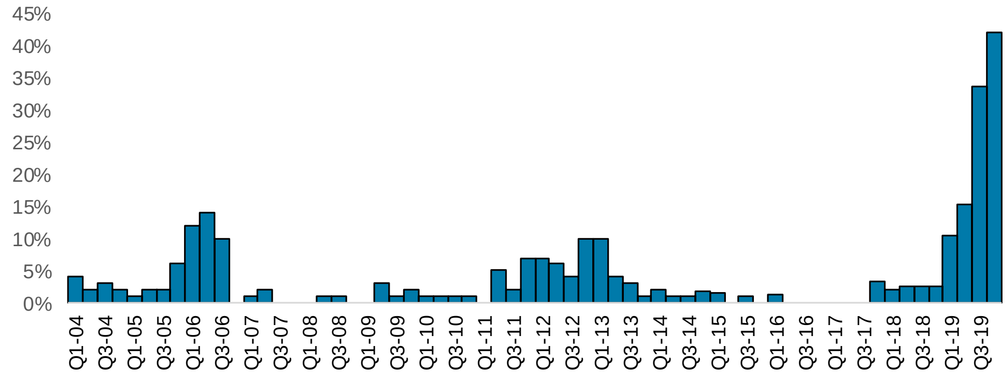
Our understanding of the survey is that the headline numbers are calculated by taking a weighted average of the percentage of respondents in each "bucket". The wide ranges around zero, where most of the data lie, can therefore make the data somewhat misleading. For example, if 100% of accounts renewed 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 very good at capturing small movements around normal levels, with the headline averages actually driven by the number of data migrating up or down a category. We therefore like to essentially exclude the "normal" buckets, and look only at the abnormal. In this hardening cycle, we look to how many of the respondents are indicating price increases of greater than 10%.

For us, this is a better indicator of roughly what percentage of the market is, give or take, in a "hard market". We think this is instructive in the current market. For example, ~42% of respondents indicated large account rises of more than 10% in Q4 – more than 3X the highest level at the peak of the last hardening cycle in 2011-2013 and the highest level since Q1:03.

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

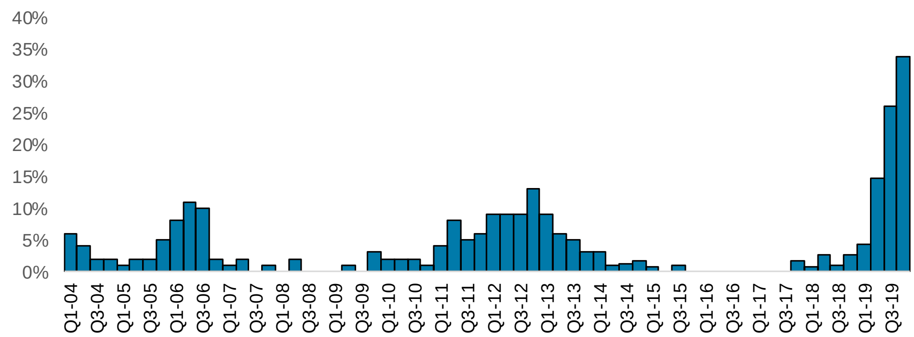
Source: CIAB, Inside P&C



Similarly, for medium sized accounts, 34% of respondents classified rates as up more than 10%, the highest since Q2:03 and almost 3X above the highest level in the last market tightening.

