Casualty Market Update

2018 – 2019 Outlook

Empower Results®

2018 largely continued the cycle of a strong and stable casualty market. Ample capacity remained on both the primary and excess casualty front, with healthy competition keeping rates steady. There were exceptions to this rule, mainly in the areas of Commercial Auto, where we continued to see single-digit to low double digit increases and California Wildfire Liability which saw significant reduction in capacity and rate increases as the market reacted to the 2017 wildfire losses. As the markets were quantifying the effects of the 2017 fires, 2018 brought the deadliest and most destructive wildfires on record in California, the effects of which still remain to be seen.

As we move into 2019 we are watching the market closely and proceeding with a cautious outlook as we are seeing signs of a potential shift. The London market is currently undergoing a syndicate review by Lloyd's, and several markets have recently announced reduced capacity for utilities, particularly those with California wildfire exposure. Apollo has announced they will no longer be writing accounts with any California exposure whatsoever and are reducing their capacity for utilities to $10M. We also recently learned that AmTrust Syndicate is exiting the market for the utility space altogether. We anticipate additional announcements from London may follow.

Aon continues to offer competitive solutions for our clients as demonstrated by the Aon Client Treaty. The Aon Client Treaty is an exclusive solution providing automatic 20% pre-secured Lloyd's co-insurance capacity for any Lloyd's order placed through the Aon's London Broking Centre. This capacity automatically follows the pricing, wording, terms and conditions of the lead London order. Currently, there is no Aon Client Treaty limitation specifically concerning wildfire in any state or territory. Capacity of up to $90M is available.

Bermuda markets have been distinctly impacted by the 2017 and 2018 back-to-back wildfire catastrophic years, as well as the 2018 gas explosions in Massachusetts. The negotiation of the reinsurance treaties was underway as California was still experiencing wildfires, which contributed to further scrutiny of the sustainability of offering capacity for those risks with California wildfire exposure. We anticipate continued restricted capacity for California wildfire, close underwriting of gas operations, and a push for increased rates in 2019.

In the U.S., the Mutual continue to support members in providing critical capacity. Liberty Mutual has recently advised they are non-renewing their follow-form AEGIS excess portfolio in 2019. While they were not a large player in this space, this capacity did help drive competition.

The overarching question is whether the catastrophic losses, both wildfire and non-wildfire related, over the past couple of years is turning the tide to a hardening of the casualty marketplace. Further questions surround whether certain exposures are increasingly becoming non-insurable, or insurable but not at a reasonable price point. We recommend early planning and a strategic approach as the market continues to find its footing.

Your Aon Global Power Casualty Team is engaged to assist clients navigate the market conditions, develop both short and long-term renewal strategies, and is actively creating new solutions to address these critical coverage areas.

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