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The insurance marketplace in 2011: More of the same or major change?

January 27, 2011 - Spotlights

The insurance marketplace has been characterized throughout 2010 as competitive. Buyers with good loss histories have experienced modest reductions on all lines of insurance throughout the 2010 renewal cycle. Carriers underwriting property and casualty insurance remain reasonably well capitalized with competitive conditions fueled by the recession. Average rate levels for most lines of coverage have been trending flat to lower throughout 2010. Historically the property and casualty market tends to harden when underwriting losses reach their pinnacle (1984, 1992 and 2001). An interesting note to the 2010 soft insurance market is the size and number of global catastrophes that failed to turn the market. Some of the notable catastrophes in 2010 include New Zealand and Chilean earthquakes, Australian floods, the Deepwater Horizon oil rig disaster to name a few. Reinsurance, the backstop purchased by property and casualty carriers, continued to be overcapitalized, with renewal rates softening modestly providing additional fuel to the softening market.

What should we expect for 2011? Baring a large catastrophe, which could trigger a sharper reversal of the soft market, rates will likely continue to be competitive. However in our opinion, the marketplace is at best uncertain. If a catastrophic loss event occurs the pillars holding up the soft market could crumble rapidly. Other factors that could change the marketplace are a double dip to the recession fueled by inflation or increasing interest rates. Recent announcements by the global rating agencies warning of the potential fallout from U.S. and foreign debt could influence economic changes in the marketplace.

Commercial property coverage has led the way in the soft market of 2010 and 2009. The catastrophic (CAT) insurance market has shown some minor signs of rate improvement and new carriers; however renewals for risks throughout wind and flood prone areas remain challenging. Key markets for CAT perils have cut back capacity and are carefully analyzing this book of business. Carriers competing for clients outside the catastrophic locations of the Gulf Coast or California created a much more competitive marketplace. Insureds are able in most cases to reduce rates, reduce deductible, increase coverage all at the same renewal. While the market is predicted to stay competitive in 2011; we anticipate rate reductions will not match those of the last half of 2010. Companies should use the current soft market cycle to complete capital improvements that will enhance the risk in the eyes of the carriers. This will help stabilize your future rates in the event the market changes due to the factors detailed earlier in this article.

Primary Casualty insurance (general liability and umbrella) continued to show signs of softening. The direct correlation between carrier surplus and rate will continue to have a softening impact on the casualty markets through the first half of 2011. Albeit at a modest pace, insureds should expect renewal options to be flat to modest reductions in rate. Favorable loss histories will dictate the outcome of the casualty renewal cycle. Investment in loss prevention along with claims management and contractual controls will enhance your risk in the eyes of the underwriting community.

Workers' Compensation is the most regulated line of commercial insurance and as such has shown the least volatility. The vagaries of individual state laws and regulatory oversight dictate the insurance markets response to availability and pricing.

Executive Management Liability insurance continues to show competitive signs. Baring a meltdown due to the sub-prime mortgage dilemma general markets forces should continue to keep softening pricing pressure on carriers. However, we continue to watch this segment closely. Although frequency of claims is down; severity trends of the class action suits continue to increase. Companies with global operations or expansion plans should consult with their broker regarding the evolution of corporate laws expanding the duties of directors and officers and shareholders rights in many foreign jurisdictions. Coverage voids may exist for foreign D's and O's at subsidiaries of U.S. parent companies. Purchasing local D&O policies in countries that do not recognize non-admitted U.S. D&O policies might be a prudent option.

Will this be the calm before the storm? No one knows. It will be however extremely important for corporate management to build strong relationships with their underwriters so if the market changes you are able to limit the impact. Strong loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the underwriters. Building strong risk management relationships with your broker and underwriters creating strategic risk partnerships will assure stable renewals for years to come.

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