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

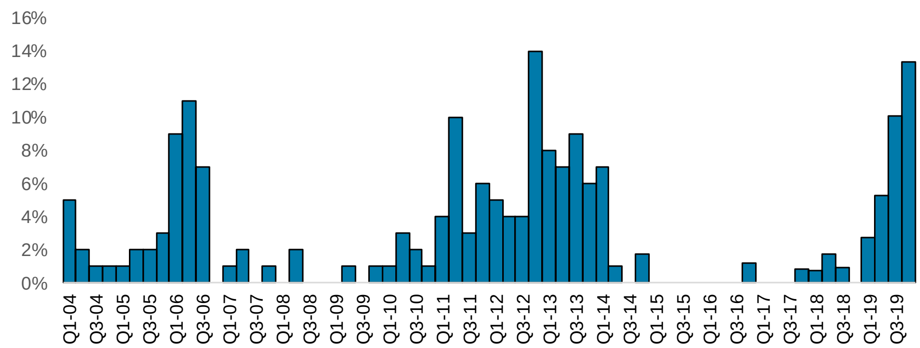
Source: CIAB, Inside P&C



Small account appears 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



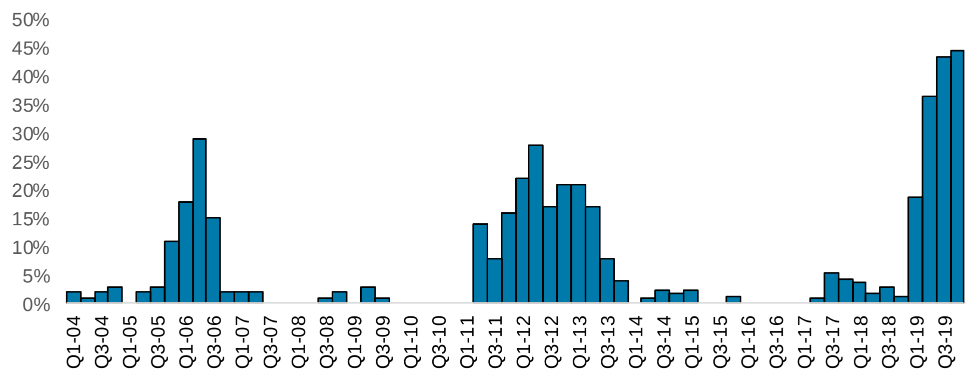
Commercial property remains hardest since early 2003

By line, commercial auto, commercial property, and general liability were stable relative to Q3, when they indicated the biggest percentage of disruption since the early 2000s. In commercial property, 45% of respondents are now indicating +10% moves or greater, the highest since 2003. In commercial property, the share of respondents indicated an increase in demand was 40%, slightly lower against Q3. Notably, across all accounts in the commercial property respondents noted a move towards deductibles for wind and hail.

"I wouldn't say demand has changed. The availability has changed in many coverage lines - Property, Auto, Umbrella/Excess and in some cases GL (Habitational)." - a respondent from a Northwest.

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

Source: CIAB, Inside P&C



Medical malpractice continues to show early signs of hardening

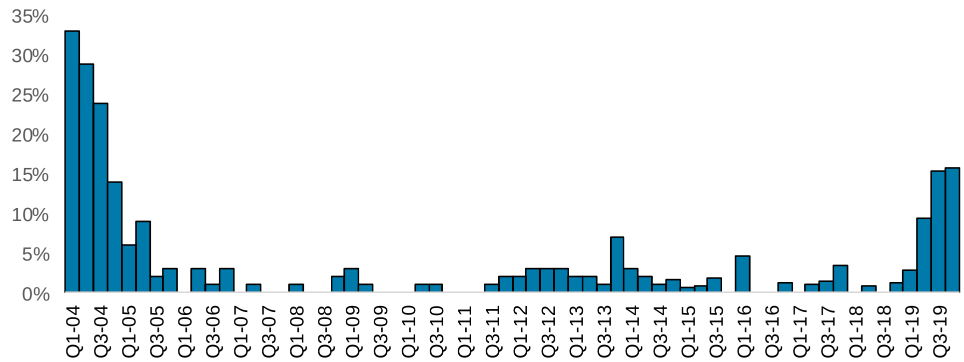
One interesting data point we continue to closely watch is medical malpractice where rates were up 3.6% versus 2.6% sequentially. However, the share of respondents indicating +10% increase remained unchanged at ~15% from Q3, when it had substantial increase from 9% in Q2.

