

Insurance Executive Review

Market Commentary on Current Developments within the P&C Insurance Industry

Bits and Pieces

A Collection of unrelated but interesting tidbits with an emphasis on some interesting numb3rs!

THE GLOBAL 1500 and CAPTIVES

I read with interest a recent Bermuda publication which claimed that “Bermuda is clearly the domicile of choice for the G1500” meaning the 1500 largest global corporations. With an “overwhelming 26.1 percent of G1500 captives” domiciled in Bermuda, Vermont “came in as the second best with 18.9 percent”. If the survey had counted all state based captives (i.e. Vermont, Hawaii, South Carolina, New York, etc) as ‘United States’ domiciled entities, then the US count of a 22.7 percent share of the captive market would suggest that the Bermuda claim of “overwhelming” is a little exaggerated!

It is also important to note that the survey only reflects the choice of the G1500 corporations and not the universe of companies and institutions. Using the latter method the United States with 1,098 captives passed Bermuda in 2006 with the latter having 989 captives. There are many ways to view the numbers but at times it depends on your point of view!

HR 5840 and HR 5792

Recently these two bills were sent to the floor of the House of Representatives for consideration and passage. HR 5840 Insurance Information Act of 2008 would create the Office of Insurance Information within the Department of the Treasury and is intended to give the Federal government the required insight into commercial lines insurance as a prelude to oversight when and if, legislation to offer optional national licensing of insurers is subsequently passed. HR 5792 would among other things, expand the Federal Risk Retention Act of 1986 to include property insurance in addition to casualty insurance for the purpose of collectively having separate legal entities (know otherwise as “factious” groups) market their property insurance risks together or form risk retention group organizations that have proved successful on casualty business. This would upset state regulatory constraints against such facilities.

CATASTROPHE LOSSES IN 2008

The second quarter of 2008 proved to be one of the worst catastrophe loss periods for insurance carriers in the

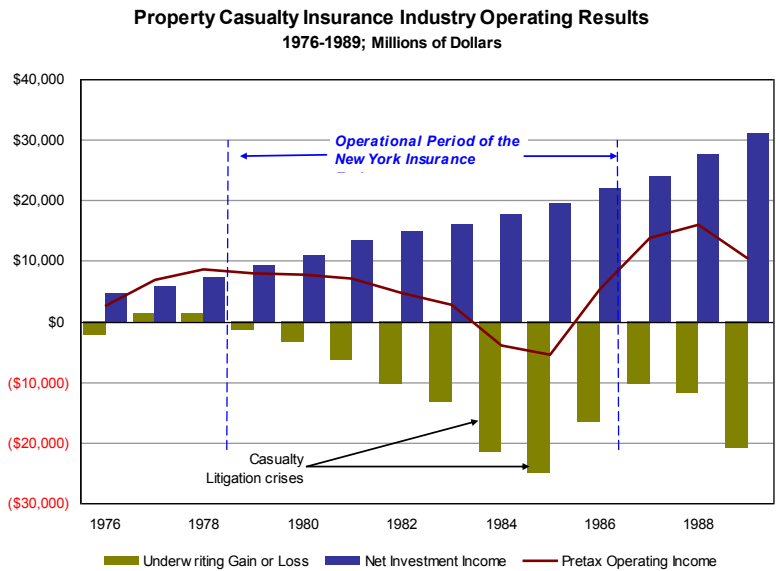
		Second Quarter	First Half Year	Second Half Year
2008	Cat Cost	\$6 billion	\$8.4 billion	TBD
	No. of Events	16	25	TBD
10 Year Ave	Cat Cost	\$3.6 billion	\$5.3 billion	\$12.6 billion
	No. of Events	9.6	13.9	10.5

Source: Insurance Services Office

US market. The results on both a dollar basis and number of events was considerably above average and set the stage for the prospects that 2008 might join the ranks of the top worst years on record.

So 2008 has so far been nearly double the long term (10 year) average. With forecasters now increasing their estimates for Third Quarter Atlantic basin storms the outlook is somewhat guarded. Should the rest of 2008 only be "average" it would be the worst year in terms of the number of events at 35 and the fourth largest in terms of cost at \$22.1 Billion which would place it just behind 2001 (terror attacks) and 2004-2005 hurricane seasons. Given

the other problems facing the industry, it is not a very good sign for industry profitability but not yet a catalyst for changing the market product pricing cycle particularly in commercial lines.



THE NEW YORK INSURANCE EXCHANGE ... BACK TO THE FUTURE!

The New York Governor and the Superintendent of Insurance have been floating the idea of bringing back the NY Insurance Exchange (NYIE) that started with historic legislation in 1979 and came to a quick demise some 8 years later. It attempted to draw additional capital to the US property and casualty during a period of high inflation with double digit interest rates that started commercial insurers competing aggressively for business. Known as the period of "cash flow underwriting", the NYIE attracted naive capacity failing to understand the underlying risks that brought in all that investable premiums. But the NYIE was not alone. During that period from 1979 to 1987 in the US a total of 245 property casualty insurance companies were declared insolvent. The market timing for the NYIE couldn't have been worse. As the new boy on the block they were competing for business at competitively depressed rates seeing poor quality business to boot. Firming of market rates finally took place only after the NYIE closed its doors. It appears that the current plan to possibly resurrect the NYIE may be flawed by the same case of poor market timing as existed the first time around. In addition, the commercial risk market has seen enormous changes in the past 30 years, most working against the ability of a new NYIE to become effective. *More detail on this subject in our next Insurance Executive Review*



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