



Consumer Federation of America

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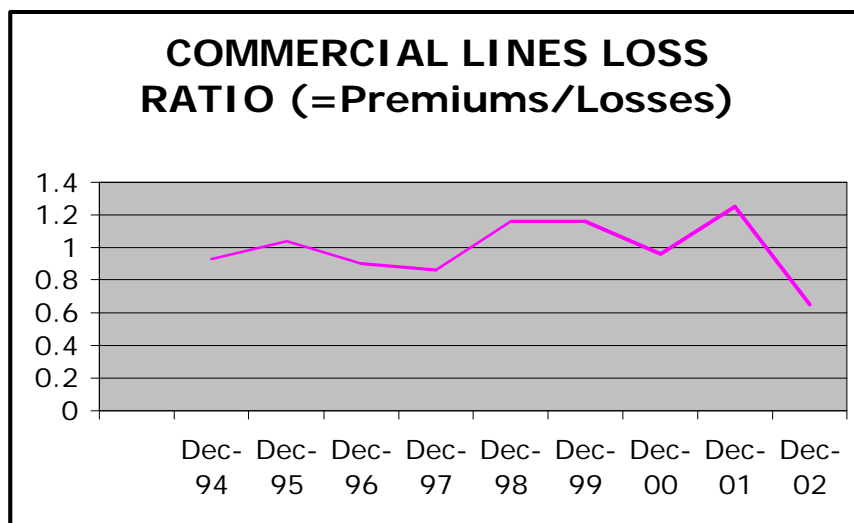
GOOD NEWS FOR COMMERCIAL INSURANCE BUYERS: PLUMMETING INSURER LOSSES AND SLOWING RATE HIKES SIGNAL LOWER PRICES IN NEAR FUTURE

Washington, D.C. – The Consumer Federation of America (CFA) today released data showing that commercial insurance loss ratios – the portion of premium dollars used to pay claims – have dropped sharply in the last year, while rate increases have slowed for the fourth quarter in a row. These two trends indicate the end of the of the “hard” market in commercial insurance, in which sharp rate increases and significant cutbacks in coverage have adversely affected many buyers of insurance, from doctors to municipalities.

“The combination of lower losses and continued sluggish rate increases in most commercial lines is a double whammy the hard market can’t take,” said J. Robert Hunter, CFA’s Director of Insurance. “Most businesses should see their insurance costs level off and then start to drop in the next few months.”

Losses for Commercial Lines of Insurance Plunge

The chart below shows that the ratio of losses to premium earnings for commercial lines has dropped sharply in the last year and is now at its lowest point in a decade.¹ This trend strongly suggests that significantly rising profit margins for commercial insurers are assured.



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¹ A ratio of more than 100% indicates that insurers are paying out more in claims than they are receiving in premiums.

This overall drop in loss ratios has led insurers to begin to compete for market share, signaling the beginning of the end of the hard market. Loss ratios for individual lines of commercial insurance are also improving:²

<u>Line of Insurance</u>	<u>4Q 2001 Loss Ratio</u>	<u>4Q 2002 Loss Ratio</u>
Liability Other than Auto	120%	55%
Commercial Multi Peril	85%	70%
Commercial Auto Liability	90%	77%
Commercial Auto Physical Damage	68%	55%
All Commercial Insurance	125%	65%

Rate Increases on Most Commercial Lines Slow for Fourth Straight Quarter

CFA has analyzed commercial property-casualty price increases for covered year 2001, the last three quarters of 2002, and the first quarter of 2003, based on a survey undertaken by the Council of Insurance Agents and Brokers (CIAB.) The CIAB surveys show that, while rates are still increasing, they continue to drop in magnitude:

	<u>2001</u>	<u>2Q 2002</u>	<u>3Q 2002</u>	<u>4Q 2002</u>	<u>1Q 2003</u>
<u>OVERALL RESULTS</u>					
Small Commercial Accounts	+21%	+20%	+15%	+08%	+11%
Mid-size Commercial Accounts	+32%	+27%	+22%	+19%	+14%
Large Commercial Accounts	+36%	+34%	+25%	+21	+15%
<u>SPECIFIC LINES</u>					
Business Interruption	+30%	+21%	+16%	+13%	+09%
Construction	+46%	+44%	+30%	+34%	+22%
Commercial Cars	+28%	+27%	+18%	+18%	+15%
Property	+47%	+42%	+24%	+21%	+12%
General Liability	+27%	+24%	+18%	+19%	+14%
Umbrella Liability	+56%	+52%	+36%	+34%	+26%
Workers' Compensation	+24%	+26%	+19%	+21%	+17%
D&O			+35%	+32%	+29%
Employment Practices			+19%	+32%	+19%
Medical Malpractice			+61%	+63%	+54%
Surety Bonds			+14%	+18%	+18%
Terrorism				+63%	+13%

