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Commercial insurance rates set to continue rising in 2021

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Property/casualty insurance buyers, who have endured price hikes for more than a year in many cases, will likely see rate increases extending into 2021, with some lines continuing to see double-digit rate hikes, experts say.

The size of the increases could be blunted, however, as the hardening market draws new capital and insurers looking to take advantage of the rising tide.

A recent survey by brokerage Alera Group Inc., which included insurers, wholesalers and Alera's agent and broker affiliates, showed an average forecasted rate increase across all lines of 11.6% next year, with increases ranging from a high of 17.5% for medical malpractice insurance to a low of 4.7% for workers compensation.

The survey was conducted in the third quarter, said Mark Englert, national property and casualty leader at Alera in New York. He said the increases are driven by insurers' attempts to return lines to profitability.

"When you start to go by line of business, you can see why some lines are more aggressive in the request for rate," Mr. Englert said.

Workers comp, for example, has been profitable for insurers since 2012, and showed an underwriting profit from 2015 to 2019. By contrast, commercial auto was unprofitable from 2015 to 2019 and generated underwriting losses from 2012 through 2019.

In addition, low interest rates have restricted insurers' ability to make up for underwriting losses with investment income. "Investment income is challenged, so what you are seeing in the carrier community is a real need to drive strong underwriting results," Mr. Englert said.

Insurers' "books were not profitable," said Renee Dube, vice president, national property and casualty practice, in Valhalla, New York, for USI Insurance Services LLC.

In its recently published outlook for the commercial property/casualty market for the fourth quarter of this year and the first half of 2021, USI forecasts that at one end of the pricing spectrum workers comp could rise up to 5%, while at the other end public company directors and officers insurance liability rates may see increases of up to 100%.

The hard market "will probably last for some time," said J. Paul Newsome Jr., Chicago-based managing director at investment brokerage Piper Sandler Cos.

Mr. Newsome noted, however, that higher rates and premiums are attracting fresh capital, which could help slow rate increases. "Private equity has been quick to try to build new companies, and this might reduce the length of the hard market," he said.

"Challenging conditions continue to exist across most coverage lines in the U.S., but especially in the umbrella/excess casualty and directors and officers liability market," said Christopher Lang, global placement leader, U.S. and Canada, for Marsh LLC in New York, in a statement emailed to *Business Insurance*. "We expect these conditions to persist into 2021."

Next year should see "persistent rate increases and solid core underwriting margin expansion for most commercial, especially specialty, insurance lines and for reinsurance," according to a Dec. 18 report from Meyer Shields, Baltimore-based managing director at Keefe, Bruyette & Woods Inc.

"Heightened property and casualty loss cost inflation, pressured investment yields, and rising reinsurance costs should support enduring rate increases for most commercial lines," he said in the report.