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By Spencer Macalaster - Insurance marketplace in 2011: Did mid-year indicators point to a firming insurance market?

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The insurance marketplace through the first half of 2011 remained relatively competitive. Buyers with positive loss histories experienced flat to very modest reductions on all lines of insurance throughout the spring renewal cycle. Average rate levels for most lines of coverage have been flat throughout the first half of the year. Historically the property and casualty market tends to harden when underwriting losses reach their pinnacle (1984, 1992 and 2001). The industry is exhibiting signs of reaching the bottom of the "soft" market cycle. Carriers are reporting a reduction in capacity and re-insurers are negotiating increased rates on most renewals. The firming of the market is being driven by the large number and cost of catastrophic events in 2010 and 2011. Some of the notable catastrophes in include New Zealand and Chilean earthquakes, Australian floods, the Deepwater Horizon oil rig disaster, U.S. Tornados and significant flooding throughout the midwest and southeast.

What should we expect for the remainder 2011? In our opinion, the marketplace is at best uncertain and likely moving more to firming rates than continued softer market conditions. Other factors contributing to a firming marketplace are the economic uncertainty of the extended recession which could fuel inflation. 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 as well.

Commercial property coverage led the way in the soft market of 2010. The catastrophic (CAT) insurance market is the first area to show signs of improvement firming; with renewals for risks throughout wind and flood prone areas being the most challenging. Key markets for CAT perils have cut back capacity and are carefully analyzing this book of business. While the market is not predicted to change dramatically in 2011; we anticipate rate will continue to firm through the end of the year. Companies should complete capital improvements that will enhance the risk in the eyes of the carriers.

Primary casualty insurance (general liability and umbrella) continued to be somewhat competitive, however insured's should expect renewal options to be flat. 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. 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.

It will be 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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