

# Insurance Executive Review

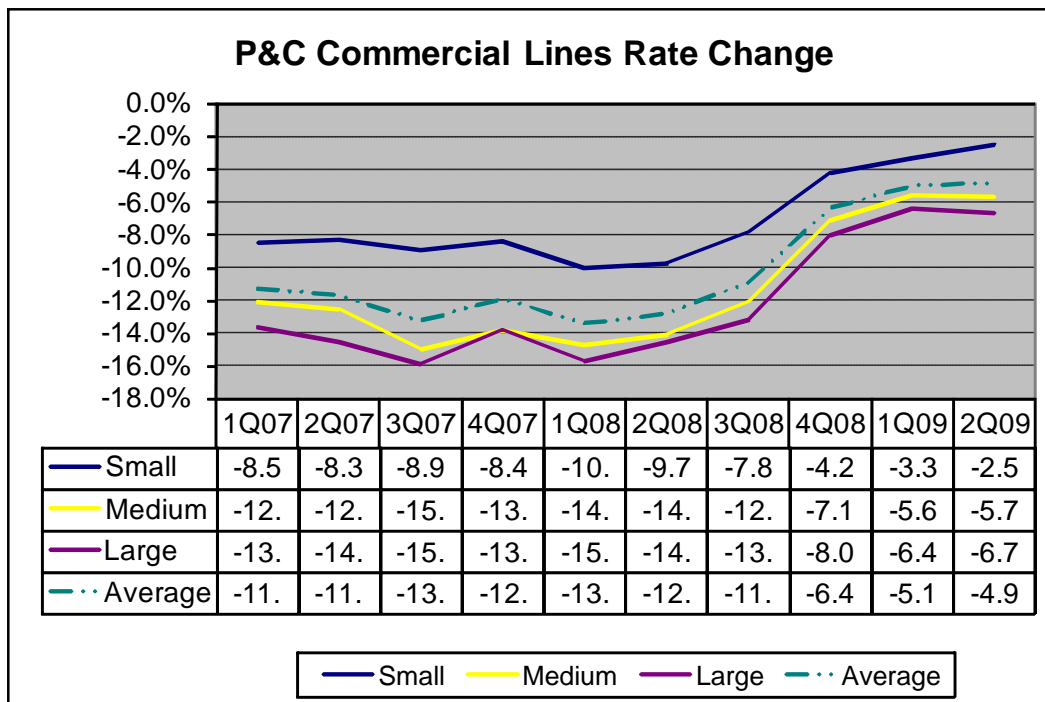
Market Commentary on Current Developments within the P&C Insurance Industry

## Bits and Pieces ....

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

### Commercial Pricing Indicator

The Council of Insurance Agents and Brokers (CIAB) conduct a quarterly survey of the movement in insurance rates from its national membership. This has been one of the best indicators of commercial risk rate movement as it tracks changes by line of business within various regions of the US. Industry financial reports from insurers often combine personal lines business with commercial or aggregate commercial results into one segment. This tends to show the net effect of rates as applied to risk exposures and the influence of buyer purchase decisions.....retain more risk, purchase lower limits or use alternate risk options)



Source: Council of Insurance Agents and Brokers

The chart clearly shows the movement of rates since the first quarter of 2007 as the soft market continues to exhaust its influence but is maintaining a steady “negative-rate” position in all commercial classes of risk. The commercial risk market should continue the low single digit decline for the balance of this year. Good news for

buyers....challenging for insurers!

### **Closing the Tax Loophole for Offshore Insurers**

Congress proposes to close the “tax loophole” that allows Bermuda based companies that establish US based (tax paying) affiliates that write US business but cede a substantial portion to their parent offshore company. The amount ceded is subject to the US Excise Tax but Congress would rather disallow any portion it considers as “excessive” business cessions to the parent company when only the US affiliate is filing US Tax Returns. The legislation was prompted by US based companies who consider these transactions as providing a competitive disadvantage to their financial position.

