

"Reinsurance as a group today tends to be more disciplined on price," he said. "As a buyer, I would say reinsurers, because they are still disciplined, will make money at the levels where we have bought coverage. They're not going nuts." Still, "that said," he noted, "prices are going down."

Thomas Wilson, president and CEO of Allstate Corp. in Northbrook, Ill., agreed that lack of reinsurance is a hurdle to unbridled top-line growth—at least for homeowners insurers. "There are still reinsurance capacity issues at the higher limits and in coastal areas," he said.

But Anthony Kuczinski, CEO of Munich Re America in Princeton, N.J., observed that "memories tend to be short in this business," and warned that "insurers should be playing in this market with caution."

Mr. Kuczinski characterized 2007 as a Jekyll & Hyde year for the reinsurance sector, "with significantly different conditions in the second half than in the first." He noted that for the just concluded Jan. 1, 2008 renewal season, "reinsurers were trying to hold onto their discipline, but prices deteriorated more than they should have."

He said with "pricing com-

► **THE YEAR ENDED WITH AN AVERAGE P-C RATE CUT** of 16 percent in December and 13.25 percent for the year, according to MarketScout's "Market Barometer" survey, which noted that prices have been softening for 34 months.

**-16%
AVG. P&C
RATE
DECREASE**

**DECEMBER
'07
SOFT**

petition heating up on the part of ceding companies, we're getting closer to that tipping point" in terms of profitability.

The panelists also cited concerns about how a recession—even a mild one—might hurt the industry.

While none of the CEOs expect a deep or prolonged downturn in the economy, the credit crunch, the collapse of the

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• CAT FIGHT

Keep Feds Out Of Insurance For Disasters, Regulator Warns

BY SUSANNE SCLAFANE
NEW YORK

INSURANCE REGULATORS from two coastal states sparred over what the federal government's role should be in solving catastrophe insurance problems, with one saying Uncle Sam should have none until the industry is essentially on life support.

"I don't think we should go to a federal solution until we're on our backs, bleeding to death and breathing our last breath," said Scott Richardson, director of the South Carolina Department of Insurance, during a panel of regulators at the Property-Casualty Insurance Joint Industry Forum.

Mr. Richardson was reacting to a suggestion by Louisiana Insurance Commissioner James Donelon, who proposed a system of private insurance covering all perils, backstopped by the federal government. "A federal fix is the ultimate solution, but it has to be based on the private sector," said Mr. Donelon.

As an example, he said, "I'd get the federal government out of flood insurance and make an all-perils [policy] for earthquake, flood and wind coverage, with a federal backstop in place and/or a federal, tax-free reserving program."

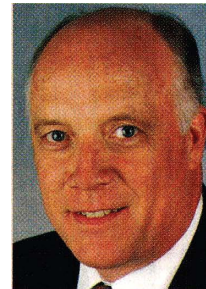
He said tax-free reserving would allow the industry to spread its risk "and provide that coverage for the next 100 years, as you have done for the past 100."

Sandy Praeger, president of the National Association of Insurance Commissioners, who focused on wind-versus-water disputes between carriers and insureds, said she would rather see solutions that would have private insurers take on all perils together with "some method of giving predictability" to them—like payout caps and a reinsurance mechanism—instead of dumping all cat perils into a federal gov-

ernment program.

For Ms. Praeger, the Kansas insurance commissioner, wind-versus-water coverage issues were top-of-mind after a devastating year of catastrophes in her state in 2007, including \$150 million in claims related to a May tornado that were promptly paid by private insurers, followed by floods just a few weeks later for which many homeowners were uninsured by either the private market or the National Flood Insurance Program.

However, Mr. Richardson responded, "the federal flood insurance program is the poster child for what not to do," referring to the fact that the NFIP is roughly \$20 billion in debt. Given that "they don't enforce their rules [and] flood maps are often wrong," he



“ I don't think we should go to a federal solution until we're on our backs, bleeding to death and breathing our last breath.”

*South Carolina Director
Scott Richardson*

rejected proposals "to make [NFIP] 20-times bigger by adding wind or earthquake."

Ms. Praeger said adding earthquake to the federal flood insurance program would likely result in earthquake-versus-fire debates that are similar to the wind-versus-water coverage controversies going on now.

Predicting that all-risk policies will not come to fruition, Mr. Richardson would solve wind-versus-water debates with what he referred to as an "indeterminate loss formula." This approach would use sophisticated models together with inputs such as wind speed, tides, depth and distance from water, to segregate wind and water losses rather than searching for watermarks after the fact.

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