

# Insurance Executive Review

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

## SAMPLING PROPERTY CASUALTY INDUSTRY UNDERWRITING PROFITS

In our Newsletter #20 we looked at a sample of eight property casualty insurers' first quarter underwriting results for 2009 but did not see any decline that would trigger any general upswing in commercial risk rates. Other industry sources that attempt to monitor market rates have not anything but some moderation in the pace of rate declines. We decided to again look at these same insurer results for the second quarter of 2009 to see if any movement could be detected that would suggest that we are any closer to an across the board cyclical change. It should be kept in mind that we are looking at "Accident Year" results (as explained in our previous Newsletter) rather than the Calendar Year financials that typically form the basis of the carriers reported results.

## SECOND QUARTER CARRIER RESULTS

We took the reported data from the eight carrier calendar year financial reports and made the same modifications as previously to develop the Combined Ratio indications relative to current business writings absent the financial restatements applicable to business written in prior periods.

### Insurance Company Combined Ratios-Commercial Lines Business

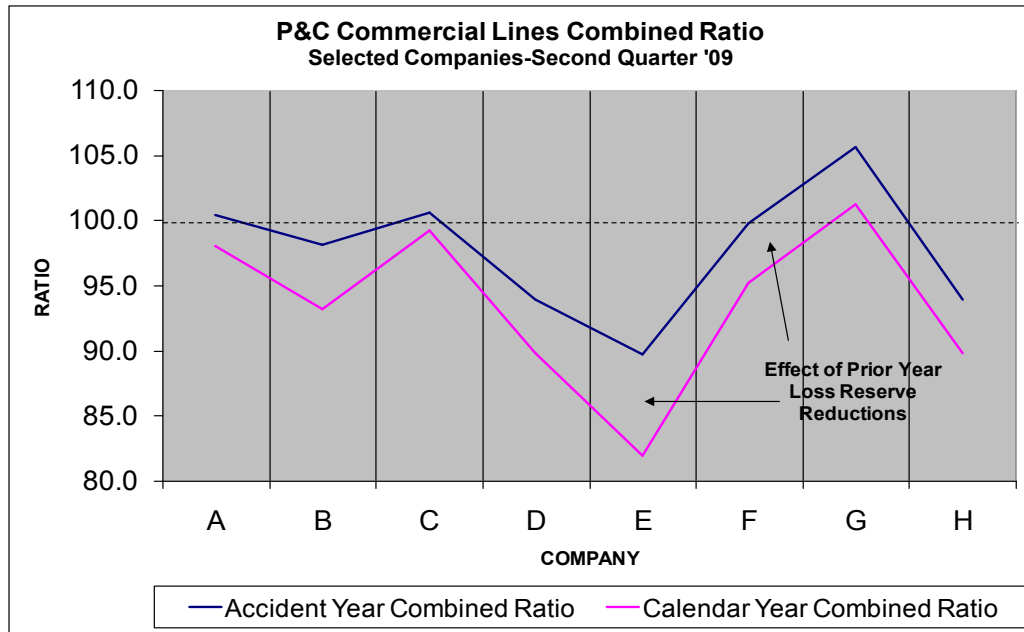
#### SECOND QUARTER-2009

Notes	Components of Combined Ratio	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H
	Pure Loss Ratio	55.1	51.5	56.1	49.3	41.1	56.0	59.9	49.3
	Loss Adj. Exp Ratio	9.3	9.9	9.2	8.3	7.6	8.2	8.6	8.3
#1	Calendar Year Loss and Exp	64.4	61.4	65.3	57.6	48.7	64.2	68.5	57.6
#2	Less:Prior year development (+/-)	2.4	4.9	1.4	4.1	7.8	4.6	4.4	4.1
#3	Accident Year Loss and Exp	66.8	66.3	66.7	61.7	56.5	68.8	72.9	61.7
#4	Catastrophe loss ratio (-)	-1.5	-3.7	-2.8	-1.8	-2.1	-1.7	-3.1	-1.8
	Accident Yr Loss and Exp. X Cats	65.3	62.6	63.9	59.9	54.4	67.1	69.8	59.9
#5	Acquisition Expense Ratio (+)	13.0	11.8	12.7	10.9	10.2	13.9	11.5	10.9
#6	Underwriting Expense Ratio (+)	20.6	20.0	21.2	21.3	23.0	17.1	21.2	21.3
	Accident Year Combined Ratio X Cats	98.9	94.4	97.8	92.1	87.6	98.1	102.5	92.1
	Calendar Year Combined Ratio X Cats	96.5	89.5	96.4	88.0	79.8	93.5	98.1	88.0
	Accident Year Combined Ratio	100.4	98.1	100.6	93.9	89.7	99.8	105.6	93.9
	Calendar Year Combined Ratio	98.0	93.2	99.2	89.8	81.9	95.2	101.2	89.8

Source: Individual company financial statements and reports

- #1 Ratio of all Losses and Loss Adjustment Expenses to Earned Premium in current Calendar period
- #2 Ratio of current changes in costs of claims from estimates in prior years (favorable is a positive number)
- #3 Ratio of Losses and Loss Adjustment Expenses only on policies in force during the period to Earned Premium
- #4 Ratio of catastrophe losses incurred during the period to Earned Premium
- #5 Ratio of intermediary commissions/marketing expenses (net of reinsurance ceding commissions) to Written Premium
- #6 Ratio of underwriting/administration expenses to Written Premium

The ratios on average show slightly more in benefits from release of prior year claim reserves in the second quarter than in the first quarter. We thought it might be useful in order to better visualize the effect of these reserve releases to show them graphically in the chart on the following page.



As can be seen from the above the benefits of the release of these reserves has a variable impact on individual carriers yet none show any exhaustion of this financial benefit to current reported income. As we compared this benefit as taken with the first quarter ratios, we were surprised that the movement in the overall combined ratio shows improvement rather than deterioration.

**Insurance Company Combined Ratios  
Commercial Lines Business  
2009**

	AVERAGE OF 8 CARRIERS		Point Variance
	First Qtr.	Second Qtr.	
Accident Year Combined Ratio X Cats	97.3%	95.4%	-1.9%
Calendar Year Combined Ratio X Cats	93.9%	91.2%	-2.7%
Accident Year Combined Ratio	99.5%	97.8%	-1.7%
Calendar Year Combined Ratio	96.2%	93.5%	-2.7%

Source:CR Market Strategies Inc.

So we can only conclude that we have more to go before any general commercial lines price and capacity change will take place. Except for the financial services industry, the remainder of 2009 should have plenty of capacity and very reasonable prices. We will continue watching for any early warning signs.



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