The US risk environment (commercial and personal) needs the capacity provided by these non US based facilities for casualty as well as catastrophe property exposures. This capacity helps to keep availability and costs relatively low and reasonable given the risks exposures we continuously create. The offshore facility may take in catastrophe risks from affiliated companies on the ground in various worldwide regions in order to consolidate these risks and purchase economically advantaged excess catastrophe reinsurance protection. Why shouldn't US business firms and organizations be the recipient of this reasonably priced capacity? Perhaps it is just a matter of collecting more taxes wherever it can be found!

### **Healthcare Should Take a Page from the P&C Industry**

There are any number of provisions of the healthcare reform legislation winding its way through Congress that could benefit for alternative thinking. One of these issues on the affordability of health insurance purchased by small business might use a concept developed following the 1975 products liability crises and expanded in the general casualty market crises in 1985. The is in reference to the Risk Retention Act that among other things allowed unaffiliated business firms to collectively negotiate and purchase insurance together. State insurance laws generally prohibit these kinds of “fictitious groups” from collectively negotiation and insurance purchase decisions.

Allowing unaffiliated business firms to group purchase health insurance would empower them to collectively deliver affordable health insurance to their employees. It allows market forces to act in a competitive manner.....not a total healthcare solution but a start in the right direction!

### **Hurricane Forecast for 2009 revised again.....downward!**

The Colorado State University has been an authoritative source in forecasting Atlantic Basin seasonal hurricane activity and publishes these estimates at various intervals starting as early as the prior December. The early forecast suggested a lower level of activity then the actual storm data from 2008 and at each subsequent report date the numbers in terms of frequency and intensity have been falling. The climatology scientists at the university have stated their belief that we are in an active multi-decadal Atlantic Basin hurricane era but that it is not unusual to have a few below-average years.

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**HURRICANE FORECAST FOR 2009 SEASON  
EXTENDED/SEASONAL RANGE FORECAST  
Atlantic Basin Region**

Category (wind velocity)	Forecast Issue dates					1950-2000
	2008 Actual	2009 12/10/2008	2009 4/9/2009	2009 6/2/2009	2009 8/1/2009	Average Season
Named Storms ( 39 MPH Minimum) <i>Named Storms Days</i>	<b>16</b> <b>84.75</b>	14 70	12 55	11 50	10 45	9.6 49.1
Hurricanes ( over 74 MPH) <i>Hurricanes Days</i>	<b>8</b> <b>29.50</b>	7 30	6 25	5 20	4 18	5.9 24.5
Intense Hurricanes** (111-155 MPH) <i>Intense Hurricanes Days</i>	<b>5</b> <b>8.50</b>	3 7	2 5	2 4	2 4	2.3 5

\*\* Category #3,4 and 5 hurricanes

**US LANDFALL STRIKE PROBABILITY FOR 2009**

Probability of one major (#3,4 or 5) Hurricane landfall	12/10/2008	6/2/2009	8/1/2009	100 Year Average
<i>Entire US Coastline</i> ----->	63%	48%	46%	52%
<i>US East Coast including Florida</i> ----->	39%	28%	27%	31%
<i>Gulf Coast from Ft Panhandle to Brownsville Tx</i> ----->	38%	28%	26%	30%
<i>Major hurricane landfall risk in the Caribbean</i> ----->	44%	39%	37%	42%

Source: Phillip Klotzbach and William Gray, Colorado State University; August 1, 2009

They have cited evidence of the development of an El Nino event in recent months that tends to be associated with increased vertical wind shear and decreased levels of Atlantic hurricane activity. This is good news for homeowners and their insurance companies.



**Charles L Ruoff CPCU**  
CR Market Strategies  
crmarketstrategies.com

Mr. Ruoff is President of CR Market Strategies Inc. an insurance marketing and risk management consulting organization based in Garden City, New York. Mr. Ruoff has been involved in insurance underwriting, international insurance brokerage and alternative risk management businesses having held executive management positions with Continental, AIG, Johnson and Higgins, Sedgwick James, and Acordia (Wells Fargo). He has been a speaker/panel member at numerous industry events during his over 40 years in the insurance industry including RIMS, CPCU and other conferences. His articles have appeared in many industry publications and is a member of the Advisory Board of St Johns School of Risk Management and Actuarial Science.