Recall, one of the most significant new data points to emerge from 2019 disclosures was from specialty insurer ProAssurance, which outlined concerns over loss trends in healthcare professional liability. Throughout 2019 quarters, ProAssurance flagged "concern about the broad loss trends in healthcare professional liability", pointing to "the increasing number of large verdicts, increases in the demands of plaintiff attorneys and greater severity in underlying losses". This culminated in a large Q4 charge.

The company is a significant specialist player in the medical malpractice market, as #4 player with 5 percent market share. It writes a full spectrum of the health care professional liability market, including both healthcare professionals and entities (including hospitals), predominantly in the admitted market, though with some excess and surplus and self-insurance products. In short, the company has a wide lens on the market and broad view on trends. It is worth noting that 57 percent of the company's statutory premiums come from this line, making it laser-focused on the business as an existential issue and not just one minor sub-product among many. We continue to believe this remains something to watch going forward. Similarly, Swiss Re also highlighted problems in the line with its exit in Q2:19.

Exhibit: Medical malpractice: % of respondents indicating 10%+ price increases

Source: CIAB, Inside P&C



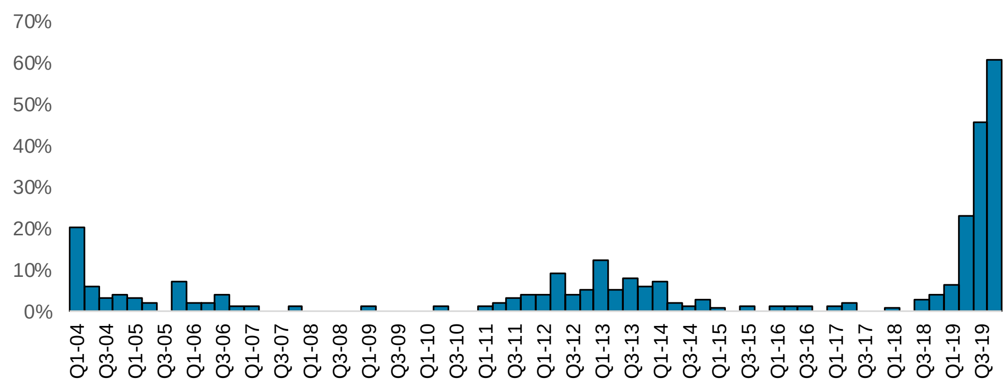
Umbrella: Auto losses drive highest rate increases since 2003

The number of respondents indicating umbrella +10% or more increased to 60.8% from 45.5% last quarter. This is the highest level since Q2:03.

"Umbrella is in a crisis mode," said one respondent from a Southeastern firm

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

Source: CIAB, Inside P&C

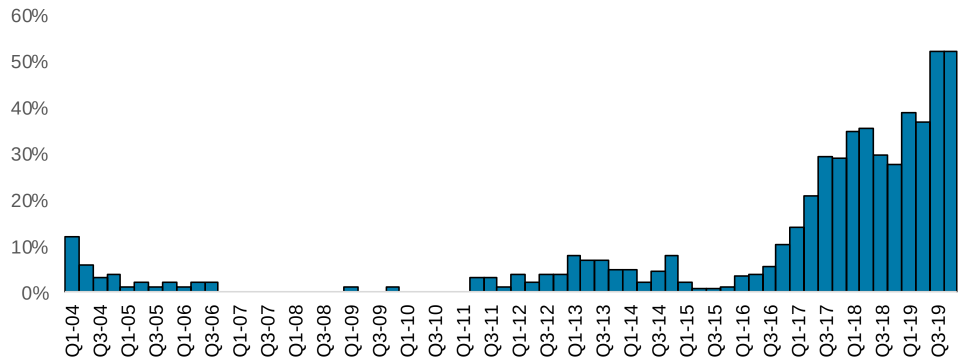


Commercial auto: still hard but flattish

In Q2 commercial auto pricing appeared to be stabilizing somewhat, with fewer respondents signifying rate increases over 10% versus Q1 with a general stabilization in trend since the start of Q1. However, this appears to be accelerating again, with 52% respondents indicating +10% or more increases, the same as last quarter which was a sequential increase of 15pts – the highest jump since Q2:02. Though this is probably exacerbated by an anomalous data point in Q2, the acceleration is worth watching given loss trends mentioned by leading players suggesting continued acceleration of BI severity in 2019.

