

# S&P sees frustration for U.S. commercial lines insurers ahead

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NEW YORK — As its pricing prowess ebbs, the U.S. commercial insurance industry is left with a gaping hole in reserves and the prospect of further downgrades, according to a new report by Standard & Poor's Ratings Services.

For the first time since 1986, the commercial lines industry has achieved premium volumes that exceed its losses and expenses, yet insurers "are still unable to shed the burden of their not-too-distant past," according to the authors.

This burden takes the form of perpetually inadequate reserves for future insurance payouts. In 2002 alone, reserve additions took a \$22 billion toll on industry earnings, with 62% of that amount attributable to business written between 1998 and 2001. Despite these efforts, a \$60 billion shortfall remains, even if asbestos and environmental liabilities are taken out of the equation.

"For the past year or so, we've been saying the industry outlook is poised to go to stable from negative, but that idea keeps getting shelved by the litany of negative surprises," said credit analyst John Iten. Nevertheless, the pace of downgrades is expected to slow.

Among the belligerent business lines where reserve shortfalls are most apparent, workers compensation and professional liability stand out, while asbestos payouts continue to beat a well-trodden path to insurer coffers.

With litigation activity undermining the industry, the instruments of political persuasion are hard at work to throw some legislative wrenches into judicial proceedings, but tort reformers have only won piecemeal laurels at the state level, according to the report.

"Like thirsty Tantalus in Hades, tormented by receding waters and by the fruit-laden boughs blown beyond his reach, the commercial lines industry is condemned to perpetual frustration, its only relief coming from the poisoned chalice of tort reform," the analysis concludes. □