

Claims Inflation

Reinsurance Costs Weigh on Insurance Pricing

COMMERCIAL INSURANCE companies are raising rates in most of their lines to account for increasing claims as well as the cost of claims, but another factor is forcing them to raise their rates further: reinsurance.

Reinsurance helps insurance companies pass on the cost of expensive claims by “ceding” – or paying – part of the premium to the reinsurer. In exchange, the reinsurer agrees to take part of the cost of claims or claims above a certain amount.

These global reinsurance giants have seen their claims payouts explode in the last few years and they continue to face a number of cost pressures.

PRESSURES FACING REINSURERS

- Increasingly large natural catastrophe claims payouts,
- Increasingly large jury awards in liability cases,
- Geopolitical uncertainty from the war in Ukraine,
- Liability payouts resulting from the COVID-19 pandemic,
- Skyrocketing inflation around the world, and
- Significant investment losses.

How reinsurers have responded

Raising rates – The above factors have forced reinsurers to increase what they charge insurance companies and these rate hikes are trickling down into the primary insurance market.

Property catastrophe reinsurance rates in the U.S. have risen by almost 15% in 2022 from the year prior, according to the Guy Carpenter U.S. Property Catastrophe Rate on Line Index. Another report found that reinsurance rates for liability insurance have also

been on the rise, averaging nearly 13% between 2020 and 2021.

Insurance CEOs polled by Moody’s Investor Service said reinsurance rates for property risks will increase between 7.5% and 10% at the Jan. 1, 2023 renewals.

Limiting capacity – Some reinsurers are pulling back and not taking on as much risk as they have in the past. They may limit exposure by capping the amount of policies or amount of coverage they are willing to underwrite.

Some have pulled out of underwriting policies for properties in high-risk areas.

Increasing attachment points – Many reinsurers are raising the attachment point for coverage, which is essentially like your insurance company raising your deductible.

That means the insurance company will be on the hook for a larger portion of claims costs. That in turn may prompt the insurer to raise its own rates.

What it means for you

When reinsurers raise rates and their attachment points, it trickles down to primary policies such as yours.

This compounds the effects that higher claims costs are already having on commercial policies.

There are signs that reinsurance rate hikes may accelerate in 2023. The insurance rating firm of A.M. Best Co. says reinsurance rates have been lagging behind increases in primary insurance rates since 2018 and are now catching up.

As a result, “the pace at which pricing continues to harden for property catastrophe exposures seems to be accelerating,” A.M. Best wrote in a recent report. ❖



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