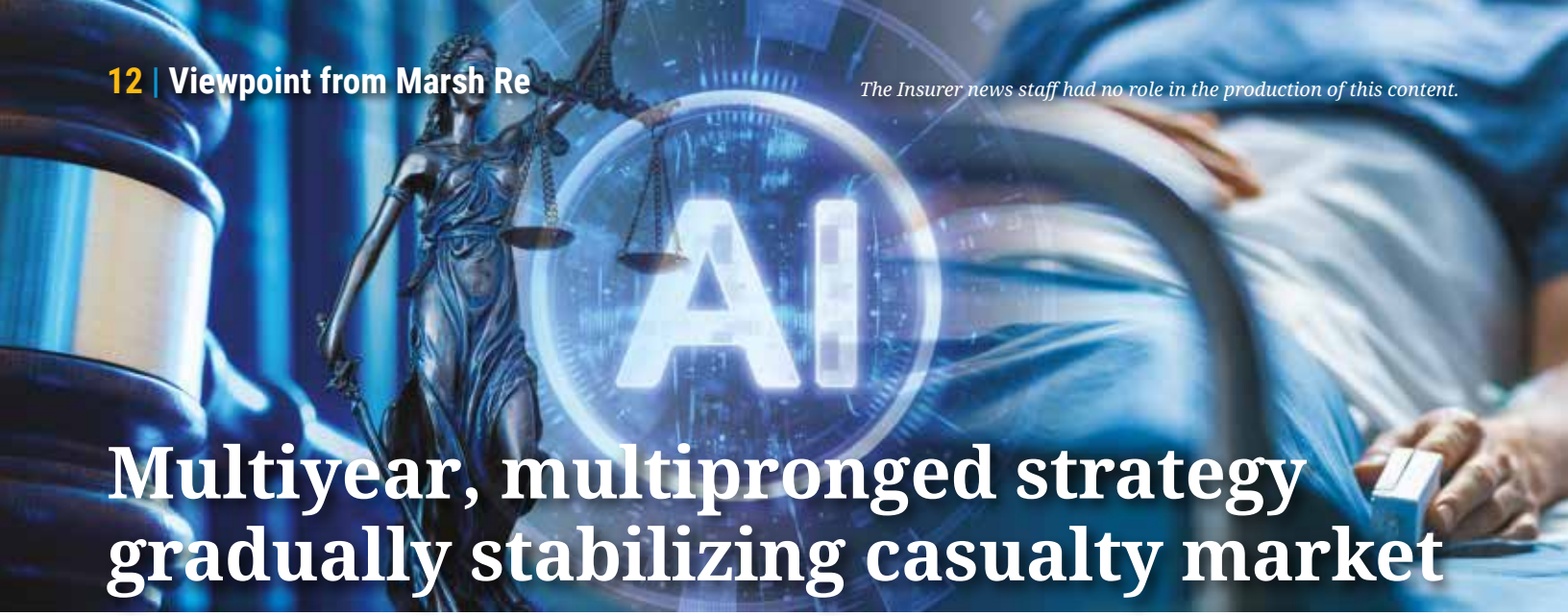
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Multiyear, multipronged strategy gradually stabilizing casualty market

Price increases, underwriting actions and legislative reform are creating a more sustainable foundation for the casualty insurance market, says Marsh Re's Chris Ross

At last year's APCIA conference, we wrote that casualty insurance was in a dynamic hard market. Loss severity continued to increase as an active plaintiff bar continued to utilize third parties to fund legal actions, both economic and medical inflation continued their upward trends, and social inflation continued to increase.

The insurance industry responded strongly over several years to stem these adverse trends: pricing increased, limits deployed reduced, coverage tightened, certain classes of business exited the admitted space and legislators became much more proactive in attempting to close legislative loopholes through litigation reform at the state level. We argued that carriers and reinsurers that took a measured approach to managing these risks were best positioned to take advantage of opportunities. We argued further that reinsurers should use client-specific assumptions grounded in individual company results and data to ensure reinsurance capacity remains efficient and capture those same opportunities.

What has changed since last year? The exposure landscape remains the same. Pricing continues to rise, especially for excess and umbrella, which has now increased 300%, and limit management remains paramount for carriers. The non-admitted market now accounts for nearly 50% of premium in high-hazard states. Coverage is not broadening and key exposures such as human trafficking, assault and battery are excluded. Plaintiff firms remain unwavering in their pursuit of increasingly higher awards. In short, navigating this risk landscape is just as complex today as it was 12 months ago.

Importantly, the reinsurance industry responded to our arguments on using client-specific data when pricing and supporting clients. Our broking and analytics teams worked hard with our clients to provide reinsurance partners with data that told the story of their portfolio evolution. Our clients work hard every day to execute their strategies, and we endeavor to ensure that hard work translates to differentiated capacity being offered by reinsurers at the appropriate price point. And for the most part, traditional reinsurers took all of that additional information into account when deciding how to allocate their own capital.

It is important to emphasize that the casualty market turnaround could not happen in one renewal cycle. A multiyear, multipronged strategy across underwriting, pricing, claims and legislative advocacy needed to occur and has occurred. Through those efforts, we now see green shoots emerging. The industry has made up the deficit of loss trend versus rate since 2015 — that said, while the gap is closed, pricing needs to remain on par with loss trend.

Importantly, since 2020, we believe that cumulative rate increases are 60 points higher than the cumulative loss trend over the same period, creating opportunities for reinsurers and capital providers to deploy new capacity from a position of rate adequacy, not deficiency. Underlying risks are being written in the market that best serves them with appropriate coverage, terms and conditions.

This has led to an increase in not just traditional reinsurance capacity but also alternative capital from the asset management industry. As we go into 2027, we will continue to see this segment evaluate and deploy capital in the casualty reinsurance market. Sidecar and whole-account transactions are now firmly a part of our strategy discussions with clients.

Innovation is a hallmark of success, and Marsh Re is developing new solutions to ensure we address clients' long-tail exposures with creativity, clarity of coverage and the capacity (whatever form that is) to execute their business plans with confidence.



Chris Ross, global casualty leader, Marsh Re