

A quick turnaround

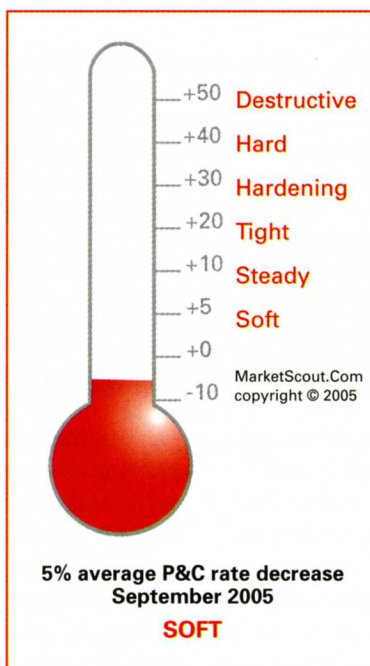
Hurricanes Katrina and Rita have pushed up rates for coastal property classes and marine and energy business. But elsewhere the softening continues as carriers compete for business not exposed to natural catastrophes.

Hurricane Katrina has stamped out any signs of softening in the lines of business it has affected. Heavy losses have forced underwriters to reassess prices for risks based on or near the coast. Many insurers have pushed their up rates considerably and some may attempt to withdraw from the market completely.

Katrina brought an abrupt end to price reductions in the coastal property market. According to data from property/casualty insurance exchange MarketScout, commercial and homeowners' policies coming up for renewal after Katrina made landfall saw immediate increases.

"Prices in coastal property turned almost on a dime after the two hurricanes hit," says Richard Kerr, chief executive of MarketScout. "They will continue to go up for the next three to four months."

The marine and energy market saw an equally forceful about-face. "Hurricane Katrina's impact is immediate, it is hard, and it is going to be brutal," says Kerr, describing how this year's Atlantic hurricane season has affected the offshore energy market. Marine and energy losses are expected to add between



\$4 billion and \$6 billion to the total industry loss from Hurricane Katrina.

Not all lines have hardened, however. There continues to be softening in general liability, workers' compensation, and umbrella and excess insurance. General liability rates fell 9% on average in September because of the abundance of capacity in the market. Kerr says insurers are targeting general liability business more aggressively.

Workers' compensation rates have fallen 6% on average because tort reform in states such as California, Texas and Illinois is enabling carriers to make up for years of inadequate rates and encouraging smaller players back

into the market.

Rates in the umbrella and excess liability market have fallen 12%. Kerr is surprised by the size of this reduction. He says the business is attractive to insurers because it has high attachment points and underwriters have had good loss experiences in this line. "This cover kicks in after \$1 million, but the action is down in the first million," he says.

But Kerr believes that even rates in these lines could be affected by Hurricane Katrina. He says

insurers may try to raise prices in these areas if they are unable to get the rate increases they want in the more volatile classes. "If carriers can only get a 30% rise on property the whole market could turn," he says. "They may try and raise the price of general liability 5% just for good measure because they lost so much money on the property side."

Kerr adds that carriers who are tempted to do this may be unsuccessful because companies without heavy losses from Katrina will price their business more competitively. "The market sets the price. If one company raises its prices because it had losses from the hurricanes, it won't work. The companies that were not affected at all by the hurricanes will not follow," says Kerr.

Umbrella and excess liability
Allison Firth, senior vice-president and director of the central region in the umbrella/excess division at broker Aon Risk Services' Illinois office

I believe the 12% average reduction is because the rate increases we have seen in the past few years have finally taken hold and losses have not been as prominent as before. That gives insurance carriers a lot more opportunity to rebuild their balance sheets.

Another reason for the softening is there is ample capacity available, which obviously drives premium reduction. But those accounts that have been loss driven are not going to be receiving such steep reductions. Each client and each line is looked at very specifically when it approaches the marketplace for quotation.

Problem areas include tough chemical risks, pharmaceutical lines and medical products. Those exposures are not seeing 12% reductions unless the insured is taking higher retentions or attachment points, or unless they are getting out of specific product lines.

If, for example, a medical product company was making heart valves and they have decided to stop producing them, it would be viewed favorably by their underwriter.

Umbrella and excess liability is an exposure-driven business. The softening has been happening gradually over the past year and I don't see that changing soon. But it will be interesting to see how Hurricanes Katrina and Rita play upon the third-party exposures insured on an umbrella and excess liability placement. If it is determined that losses to a third party develop as Katrina claims flood in, the complexion of how umbrella and excess liability insurance is rated going forward may change.

Workers' compensation
Steve Novak, vice-president of retail broker Palmer & Cay

Workers' compensation is down around 6% on average because a number of states have introduced reforms that have benefited carriers' loss experiences. A lot of the pricing pressure is coming from California, where we are seeing rates drop 25% to 30%. Texas had some reforms that are accounting for some of the softening, too. Illinois and Florida have also had some meaningful reforms, the effects of which should last several years.

And Minnesota is trying to enact additional reforms to control the medical component of claims, which is putting downward pressure on rates. These developments have made carriers more comfortable about writing business in certain jurisdictions. Interest rates are also firming up, which is helping.

The reduction in claims frequency is also contributing to the softening of workers' compensation prices – although this trend has been somewhat uneven, depending on the size of the claim. For the past 12 to 14 years the continuing drop in frequency has been masking issues such as medical inflation and the increase in medical severity. These issues are still putting upward pressure on rates in some states.

I don't believe the 6% reduction is because of the additional capacity from new entrants at this point. Capacity has increased in California and in other jurisdictions across the country. But I don't think there are that many new workers' comp carriers trying to lead the market down.

If you a carrier that has been underwriting more carefully, you are going to have an enhanced ability to be more competitive on workers' compensation. But if your company has a class of business with favorable loss history you are going to have some competition for your business.

Saying that, there will be tremendous upward pressure on rates if the Terrorism Risk Insurance Act is allowed to expire at the end of the year. Cedants will be uncertain about how their reinsurers will react and will err on the side of caution. ■

About MarketScout

MarketScout is an online insurance exchange for property and casualty business. More than 50,000 agents in the US use the exchange to place commercial retail risks. It sources markets where business can be placed and helps connect them with relevant industry expertise. By analyzing the business placed through the exchange, MarketScout is able to build up a picture of whether rates are increasing or decreasing across different lines of business.