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The current commercial insurance market summary and forecast for the second half of 2010

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As we enter the second half of 2010, the commercial insurance market's downward tumble continues the trend of the past several years. Now in its seventh year, there are few signs that the current soft pricing cycle is near its end.

Insurance industry capacity is abundant throughout the worldwide commercial insurance market. The global recession has reduced the demand for that capacity. Sales and payrolls are down considerably. Construction projects are nonexistent. This abundant capacity together with diminished demand keeps downward pressure on rates.

In spite of the lower rate levels, insurers have posted good results the first quarter of 2010 reporting after tax income of $11.5 billion compared to a net loss of $.9 billion for the first quarter of 2009. This improvement was largely the result of $2.9 billion in realized capital gains for the first quarter compared with $7.9 billion in capital losses for the same period in 2009.

Weak growth, reduced losses, excess capacity, the sustained competitive market, and alternative risk transfer mechanisms has resulted in the industries net premiums falling 1.2% through the first quarter 2010.

Improved underwriting and investment results have increased the property casualty insurance industries policyholder surplus up 24.4% or $545.5 billion for the 12 months ending end of first quarter 2010.

On specific lines of insurance:

* Property- Rates are down average of 4.2%, which are expected to continue through 2010. Limits and deductible remain steady. Property coverage remains steady with broad coverage available for most policyholders. Property losses from northeast and Tennessee floods and Chilean earthquake as well as European storms have resulted in a net increase in property losses industry wide. Property rates are expected to reduce 5% to 20% for most mid to large accounts the second half of 2010.

* Casualty- Rate decreases remain in the low single digits with limits remaining static. Coverage enhancements are available except for emerging new risks. Capacity remains very strong. Attractive risks should continue to have flat to low single digit decreases for the remainder of 2010. The exception will be those with unfavorable loss experience or dramatic exposure reductions.

* Directors & officers- insurance rates are, on average, down 15.7%. Capacity has increased slightly. Frequency and severity of losses in Federal Securities Class Actions are expected to decrease.

This year, a new, emerging area of businesses insurance portfolio will be cyber insurance. This new coverage may take its place alongside businesses core property and casualty package. Current standard property casualty policies exclude most cyber risks. Data privacy concerns, executive risk exposures will create fines and penalties if precautions are not taken. Future cyber attacks are expected to become more severe, complex, and difficult to prevent, detect, and address. The lack of qualified cyber technicians makes the risk more severe. More carriers are introducing new cyber policies with existing carriers broadening their cyber forms.

While the current soft market conditions are benefiting insurance buyers, it is contributing financial stress on agents and brokers who derive most of their income from commissions on insurance premiums. In addition to falling rates, the global recession has reduced premiums as result of business downsizing or going out of business. While insurance carriers have experienced reduced premiums, the impact of favorable claims experience and investment income has reduced its impact on.

What about the second half of 2010? A busy above average hurricane season has been predicted. Unless there are very large catastrophe losses in the second half of 2010 reducing excess surplus, we can expect to see the current rate trend continuing.

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