Liability Market Rating Trajectory Post Onset of COVID-19

In the past couple of years, economies have witnessed unprecedented times because of COVID-19 pandemic. Most insurance policymakers and insurers weren't certain about how to respond. With the increasing number of litigations, large court verdicts, cyber-attacks, frauds, costly and frequent recalls, etc., the liability insurance market has seen one of the steepest premium rises in its history across the globe. The Indian market was no different, and hardening of rates, owing to these factors, was observed across portfolios during the financial year 2020-2021 with price corrections and higher retentions.

With cyber risk exposures heightened during COVID-19, reports of ransomware and business email compromise have increased. Work from home arrangements exacerbated these developments. As a result, cyber insurance costs for protection against such eventualities increased. Clients witnessed rate on line increase as high as 50-80% during the past two renewal cycles. The numbers were significantly higher for businesses notifying claims under expiring policies. During this period, it was also observed that some insurers ceased underwriting these policies due to large losses being reported, which in turn led to the burning of books. This trend was also witnessed in the crime risk offerings due to claims being reported as a result of social engineering frauds, vendor frauds, and increase in robbery, theft, and vandalism during these times. In addition, the insurers did a price correction exercise which was observed amongst all prominent players in the market. Premium increase of 30-45% and coverage restrictions were observed in most placements for mid- and large-sized clients. Similar hardening of rates, capacities, and coverages was observed in other liability insurance policies such as directors & officers, professional indemnity, and commercial general liability.

However, now that the first half of the fiscal year 2022 is over, a new trend is on the rise for the last few months. The following tendencies were observed among the clients whose policies were renewed/placed in the previous quarters.

- → Directors & Officers rates for policies with no claims decreased by 8-14%. Existing insurers have demonstrated a strong interest in maintaining their current portfolios by providing alluring coverages and renewal rates
- → Commercial general liability premiums have been declining at a rate of 7-8% for claim free policies. More discussions on increase in recall/ product guarantee and financial loss capacities are also being observed. However, insurers are hesitant to write risks involving electric vehicles, batteries, critical components, since it has been a challenging sector as a result of the heavy losses
- → Professional indemnity rates continue to witness flat growth on claim-free accounts. Reduction, as low as 10%, is being observed in claim-free accounts. A lot of aggression is being observed in project-specific long-term policies
- → Cyber rates, if not reduced, have begun to show some stability. In some cases, we have also seen rate decline by around 4-5%. However, the insurers continue to demand complete visibility on cyber vulnerabilities, IT security measures, and company readiness before quoting proposals
- → Crime book correction continues to be observed, and unlike other policies, we can observe steady increments in some large and medium size renewals. Also, only a few markets are now quoting on standalone crime policies. However, clients who have shared effective submissions to the insurers have been able to achieve the desired rates vis-à-vis expiring rates

Carriers have specially shown keen interest on new proposals and are competing aggressively on both coverages and pricing. Incumbent insurers are eager to protect their existing portfolios and are being well prepared to offer competitive renewal rates.

Even though it is too early to predict whether insurers will eventually return to the low price of the previous soft markets, we can expect that this tendency will continue to be seen at least for the foreseeable future, given that economies are aiming for post-pandemic recovery. We can only conclude that this is the perfect opportunity to assess coverage options and revisit the limits that should be purchased.

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