insurance market conditions in the uk - 2022

ethos broking

Market Correction

The UK and global insurance markets have experienced a severe rate correction over the past three years after a long period of overly competitive pricing, which eventually became unsustainable.

Between 2015 and 2021, over 54% of listed insurers, responsible for over 52% of the global insurance market, made an overall financial loss relative to their cost of equity (McKinsey Global Insurance Report, February 2022). Insurer profit margins effectively disappeared due to historically low and volatile investment returns, attritional claims cost inflation and intense market competition. These losses increased rapidly, with record natural catastrophe claims in 2017 and 2018 and subsequent reinsurance price rises in 2019, exacerbated by the pandemic and economic slowdown in 2020 and 2021.

As a response to this lack of profitability, many insurers withdrew from the market entirely, consolidated their exposures or merged to reduce their cost base. Those that remained responded sharply by reducing capacity, narrowing their risk appetite and limiting their exposure. This created the hard market conditions experienced in the last three years, as competition almost disappeared for some insurance products and trade sectors. Reduced capacity resulted in increasing numbers of co-insured risks, which further limited competition and increased rating pressure, often indiscriminately across entire trade sectors and lines of business.

Strict portfolio reviews have also been undertaken, driven by a combination of reinsurance treaties, insurer management, the EU Solvency II directive and the Lloyd's of London Performance Review. This major remediation work is mostly complete as we enter 2022, but insurers continue to cleanse unprofitable risks or those in unattractive sectors from their account.

The few insurers that have continued to write new business or have recently entered the market to take advantage of higher rates, have done so very selectively and for strict underwriting profitability, rather than premium volume and market share. Underwriters remain highly selective about the risks they choose to write, how much capacity they choose to deploy and at what price. Underwriting authority has been reduced throughout the hardening market, with detailed underwriting rationales and increasing layers of referral required for pricing, cover and capacity decisions to be made by insurers. Along with remote working since the pandemic, this has significantly reduced insurer competition, responsiveness and coverage innovation.

Green Shoots

These remediation efforts have been mostly successful for insurers and for the first time since 2016, the market is now broadly returning to profitability. The Combined Operating Ratios (CORs) of leading insurers have improved consistently across the market by an average of nearly 10% (Reinsurance News, 2021), representing a major improvement in their overall underwriting performance.

Reinsurance rates only increased by an estimated 4.1% in the January 2022 renewal cycle (Hannover Re, February 2022), which is down from an average of 18.5% in 2021 (Fitch) and should begin to ease some of the cost pressures faced by insurers, along with operating cost savings during the pandemic as they transitioned to a more efficient and flexible workplace.

Although interest rates remain at record lows, stock market returns and bond yields for insurers are beginning to improve into 2022, potentially encouraging insurers to protect and grow their market share for future investment returns, instead of for the strict underwriting profitability required in recent years.

Competition is slowly beginning to emerge for some risks in the most attractive sectors and lines of business. There is finally some limited new capacity entering the market cautiously and selectively, encouraged by higher rates and not constrained by historic loss experience. In Q4 2021 and Q1 2022, we have seen more consistent green shoots, with new insurers looking to grow and some existing insurers slightly broadening their appetite and underwriting flexibility as they have returned to profitability.

2022 Expectations

As the market begins to stabilise, policyholders have reason to be optimistic over the longer term, though for 2022 itself, the consensus is that the market will continue to be challenging. Restricting rate increases to single digits should be achievable in some areas, but specific sectors and product lines will again see double-digit portfolio rate increases, notably the heavier Property and Casualty exposures.

Financial and Professional Lines continue to be problematic but are expected to experience relatively lower rate increases this year of around 50% on average, down from over 100% in 2021 (Insurance Insider, September 2021). The Cyber market is a clear exception and stands out as a particularly troubled product line, with expected average portfolio increases well in excess of 100% (Insurance Times, February 2022).

insurance market conditions in the uk - 2022

As a softening of underwriting approach starts to filter through to policyholders, the average rate increases across insurer portfolios should reduce, but it is important to note that this will not yet equate to consistent rate reductions for some time and only then for the most attractive sectors and for the most profitable and well-managed risks where there is enough competition to reduce pricing. Rates are still consistently increasing but in general terms, "the rate of increase is beginning to decelerate" (Fitch, December 2021).

This was evidenced by the data as in Q4 2021; UK rates still grew by 22%, driven by heavier Property risks and particularly Financial and Professional Lines. Crucially however, the rate of increase is reducing quarter on quarter from its peak in late 2020 of 44% and 35% in 2021 (Insurance Journal, February 2022).

Differentiating in a Diverging Market

Because of the new capacity selectively entering the market, risks are becoming increasingly divided into two tiers, dramatically separated between those in profitable sectors where there is a clear appetite for insurers to grow again and others where there is limited to no competition on pricing and restricted capacity.

For the very best risks, competing insurers are beginning to expand their appetites cautiously and pipeline opportunities to accelerate growth again (Deloitte, November 2021), whilst existing insurers are constraining their rate demands and improving their underwriting flexibility. We are once again achieving rewards for these clients' loyalty, including multi-year rate stability agreements, low claims rebates and risk management bursaries, as insurers look to protect them from competition.

As the market continues to diverge, it is crucial that brokers are able to create quality market presentations and differentiate their clients to underwriters by communicating a depth of knowledge of the risk exposures and providing detailed information on how these are mitigated by positive risk management features and planned improvements. It is also important to present detailed, accurate and user-friendly claims data, which represents a challenged and cleansed claims experience and includes supporting analysis of claims defensibility rates, cause trends and reserve settlement factors that can be used to negotiate improved terms and programme structures for risks with a frequency of claims.

Insurers are continuing to compete for risks that the broker has articulated clearly to be of high quality, proactively risk managed and which are historically profitable based on their claims experience. This competition is also containing the incumbent insurers' ability to force through severe premium rate increases where it is not warranted by claims performance or trade. Although we are still at the very peak of insurer pricing and remain in the depths of a hard market in which many clients are seeing substantial premium increases due to sector, claims, product line or risk management standards, the tide is now finally turning towards stability.

FINCH
part of ethos broking