THE INSURER
Global risk capital intelligence

E&S enters "margin phase" after price hikes push past loss costs: Noonan

The Insurer *January 20, 2021*

Excess and surplus (E&S) lines pricing has exceeded the rising loss costs of recent years and the market has now entered "the margin phase", according to Core Specialty's executive chairman Ed Noonan.

Speaking during an Insurance Industry Fireside Chat hosted by the Diabetes Research Institute Foundation, Noonan predicted the current hard pricing dynamic, which he said was "the most extreme" of any (re)insurance sector, will play out at least through to the end of this year.

"I think 2021 is a hard market year," Noonan said.

"I don't know about 2022. I think rates will plateau at some point, and how long they stay on the plateau before they begin drifting down again, I don't know," he said.

The current pricing environment is "good", the executive said. "We're seeing rates broadly in the E&S market that are more than exceeding loss costs, and so we're past catch-up and now in the margin phase."

Noonan predicted this market state "will last a little while, but I wouldn't be so bold as to say that's three years, or five years".

"I think it's for the next couple of years," he stated.

"The hard market will last until we get a year or two under our belt of excess return"

Ed Noonan, executive chairman, Core Specialty

The dramatic pricing increases seen across the insurance market in recent years are due to what Noonan said was a "chronic underpricing of risk coupled with increasing loss costs" over the last five to six years.

This underpricing generated "unacceptable results", and companies responded by pulling back, he said, referring to both Lloyd's and AIG as specific examples.

Noonan said insurers are likely to see “continued bleeding”, although not on a life-threatening basis, in 2020’s results from underpriced business. Some companies will still suffer that pain in 2021, while Covid-19 will likely continue to cause issues for carriers and natural catastrophe events continue to take their toll, he said.

“The hard market will last until we get a year or two under our belt of excess return,” said Noonan.

Making broad statements across the entire sector is difficult though, as some classes of business are performing better than others. There are some classes “that are okay”, Noonan said, and pointed to workers’ compensation as a case in point.

“Rates have come down, but loss costs have come down faster, and now rates seem to be bottoming out and moving up again,” Noonan explained.

Market swings softening

AmWINS executive chairman Steve DeCarlo also participated in the discussion, and he said the current market environment reflects the soaring loss costs of recent years. Looking into the future, DeCarlo predicted that the industry’s greater understanding and use of data will make the swings between hard and soft markets less severe.

“We’re in a cycle that will not continue to get 20 percent on 20 percent on 20 percent rate increases, but I also don’t think the cycle will dip as drastically as it used to dip,” he said.

In light of the greater use of data, the market has become more disciplined, DeCarlo explained.

“There’s a discipline now to capital that is far superior than back in the day, and I think that will mitigate [the swings],” the executive said.

Also speaking on the panel was Andrew Robinson, the CEO of recently rebranded Skyward Specialty Insurance Group. While Robinson did not give a timeframe on how long he thinks the hard market will last, he said that “a lot more has to be made on the underwriting side” of the business with investment yields being as low as they are.

“[If] you take a dollar of premium and put it into corporate bonds at 122bps, it’s pretty hard to get an attractive return unless you’re pushing down your combined ratios,” Robinson noted.

“Inevitably”, Robinson said, much depends on whether 2021 is a heavy catastrophe year or not as to whether the industry can maintain the hard market.

While the Fireside Chat was hosted by, and raised money for, the Diabetes Research Institute Foundation, it was organised by Bill and Matt Fishlinger, the CEO and COO respectively, of specialty program-focused Gramercy Risk Management.

https://www.theinsurer.com/news/eands-enters-margin-phase-after-price-hikes-push-past-loss-costs-noonan/13638.article