Looks At...

Mesirow Financial

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Mesirow Financial Insurance Industry 2010 Mid-Year Outlook: Property/Casualty

Recently, team leaders and marketing experts from Mesirow Financial's Insurance Division met to discuss current market conditions and consider client issues.

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Last December, as part of the firm's annual Investment Outlook event, our insurance executives predicted that there would not be rate increases in 2010 unless driven by individual loss experience. That has held true, as market conditions continue to be soft. Some companies, presuming good loss experience and depending on their size as well as the types of insurance products purchased, have enjoyed a reduction in premiums – sometimes up to 5-10%.

The mid-year analysis by *Business Insurance* and the Second Quarter Report by the Council of Insurance Agents and Brokers (CIAB) reported similar findings. Much of this reduction is being driven by large amounts of capacity still available in the market and lower losses than predicted, although a few exceptions are experiencing harder conditions.

Overall in the management liability arena, decreases are the norm. The losses expected by the insurance industry for 2008-2009 haven't developed, so consequently, both private and public corporations are seeing price reductions for directors and officers liability and employment practices liability.

The one exception is financial institutions which are in a hard market due to the continuing economic instability. In fact, many financial institutions, such as hedge funds and registered investment advisors, are buying professional liability insurance for the first time because clients are requiring it.

Similarly, the surety market has been greatly affected by the economy, and many companies are being required to post bonds for the first time. For example, there has been an influx of international companies, eager to take advantage of inexpensive real estate and leasing opportunities, looking to set-up business in the United States, and many of them will be required to purchase bonds. However, despite this increase in demand, the surety market still expects more bankruptcies, which could drive down the supply.

Large retention programs may be enjoying modest rate reductions, but where the effect of the economy is really being felt is in the increases in collateral requirements. Similarly, the requirements for obtaining letters of credit (LOCs) are more stringent now, and larger accounts are finding it challenging to change markets as incumbent carriers won't release their LOCs. Underwriting requirements and claim documentation have also increased, as insurers request more details for both.

In the property market, losses are harder to predict, and both the economy and environment wrestle to be the key deciding factor. On the economic side, property value increases have leveled off, and non-catastrophic risk pricing, according to the CIAB, has dropped sharply. Marshall and Swift has also reduced construction cost inflation factors, and this has particularly affected many residential properties where values are renewing at the same price or lower.

Conversely, where environmental factors outweigh the economy in their impact, there is concern for catastrophic risk after the prediction of an active hurricane season. Thus far, renewals have been generally flat with some limited market softening, but some markets are cautious. For example, the Florida wind market, in some instances, has cut back on per location aggregate limits to reserve capacity, and smaller commercial accounts are having difficulty with the minimum premiums required by earthquake programs.

So what can clients expect in the next 6 -12 months? Unless something drastic happens – such as a large catastrophic loss in the U.S. – rates will probably continue to be competitive as insurers fight to retain market share. Although newsworthy, the Deepwater Horizon disaster, according to *Business Insurance*, is "not estimated to be a major property/casualty insurance event" as it is not expected to turn the overall commercial insurance market. There is some talk about whether reinsurance rates will increase at year-end, due to the large catastrophic losses outside the U.S., but capacity remains available.

The question is when will the market inevitably harden? *Risk Management* magazine recently reported that the property/casualty industry's return on equity was only 5.8 percent in 2009, while, according to the Insurance Services Office (ISO), the historic average is 9.1. Generally, the recommendation to clients is to take advantage of a soft market to broaden coverage, lower retentions, increase limits, negotiate multi-year policies, etc. In this economy, though, penny-wise in the immediate often outweighs long-term planning.

This article is intended as an overview and should not be viewed as legal advice. Please consult with your attorney if you have any questions.

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