

LOOK OUT BELOW!

Groundhogs See Slow Premium Growth For 2007, As Soft Market Enters 3rd Year

BY MARK E. RUQUET AND STEVE TUCKEY

THE INDUSTRY'S GROUNDHOGS popped their heads out long enough to spot their own shadows this month and predict that the market will keep softening while profitability deteriorates not just in 2007, but into next year as well.

Indeed, the consensus among those surveyed by the Insurance Information Institute for its annual Groundhog Day forecast is that while the industry is set to enjoy its most profitable year since 1936, the next two years are expected to see a slowdown in profit and premium growth.

"A peak in industry profits but stalling premium growth is a clear reminder of the cyclical nature of the property-casualty business, and the fact that the industry's financial fortunes are influenced by a number of factors," the Institute said.

Net premium written is expected to grow by 1.8 percent this year, compared with 3.3 percent in 2006—primarily from soft market pressures. Even premium for catastrophe-prone risks is stabilizing, with a 1.9 percent gain expected, according to analysts queried.

The Institute said this cycle is reminiscent of the late 1990s, when the industry recorded growth of 2.9 percent in 1997 and 1.8 percent in 1998. These figures presaged some of "the worst years in the insurance industry's history," the Institute noted, with combined ratios deteriorating from 102 in 1997 to 116 in 2001.

The industry currently appears to be in better shape from an underwriting standpoint, with combined ratios expected to be at 96.6 this year and 98.6 next year.

Catastrophe exposures remain the most pressing concern for insurers, according to the Institute. The worst year for catas-

trophe losses was 2005, when Hurricane Katrina hit, with \$61.2 billion in total insured losses.

However, rather than be an anomaly, rapid coastal development is expected to translate into \$40 billion disaster loss years on a regular basis, and many within the industry are bracing for a \$100 billion loss year, the Institute warned.

Last year was comparatively mild at \$8.8 billion, but such a relatively disaster-free season "is unlikely to recur in the future," the Institute said.

Aside from earnings and catastrophe pressures, there is also the question of the insurability of terrorism in the United States, the survey found.

While more risk was moved to insurers with the extension of the Terrorism Risk Insurance Act in 2005, individual company deductibles rose from 15 percent in direct earned premium to 17.5 percent in 2006 and 20 percent in 2007. Industry aggregate deductibles rose from \$15 billion in 2005 to \$27.5 billion in 2007. Many insurers have retentions greater than or equal to their actual 9/11 losses, the organization noted.

While there is momentum going into this year and next for insurers, price pressure and

continued for a third year, with prices in January sliding 9 percent on a composite basis, according to MarketScout's monthly "Market Barometer." The Dallas-based commercial insurance market exchange said rates have not risen on an average basis since January 2005.

In the latest MarketScout report, general liability rates dipped the most at 9 percent, while commercial auto declined only 3 percent. Both commercial property and business interruption declined 5 percent. Surety showed the least decline at 1 percent.

MarketScout Chief Executive Officer Richard Kerr said the year is starting with underwriters cutting rates in every single line of coverage. "Many wholesalers and surplus lines insurers are losing business to

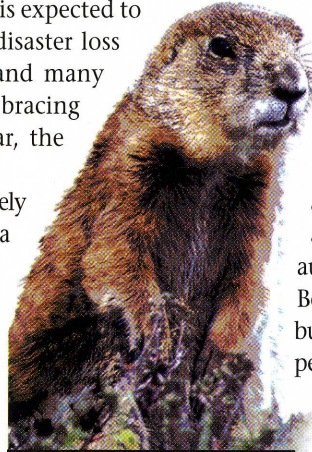
aggressive admitted markets as they cut pricing and expand class codes," he said.

Just about any business that pays over \$100,000 in premium can generate savings if they organize a competitive bidding situation, he added. "Many accounts are now moving to new insurers. Of those that move, almost 33 percent are doing so with a new agent or broker," he noted.

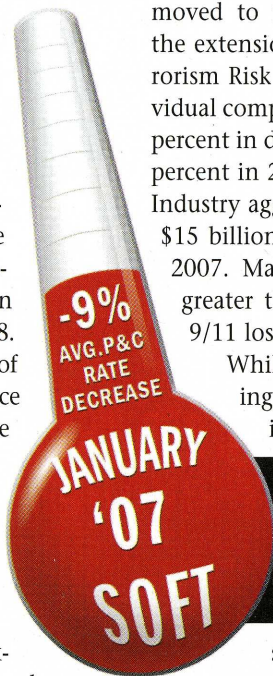
If 2007 records heavy catastrophe losses, he said, property-catastrophe rates would soar, but other lines would probably not see much impact. "Despite the wishes of some insurance company executives, hurricane activity did not, and will not, impact non-property coverages," according to Mr. Kerr.

By size, bigger did better, with accounts with over \$1 million in premium showing declines of 11 percent, while the smallest accounts declined by about 7 percent.

By industry class, manufacturing led the declines with 10 percent, while rates for public entity and transportation coverage dipped only 3 percent. ■



INDUSTRY GROUNDHOGS expect premiums to grow by only 1.8 percent this year, compared with 3.3 percent in 2006.



COMMERCIAL PROPERTY-CASUALTY RATES have not risen on an average basis since January 2005, with prices falling in all lines of coverage.

slow growth "could erode underwriting performance and profitability in the year ahead," the Institute warned.

Meanwhile, falling insurance rates for commercial property-casualty insurance con-