

Coasting downwards

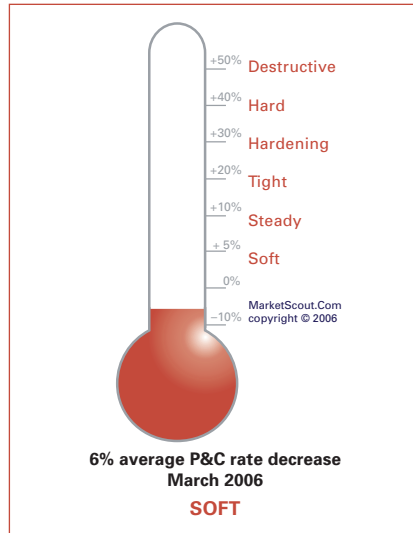
Rates are softening in most lines, driven by fresh capacity and a growing appreciation of diversification among insurers. But some accounts have seen steep price increases.

March can be a slow month for insurers. But this March was a little different. While the volume of placements dropped as usual, there were changes in rating agency capital models and catastrophe risk models to prepare for. And insurers are still adjusting prices to take account of hurricane losses sustained over the past two years.

Rates have not risen sharply across the board, however, as they did after the September 11 attacks. The general trend, says Richard Kerr, chairman and CEO of rate tracker MarketScout, has been one of steady softening. “The average rate decreases are more or less flat,” says Kerr. “There has been a one percentage point change from February, when rates were down a composite average of 5%.”

One type of coverage experiencing price reductions is excess and umbrella liability, which has not been affected by the hurricanes. “Jumbo accounts – accounts of one million in premium or more – are seeing decreases of between 5% and 6%,” says Kerr. “The bigger the account, the deeper the discount.”

Large companies pay more premium, and therefore have more bargaining power with their providers. Some Fortune 500 companies have seen large property rates hikes because of natural catastrophes, but have successfully lobbied insurers for rate cuts on the casualty portion of their book to offset those costs.



Small and middle market customers hold less sway. Michelle Middleton, senior vice-president and manager of worldwide excess liability in the commercial arm of Chubb, says 80% of the excess casualty programs she is placing are renewing flat or with a price increase. “With the longer loss tail associated with casualty, it is important to have adequate pricing,” she says. Casualty underwriters are evaluating their risks with extra care at this time, adds Middleton, safe in the knowledge that most of the new capacity has gone into property business and buyers have less opportunity to shop around.

The story is very different in loss-affected lines. Energy policyholders in particular have experienced steep price

increases – even if they have not had a loss. Reinsurers, who picked up about 50% of the tab from Hurricane Katrina, are forcing insurers to slap lower limits and higher rates on insureds. Onshore rates have increased between 8% and 9% on renewal, and offshore rates between 20% and 50%, according to MarketScout data.

A considerable number of Gulf Coast accounts are seeing rises of several hundred percent for windstorm cover, according to Keith Sandford, executive director of broker Willis’s energy practice. “This turmoil should be viewed against the background of the hurricanes, which led to losses to the market in excess of 10 times the annual premium generated in the Gulf of Mexico,” explains Sandford.

He adds: “The prognosis for the rest of the year is not good because the amount of wind capacity is now a finite resource. This will be exhausted some time in the second half of the year. The appetite of assureds to buy the coverage at any price on any terms is not unlimited and, at some point, self-insurance will be an option to consider.”

Some of these price increases have been tempered by the influx of capacity for onshore business, led by Lloyd’s syndicates traditionally more prone to courting offshore business. These syndicates are seeking to expand the geographic distribution of their exposures, partly prompted by rating agencies giving more credit to diversified books. ■