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Strong Balance Sheets Expected to Result in Less Chaotic Reinsurance Renewals

For Big I N.H. CEO Panel Extreme Weather Is a Growing Concern

PORTSMOUTH, N.H. — As the frequency and severity of natural catastrophes and extreme weather events increase, climate risks are driving up insurance rates and, in some cases, leading insurers to withdraw from high-risk markets. A panel of CEOs discussed the role of the increasingly volatile climate on their companies and its effect on reinsurance renewals at the Big I New Hampshire's annual convention.

Matt McHatten, president and CEO, MMG Insurance, acknowledged that it is "definitely a very volatile time," noting that between December 2022 and December 2023, MMG experienced three of its top 10 costliest storms of the last 25 years. Despite warmer ocean temperatures and more precipitation and wind, McHatten said insurers' role is still to take on risk. "That's our business," he said. "For us as a company, we're going to help our policyholders and our agents figure out how to make properties more resilient for what is a new norm of volatility and continue to make sure that we're properly reinsured and well diversified with our risks across multiple states and products. We have to deal with the new reality and what it means to evolve our business model accordingly."

(Left to right) Leo Paquin, Big I N.H. state national director, R. Benedikt Sander, president and CEO, Preferred Mutual Insurance Company, Lincoln Merrill, president and CEO, Patriot Insurance Company, and Matt McHatten, president and CEO, MMG Insurance, at the Big I N.H. annual convention.

Historically, in northern New England the biggest natural Cats used to be winter storms, but that is not necessarily the case anymore, according to Lincoln Merrill, president and CEO, Patriot Insurance Company. Secondary peril events have turned into primary concerns for carriers. "Twenty-five years ago, who would have said they needed to worry about rain and wind causing the amount of damage they have had over the last few years? Some of the biggest storms have happened in the month of October when the ground is totally saturated, and as the wind blows, trees that look really nice around your home are now actually on top of your home," he said.

Merrill agreed with McHatten that carriers need to work with insureds and agents to find ways to become more resilient. While he noted that there is work to do, some insureds are better prepared for weather events today

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(Left to right) Former N.H. Insurance Commissioners Chris Nicolopoulos and Roger Sevigny joined current Insurance Commissioner DJ Bettencourt at the Big I N.H. annual convention.

than 25 years ago. "In the late 1990s, almost no one had generators, and that's changed. People realize that power loss is a serious problem, and it causes a lot of other damage that may or may not be covered under their insurance policy. We've been adapting over time, but I think what we're going to have to do now is adapt more quickly."

The 2024 Atlantic hurricane season officially ends on Nov. 30. Since it began on June 1, there have been 10 hurricanes, four of which strengthened to major hurricanes. However, hurricanes are not the only threat. "The number of extremely hot or extremely cold days — both extremes — are going up. Wildfires are not just in California, Arizona and Colorado, but in places like Quebec, which made the summer hazy a couple of years ago," said R. Benedikt Sander, president and CEO, Preferred Mutual Insurance Company.

These factors are going to continue to put pressure on the insurance market in the next two years, noted Sander. He expects "reinsurers to draw a straight line that goes right into high property costs."

"I think we have our work cut out for us to make sure we continue to offer a product that's both covering what the consumers need covered and has terms and conditions that make sense for the agents, the carriers and the reinsurers in the end," he said.

Leo Paquin, Big I N.H. state national director, who served as moderator for the panel, asked if recent hurricane activity would change pricing in the Northeast or if additional requirements for homeowners were on the horizon.

The panelists agreed that any homeowner requirements will take place in the longer term as it will take time to ready homes as well as to think about how and where to rebuild over time.

The reinsurance market experienced a sharp decline in 2022, but it has since rebounded to nearly $700 billion.

"That, in itself, was probably enough to give us a little bit of relief," at the Jan. 1, 2025 renewals, according to McHatten. Coupled with "increases in retentions on our balance sheets, I don't think the market will be in the disarray that we saw at the Jan. 1, 2023 renewals, but [recent hurricanes] are going to have an impact."

The market, itself, is strong as are the balance sheets of many insurers due to careful stewardship. "We can sustain and withstand this, but stability may come out of the market if another storm comes around," said McHatten.

"I don't think there are any companies out there that won't tell you that they now are retaining a lot more risk than they previously did, and they're paying a lot more for the coverages they're buying," said Merrill. "To contain the prices that the reinsurers have requested on property insurance, we've pretty much chosen to take a higher self-insured."

Rather than see the market softening, Merrill expects it to be similar to what it has been this year. "I really don't see a lot of change taking place." While noting that that may not be the news agents want to hear, Merrill explained that many primary carrier underwriting guidelines are driven by the programs reinsurers put in place. "You might look at a carrier and ask why they did something. It's because someone laid out a reinsurance treaty that said you need to control this aspect of your book of business. I don't anticipate that all of a sudden there will be a loosening of conditions or all sorts of extra capacity available."

One question Sander has is whether Cat modelers will reevaluate their models. If they think hurricane activity is going to increase, then there is "going to be another round of tightening and rate increases in the reinsurance market, which goes from them to us [carriers] to the agents and to the policyholders. Fingers crossed that nothing will happen that's big enough to recalibrate."

Agents Frustrated By Premium Audits

One topic posed to the panelists from the Big I N.H. membership was how frustrating audits have become. An agent noted that carriers have created portals to make the process easier on their end, but agents are feeling burdened by having to gather the data and complete the business without being offered extra commissions. Some small-business clients are having a hard time with the audits — some of which result in significant penalties or lead to policy cancellation.

Panelists explained that premium audits serve an important function. "It's easy to look at the audit process as being difficult, complicated or confusing, and say it doesn't have any value. But the fact of the matter is commercial lines carriers issue policies where the premium is based on sales or payroll, and they can fluctuate from year to year. In order to make sure the customer is not undercharged or overcharged, it's important to know what the actual exposure was and to settle that up," said Merrill.

He added that agents should not expect that once a sale is made, they won't have anything to do past that. "We consider the audit process — if involvement is necessary — to be part of their responsibility."

Merrill noted that most agents who contact Patriot Insurance about a premium audit want to be involved because they want it to be done correctly without misclassifications.

Patriot Insurance audits standalone casualty policies every other year. They have found that in the off years, if they ask customers to voluntarily audit themselves, more than one-quarter (27%) do not respond. "We try multiple times to get the customer to respond, either electronically or by talking to us on the phone. If all else fails, that's when we either issue that additional premium, which sometimes encourages them to respond, or reach out to the agent for assistance."

When it was suggested that perhaps agents could provide payroll information at the time of renewal, Merrill was skeptical. "If 27% of people do not respond, I'm pretty sure it's because their payroll and sales are more than they've disclosed on their policy for the premium calculation; otherwise, they'd be happy to tell you and get a check back."

Although Preferred Mutual does not currently have many premium audits, Sander expects more in the future and agreed that they are critical. "We need to get the accurate exposures, otherwise insurance pricing hangs in thin air." However, Sander is open to hearing from agents to make the process as efficient as possible.

There are times when premium audits turn up information that carriers really need to know, but McHatten agreed that the process needs to be easier.

"We're talking about the transactional friction that exists between the company, the agent and the policyholder. At times, the quality of the information is subject to debate because people just don't know. So, we've got to figure out ways to reduce that friction back and forth and find different sources to verify information," said McHatten. ■

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