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Insurance marketplace review for the first half of 2013 - Hard market or soft?

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As all of you know, the East Coast, particularly New York and New Jersey, recently experienced one of the most powerful storms in modern history. The initial insured loss estimate is between $10 billion-$20 billion, with economic damages of approximately $30 billion-$50 billion. The storm could impact up to .5% of the US GDP for the 4th quarter. It could take the region years to fully recover. In addition, 2013 has seen a number of catastrophic property loss events, including tornadoes in OK, TX, KS, LA and AL. The hurricane forecast is projected to have few storms of larger intensity. This loss exposure would lead us to conclude the hard market that prevailed in the first half of the year would continue. However, that has not been the case. Large amounts of capital have come into the insurance marketplace; the re-insurance treaty renewal season produced modest rate reductions, and July renewals rate increases moderated.

Commercial property coverage led the soft market through 2011. The property insurance market has been firming through the first half of 2013; with renewals for risks throughout wind and flood prone areas being the most challenging. Key markets for coastal perils have cut back capacity and are carefully analyzing this book of business. Companies should complete capital improvements that will enhance the risk in the eyes of the carriers. With appropriate loss prevention, insured's could see flat to modest rate increases through the remainder of 2013.

Primary casualty insurance (general liability) capacity remained healthy; insured's should expect renewal options to see rate of inflation rate growth 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.

The dramatic changes and volatility in the workers' compensation marketplace continues to prevail. The vagaries of individual state laws and regulatory oversight dictate the insurance markets response to availability and pricing. Middle market programs have been most challenging, with concentration of risk impacting the underwriting authority most. Strong loss prevention and corporate safety are imperative to the long term success of a workers' compensation placement.

Executive management liability insurance continues to show changes in underwriting with most renewals growing at 10% or more. 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 in the first half of 2013 showed storm clouds on the horizon. However, we believe the pressure on increased rates will moderate through the remainder of 2013. Continued debates over the budget in Washington is causing anxiety in the insurance industryâ€”much more concern, it would seem, than the industry's ability to handle random weather events. 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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