

UNDERWRITERS RULE

6 **'Rational' Market Prevails On P-C Pricing**

Despite record hurricane losses, many insureds still see premiums on the decline

YOU WOULD THINK that over \$50 billion of catastrophe losses in a single year—the vast majority over the past four months—would be enough to prompt insurers to do a quick U-turn and send prices soaring across the board to compensate. But that has not been the case, as the industry continues its recent commitment to a more “rational” market.

We first identified this trend based on the “2005 NU State Of The Market Survey” last spring, which found while the hard market might have ended, a knee-jerk soft market had not taken its place.

Our survey of risk managers and independent agents revealed that the market had stabilized for bigger buyers, with many—but not all—reporting significant price cuts in property and casualty lines.

However, the market was anything but soft for smaller and midsize accounts, as agents reported a much higher percentage of clients seeing prices rise, and rate hikes far steeper on average than for bigger buyers. One possible conclusion was that for underwriters, loss history and location still carries



► **DESPITE THREE MASSIVE HURRICANES**, prices remain competitive for a large number of buyers and lines of business.

a lot of weight, while sound risk management and an appetite for higher retentions also makes a big difference in pricing.

There is evidence of a broader shift coming in rates. Last week we reported that in the London market, the mood on Lime Street had brightened considerably from before Hurricane Katrina hit in late August, when Lloyd's and British carriers expected steep price and capacity cuts. After Katrina, cautious capital began reentering, hoping to cash in on anticipated premium increases. Billions of dollars in capital also poured into Bermuda this fall, as new reinsurers were launched.

However, new capital might undermine any major pricing turnaround, and the market overall is still considered “soft” by historical standards, according to MarketScout.com, the Dallas-based electronic insurance exchange.

Still, while the firm's monthly “Market Barometer” found that for November, property-casualty rates in general were off 4 percent (compared to an average 2 percent gain a year earlier), a rational market still rules. The commercial property mar-

ket hammered by the hurricanes saw rates up an average of 5 percent, while business income premiums rose 6 percent and directors and officers liability rates were up by 2 percent.

The energy sector, also hit hard by the Gulf hurricanes, saw rates soar 11 percent, with more modest increases reported by transportation and public entity risks, both of which cited 3 percent boosts.

The point is that it has become extremely difficult to generalize about the present status, let alone the short- or long-term future pricing direction of the p-c market. That's because insurers are not blindly stampeding one way or the other in a herd mentality.

Individual risks are being underwritten carefully according to line of business, loss experience, location and other particular circumstances, which is exactly the way a rational market is supposed to function.

Unless a booming stock market begins to drive cash-flow underwriting again, look for carriers to keep pushing to write insurance for a profit, and to cut prices only grudgingly for those who earn it. ■

MARKET BAROMETER

Rational Prices Still The Rule Rather Than The Exception For Buyers

While overall, the p-c market saw rates fall 4 percent last month, property premiums were up 5 percent, and other lines saw hikes as well.

