D&F rate hikes likely to reach into 2021

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(Re)insurers bullish on sustained price increases

Carriers in the direct and facultative (D&F) (re)insurance markets are optimistic that rate increases for D&F business will continue throughout next year and into 2021, as market hardening keeps pace with the re-underwriting of major cedants' property portfolios.

At a Monte Carlo press briefing, Hannover Re said it was seeing "significant rate increases" in property facultative reinsurance business.

Sven Althoff, member of Hannover Re's executive board for P&C reinsurance, noted that the carrier had seen rates that were "very often double-digit", and up to 25 percent or higher on property lines, depending on how catastrophe-exposed the business is.

"What we are seeing is a direct translation of Lloyd's reducing its capacity and a lot of the big global property writers consolidating or re-underwriting their portfolios, given their individual loss experience," Althoff said.

Althoff added that casualty facultative rates were "developing a little slower", with the notable exception of US commercial auto, where there have been "very significant rate increases for the last three years".

London market D&F writers canvassed by *Inside FAC* reported across-the-board increases for property business, with the expectation that increases would continue for the foreseeable future.

Conor Finn, head of property D&F at Qatar Insurance Company-owned Antares Managing Agency, said: "Open-market business is really picking up pace now, helped by the restriction in US capacity which is causing accounts to be significantly re-structured."

"We'll probably see rate rises throughout next year with (I suspect) rate increases slowing down slightly, but not reducing, the year after. However, terms and conditions will remain restricted for a good while as I think everyone now realises that weak underwriting is not sustainable," he added.

One property D&F underwriter told *Inside FAC* that retail brokers in the US were “educating their clients for a rate increase for 2020, which is the first time we’ve heard that for some time”.

“That’s on top of a rate increase this year and a rate increase last year. And even then they know they’re not out of the woods yet – it’s got to continue.”

Another London market D&F writer that *Inside FAC* spoke to said rate increases for open market property business were in the order of 20 percent this year, on top of another 20 percent in 2018, and with an expectation of a 7.5 percent increase next year across the book.

The source echoed the mood music from the US, adding that there was anecdotal evidence of rate increases of around 15-20 percent.

“The pulling back of AIG, FM [Global], AFM, Zurich etc is bringing way more non-tier-one business into the market, which is giving greater opportunities for Lloyd’s,” the first property D&F source told Inside FAC, adding that new business is also coming in from non-US territories.

“On Australia and New Zealand business we are seeing many more new submissions. And the rates that we are getting compared to the domestics are multiples.”

“The heavier cat business that tends to come up in the first half of the year has had rate increases the last two years and they’ll be seeing a rate increase next year. This is a 2021 players’ world, without a doubt.”

According to Antares’ Finn: “A gradual re-adjustment and a return to proper underwriting is what is really driving this market and will sustain it.”
“I feel that, as a market, we finally came to the realisation that we weren’t making anything like the return we should have been making so we’ve reset the dials.”

However, market sources noted that even with two or more years of successive rises, D&F rates are coming from a fairly low base, and still have some way to go before matching even 2012 levels.