



Double Down

Can the “House” Continue to Dodge the Storm?

by John H. Nelson & Chuck Eckert

The insurance market continued to soften in the first half of 2008. The majority of our clients in the real estate sector have benefited from rate decreases and/or improved terms and conditions.

Commercial property/casualty insurers reported favorable underwriting results in 2007 despite softening prices. Two years of benign hurricane activity, combined with a lack of other natural catastrophes, have allowed insurers and reinsurers to stabilize following the devastating losses in 2004 and 2005. As a result, competition for premium has increased as carriers seek to expand market share.

The thirteen major U.S. property casualty insurers surveyed by *Business Insurance* reported \$23.99 billion in 2007 net income, a 23.8% decline from 2006.¹ The property CAT market transitioned from a very hard market in 2006 to a functioning market in 2007 to a rapidly softening market through the first half of 2008. There remains a clear differentiation in degree between accounts with moderate to significant catastrophic exposures and those without. Coastal exposed portfolios with higher retentions, newly constructed property and/or older properties with upgraded protection enhancements are receiving larger reductions. The non-CAT property market is as competitive as we have seen in over a decade.

On December 26, 2007, President Bush signed into law the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA), which extends and modifies the Terrorism Risk Insurance Act (TRIA). Due to these modifications, affected policies will need to be adjusted to reflect the following changes:

- TRIA has been extended for seven years and will expire on December 31, 2014.

- The definition of “act of terrorism” under TRIA has expanded to include “domestic terrorism.”
- The extension more fully explains how the \$100 billion cap on losses operates.
- TRIPRA accelerates the means by which the federal government will recoup insured losses through policyholder surcharges.

Overall capacity and premium rates for terrorism coverage are expected to remain stable.

Despite macroeconomic difficulties, casualty insurers have been more amenable to lower attachment points and the treatment of defense costs, as well as multi-year commitments. Clients with favorable loss histories and higher retentions are reaping larger reductions.

Concerned about losses arising from the continuing crisis in the subprime mortgage market, directors and officers liability premiums continue to fall, but at a slower pace than other lines. After declining sharply in 2006, due largely to reform measures in several large states, workers’ compensation premiums continued the more moderate trend seen throughout 2007. The excess casualty (umbrella) market has remained essentially static through the first six months.

We believe that our clients in the Real Estate sector will continue to benefit from a very competitive pricing environment through the end of the year, and feel that it will take a series of catastrophic events or a “mega” event to materially change the direction of the market.

¹ “U.S. P/C insurers’ profits up,” by Judy Greenwald, *Business Insurance*, April 7, 2008, accessed April 16, 2008 at <http://www.bieurope.com/cgi-bin/>