GUEST ESSAYS

State Of The Insurance Marketplace

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The insurance industry is going through an exceptionally tough time as are most other industries. The problem began March 2000. The stock market went south as most of us are well aware…As a result, the insurance industry's investment income has been greatly reduced. Where insurance companies previously competed for market share, primarily on price, the concept of market share went out the window and profitability has become the key word. Over the past year, we have seen the marketplace harden, prices rise and availability of insurance has shrunk.

Because of the September 11 atrocity…"a day that will go down in infamy" to quote FDR, the insurance industry suffered its second but most likely its most devastating shock. Carriers, whose names we are all familiar with, are estimating their losses in many instances to be $500-million to as high as $800-million. Industry wide, the estimates of total insured losses were originally estimated at $25-billion to $30-billion…but this estimate had been increased to $35-billion to $50-billion and after the dust settles, it may exceed $75-billion.

The insurance industry says it can handle a $50-billion aggregate loss, however, it cannot take another loss of this magnitude and remain a viable industry. The industry is negotiating with the federal government for a federally backed reinsurance program to share these type losses in the future. A three (3) year program is being considered and we hope to know the outcome in the not too distant future.

When we picture those magnificent towers in New York City plummeting to the ground, most of us immediately think property insurance losses. However, of great significance will also be losses for **business income and loss of rents**. Worker's Compensation will also be greatly affected as well as other coverages such as possibly General Liability and Umbrella coverages.

January 1 is the time of the year that most of the primary insurance carriers negotiated their reinsurance treaties with a handful of companies that provide them with reinsurance. It is a given that the reinsurers will be **excluding all terrorist losses** in their reinsurance agreements. Primary insurers will pass this on to the buying public unless the Federal Government institutes a program.

The primary insurers that we are familiar with reinsure with a hand full of reinsurance companies and the reinsurer's losses will probably exceed those of the primary carriers. Some reinsurers may fail, posing even a more serious problem for primary insurance. The primary insurer will still remain liable to their insureds in spite of the lack of reinsurance recoverables.

It's too soon to know what type of increases we will be looking at in each line of insurance, **but these increases will be significant** and in some cases there may even be a serious potential of much less insurance available. Be prepared when your agent or broker contacts you about your renewal coverages. You might consider contacting your agent in advance of the renewal dates to inquire about the estimated cost of your renewal program. It's not too early to start escrowing additional funds now to handle the renewal increases. Be sure to take the anticipated increase cost of renewal coverage into consideration when negotiating new contracts for design services if the completion date of the proposed projects will extend beyond the expiration of your present insurance policies. Failing to do so could result in loosing money on projects that would otherwise be profitable.

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