

Insurance Times: NAPSLO told prices still not where they could be post-Sept. 11
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by Mark Hollmer

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BOSTON — Sean Mooney tries to put things into perspective for insurers dismayed about the post-Sept. 11 market, by pointing out Hurricane Andrew and the dramatic price hikes that followed.

“This is the third year in a row of prices increases (and we’re) still below the level post-Hurricane Andrew,” said Mooney, chief economist for Guy Carpenter & Co.

Mooney, along with A.M. Best Group vice president Matt Mosher, commented on the current state of the industry during a panel discussion held Oct. 9 at the National Association of Professional Surplus Lines Offices 2002 Annual Convention, held at the Boston Marriott at Copley Place.

Dubbed “A Financial Review of the Industry: Blue Sky or Dark Clouds,” the presentation served as an attempt to evaluate the state of the market and see whether the insurance environment will remain in its current state or if better days are to come.

Mooney and Mosher, speaking separately, offered mixed perspective on the issue.

Mooney pointed out that the reinsurance and commercial lines markets were already hardening before Sept. 11, though a \$280 billion reinsurance surplus helped mute any solvency issues that followed the terrorist attacks.

New, offshore companies and their infusion into the market of \$20.5 billion in new capital in 2001, plus over \$4 billion in 2002 have also helped, he said.

Prices jumped this year from property risks to umbrella, workers compensation and other casualty lines, but the new capacity initially helped limit the scope of price increases, he said.

On the other hand, casualty specialty lines began to spike in July, he said, with the increased caution that followed the corporate scandals at Enron, new asbestos claims and other events that helped accelerate a hardening property and casualty market.

In the end, however, the post-Sept. 11 marketplace is plowing ahead without the panicked environment that followed Hurricane Andrew.

Before Sept. 11, the industry created models that suggested \$40 billion losses due to natural disasters were possible, and as a result were ready for the similar loss scope that followed the terrorist attacks.

Still, the market faced surprises because lines like workers compensation and life faced losses after the Sept. 11 attacks that they hadn’t in the past.

Mosher, an actuary, said he’s seeing higher loss costs in commercial lines, which “continue to water down price increases in the marketplace.”

Surplus lines are fairing better, he said, because their combined ratios are in better shape than standard lines.

Commercial lines are \$25 billion deficient in loss reserves, however, so capital in this area is stretched thin for the foreseeable future, he said.

The Sept. 11 attacks didn’t crush the insurance industry, he said, because the losses were diversified over a large number of companies.

Meanwhile, rates could potentially improve through 2003-2004, he said.