This chart shows several notable trends for individual lines of insurance. Overall, price increases are half of what they were in 2001 for the liability coverages and even less for the property coverages. CFA expects these lines to complete their stabilization in one to two quarters. Some reductions in premiums will occur after that.

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² Loss ratios from "Fast Track Experience," April 3, 2003, Insurance Services Office.

Medical malpractice rate increases have slowed but are still sharp. This is likely a function of the present lack of competition in many regions of the country, as well as heated rhetoric about the causes of malpractice insurance hikes and political ratemaking, as insurers seek restrictions on malpractice lawsuit payouts. Pricing for this line will stabilize within two to three quarters. Recent trade journal articles have also noted the decline in sharp rate increases in most commercial lines, as well as the possibility of continued rate volatility for some lines of insurance and some business customers.^{3 4}

Terrorism insurance deserves special mention. Although the change in rates appears to have dropped from an increase of 63 percent for the fourth quarter of 2002 to a 13 percent increase in the first quarter of 2003, this is misleading. When the projected loss savings provided by the recently enacted Terrorism Risk Insurance Act are considered, CFA calculates that insurers actually increased rates by over 100 percent during the first quarter of this year.⁵

This easing of insurance prices also signals the coming end of the hard insurance market cycle. In the past, the hard market has run roughly two years before rates plateau and soften. Two years have passed since this hard market began in the spring of 2001.

“This classic turn after two years of skyrocketing premiums is good news for the hard-pressed buyers of commercial insurance,” said J. Robert Hunter, Director of Insurance for CFA and former Texas Insurance Commissioner. “While there may be some increases yet ahead for some specific commercial insurance buyers, the end of the hard market is clearly at hand for most business consumers.”

-30-

CFA is a non-profit association of some 300 pro-consumer groups that was founded in 1968 to advance the consumer interest through advocacy and education.

³ “In 2002, the average property price rose 62%, limits were down by 47% and deductibles increased by 100%. Property rates could drop by 5% to 10% a quarter going forward, Marchitello said. ‘It’s a moderating trend, it hasn’t fallen off the shelf,’ he said. But as quickly as the market seems to have turned for property, “it can turn on a dime very quickly,” Marchitello said. ‘A large catastrophe--be it a windstorm, an earthquake, or God forbid, another terrorist event--it’s going to have a very dramatic impact, an almost immediate impact on the property market. It’s going to remain very volatile.’” “Aon: Property Prices Are Beginning to Drop,” BestWire, April 8, 2003.

⁴ “Rates have begun to fall for some property insurance customers in the United States, marking an early turning point in the hard market that has gripped the property/casualty industry for the past two years or more, according to a report by insurance broker Aon Corp. ‘Rates have plateaued,’ said Gail Norstrom, property managing director at Aon (NYSE:AOC), noting that poor risks can still be an exception to the generally steady or declining property rates. But he said there’s little immediate danger of the industry slipping back into the soft market that marked much of the 1990s. Well-run companies have ‘a fair amount of redundancy in today’s rates,’ and it’s just good business to give some ground to attract business, he said. Property rates, he said, have been firming since 1999...Aon’s 2003 U.S. Property Report, based on an informal survey of buyers and sellers, found that: -- Rates are beginning to decline for some U.S. property risks; -- Increased and new capacity in the three principal markets--the United States, London/Continental Europe and Bermuda--is spurring competition and starting to push rates downward...” “Broker Notes Softening of U.S. Property Rates Amid Rising Competition,” BestWire, April 8, 2003.

⁵ The Act was signed into law on November 25, 2002, giving insurers 90 days to implement rate changes. CFA has determined that the Act saves insurers about 45 percent of otherwise projected losses from terrorism, which means that the real increase for the first quarter compared to the risk assumed is 105% (1.13/ 55).