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Insurance marketplace in 2012 The crystal ball says.... hard market or soft??

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As we gaze forward in an attempt to discern what type of marketplace 2012 will bring as it pertains to insurance costs we must first reflect on the events of 2011. Factors that affect the pricing, and capacity, of the insurance marketplace are historical loss experience, investment returns, projections on future catastrophic events and historical premium rate environments. Property and casualty markets tend to harden when underwriting losses reach their pinnacle (1984, 1992, 2001 and now 2011). Catastrophic losses reached a near record in 2011 (+/- $67 billion), due to floods in Australia, earthquakes in New Zealand, tsunami in Japan, tornados in the U.S., floods in Thailand and hurricanes in the northeastern US. Of significant importance, many of these loss events occurred in locations that had not seen catastrophic losses in hundreds of years, if ever. New modeling projections for catastrophic loss expenses are being applied through the release of RMS-11 for the risks of wind and flood. On the investment side, property and casualty insurers saw their income decline by over 70%. Combined loss ratios were reaching 110% in general for most insurers. The industry has been in a sustained "soft" market cycle. All of these factors are contributing to gathering of a "perfect storm", which will force premiums higher on all lines of insurance in 2012.

At a recent forum held at the Insurance Information Institute, a gathering of over 250 insurance professionals, 72 % said the industry is in the early stages of a hard market. In December 2011, MarketScout released their composite rate index supporting their finding that the soft market cycle has ended.

Commercial property coverage led the soft market of 2010. The catastrophic (CAT) insurance market has been the first to show signs of 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. Furthermore, RMS-11 (the latest catastrophic model) has significantly curtailed available capacity. Companies should complete capital improvements that will enhance the risk in the eyes of the carriers.

Primary Casualty insurance (general liability) capacity remained healthy; however insured's should expect renewal options to be flat at best. 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. The umbrella marketplace has firmed more significantly than the primary markets and capacity is harder to negotiate and more expensive at renewal.

We have seen more dramatic change and greatest volatility in the workers' compensation marketplace. The vagaries of individual state laws and regulatory oversight dictate the insurance markets response to availability and pricing. Recently carriers have made moves to exit markets, curtail the size and scope of the program design or refuse to underwrite mono-line programs. Middle market programs have been most challenging, with concentration of risk impacting the underwriting authority most.

Executive Management Liability insurance continues to show competitive signs with most renewals flat. Companies with global operations or expansion plans should consult with their broker regarding the evolution of corporate laws expanding the duties of D&O's in many foreign jurisdictions. Coverage voids may exist for foreign D&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.

Our crystal ball is showing storm clouds on the horizon. Insured's will be faced with increased premium costs in 2012. It will be extremely important for corporate management to build strong relationships with their underwriters. Strong loss prevention measures combined with claims management and contractual standards are increasingly important, thereby presenting the best possible risk to the underwriters. In addition to building strong risk management relationships with your broker and underwriters early action will allow for the negotiation of the most competitive program the markets will offer.

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