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

Source: CIAB, Inside P&C



Hard market context: present period doesn't compare to balance sheet driven hard markets

The caveat here is that zooming out our charts to include the early 2000s would make the recent periods almost imperceptible, with 80-90% indicating +10% increases at its peak in 2001 following the 9/11 losses and late 1990s reserve development…versus 13-42% now, depending on account size.

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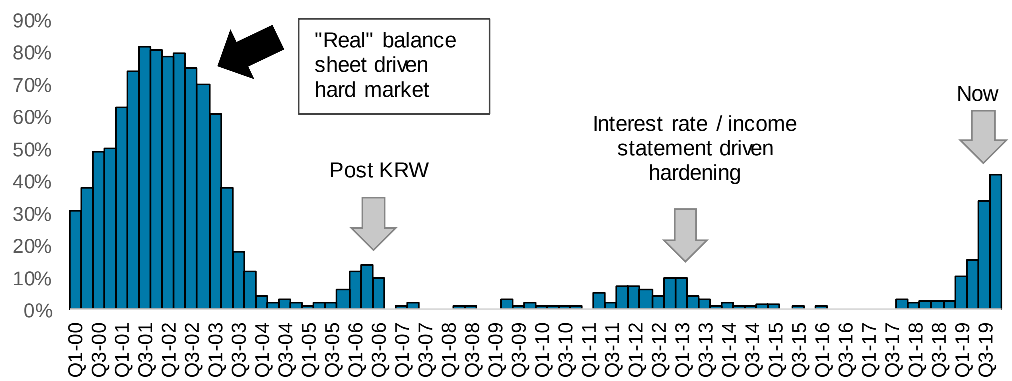

Another way of looking at this is number of accounts with greater than 30% increases, the next "bucket" up from 10-30%.

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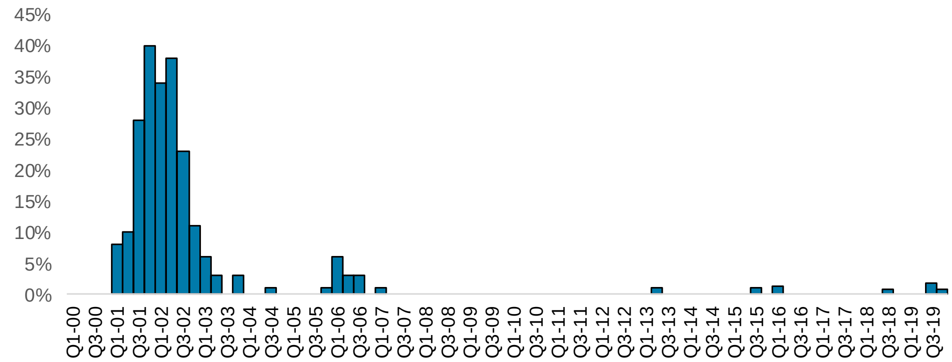

This is why long-term market participants confidently assert this is not a “hard market”. Fair enough. By a definition that includes across the board reduction in capacity and double digit pricing, driven by balance sheet weakness, clearly we are some way from that. But the data is indicative of a rational price correction, with significant rate increases in many segments. This may not be a classical definition of a hard market. But it looks like the most significant income-statement driven market move in close to two decades in some segments of the market outside of workers’ comp.

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

The content of this report includes opinions based on publicly disclosed financials and management commentary.