

A mixed bag

Some rates crept up in July, but prices fell for the vast majority of business lines.

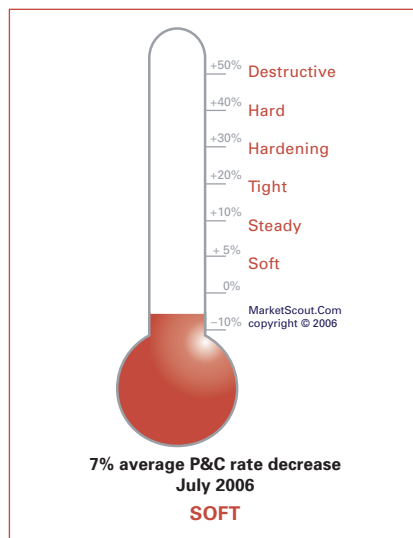
There is a perception among some industry observers that primary property/casualty insurance rates are falling everywhere but the US, thanks to last year's heavy hurricane season. A glance at MarketScout's market barometer for the month of July, however, will dispel that myth.

On average, US property/casualty rates fell 7% in July, the same amount as for the previous month, but worse than the 6% fall recorded at the beginning of 2006. This trend seems to suggest that rates will get even softer by the end of the year.

Of the 13 business lines covered by MarketScout, seven experienced softening and three were flat. Only three showed any signs of hardening, and any increases were small.

The lines that suffered the biggest reductions were umbrella/excess liability, with an 8% drop, workers' compensation, with a 7% drop, and general liability, also with a 7% drop. Liability lines were not greatly affected by hurricanes Katrina, Rita and Wilma, and there have been no big liability losses recently. This means there is no great pressure on insurers to increase rates in these lines.

But not all liability lines are equal. Some lines experienced far smaller decreases and some were even flat. These include employment practices liability, which only fell by 1%, directors' and officers' liability (D&O), which was flat, and fiduciary liability, also flat.



July rate changes by coverage class

Commercial property	Up 2%
Business income	Up 1%
Inland marine	Down 2%
General liability	Down 7%
Umbrella/excess	Down 8%
Commercial auto	Down 3%
Workers' compensation	Down 7%
Professional liability	Down 4%
D&O liability	Flat
Employment practices	Down 1%
Fiduciary	Flat
Crime	Up 1%
Surety	Flat

Unlike some liability lines, these areas have been hit by big losses in recent years. D&O writers, for example, have had to cope with the various corporate scandals, such as those that hit Enron and Worldcom. With continuing regulatory investigations in many industries, particularly insurance and financial services, they could be set to pay out more. The recent stock options backdating furor, for example, could cost some D&O insurers a lot if there are hefty class action lawsuits filed against firms.

As would be expected, any increases are reserved for lines that were hit hard by the 2005 and 2004 hurricane season. Commercial property rates were up 2% in July, and business income was up 1%. Hurricanes' destructive effects, coupled with the resulting loss of income from business closures, is the likely reason for the increases here. Crime insurance is also up 1%. This particular line probably also was hit by heavy claims, as there was looting after Hurricane Katrina.

There are strong signs that US property/casualty is a buyer's market, and the more you buy, the less you pay. The biggest rate cuts came on jumbo-sized accounts – defined by MarketScout as those bigger than \$1 million – and large accounts – those between \$250,000 and \$1 million. Rates fell by 9% in both these categories in July. Rates for medium accounts (from \$25,001 to \$250,000) and small accounts (up to \$25,000) experienced rate cuts of 8% and 7% respectively. ■