



William H. Connolly & Co.

Insurance & Risk Management

The Insurance Marketplace: More Stable Now

by William H. Connolly, Jr., President

While most industry experts believed that the insurance market would continue to be difficult in 2004, they also concurred that it would show significantly more stability than in recent years. Some market segments are now seeing modest price increases only, with other segments actually remaining flat or showing small rate reductions. This is in contrast to the hard market of the past several years in which there have been fewer insurance carriers, restricted coverage terms, higher prices and, in some cases, no coverage available at all.

It is useful to recall the confluence of events and conditions that resulted in the market hardening that began in late 2000 and may have peaked by the middle of 2003:

- A ten-year soft market cycle depressed rates and premiums across virtually all lines of coverage throughout the 1990's.
- The enormous stock market growth of the 1990's was replaced by significant market losses in the early part of this decade.
- Long tail liability claims, particularly environmental losses, emerged over the past several years, causing major insurers to increase reserves dramatically, in turn causing significant balance sheet and profit deterioration.
- The tragedies of September 11th cost the insurance industry nearly \$50 billion, a record payout of staggering proportion.

- The business losses related to Enron, Global Crossing, World Com et al. cost the industry hundreds of millions of dollars and put a significant damper on a sector of the directors and officers and surety/fidelity bond market.

The cumulative effect of these events contributed to the failure of several old-line insurers and the departure from the US market of others. Just a few years ago companies like Kemper and

Royal & SunAlliance were pillars of the property and casualty market. Locally, companies like MIIX and Princeton dominated the medical malpractice market in New Jersey. Kemper is no longer in business and Royal & SunAlliance has departed the US market. MIIX entered into voluntary solvent runoff and recreated itself as a small New Jersey reciprocal,

while Princeton continues to struggle to maintain its viability as a Best rated B- carrier.

Beginning in early 2004 we began to see pockets of competitiveness in the marketplace. New capacity is helping to soften the property market and some large property risks are seeing rate reductions. Many of these same property risks are experiencing increased pressure from underwriters to upgrade fire protection systems, sprinklers, alarms and the like. The workers' compensation market in New Jersey and elsewhere seems reinvigorated.

However, there are still areas of significant distress such as the market for directors and officers

Renewal premiums should be more stable than they have been since 2000-2001. Some lines of coverage are actually experiencing premium reductions.

IN THIS ISSUE:

- 1 The Insurance Marketplace
- 2 Insuring Young Drivers
- 3 Individual Health Insurance

Property/Casualty Insurers' 2004 First-Quarter Results

Ranked by net income. All amounts in thousands of dollars

	CORPORATE			PROPERTY / CASUALTY OPERATIONS					
	Net Income	Percent Increase 2004-2003 (decline)	Consolidated Revenues 2004	Combined Ratio 2004	Combined Ratio 2003	Premiums Written 2004	Percent Increase 2004-2003 (decrease)	Policyholder Surplus 2004	Percent Increase 2004-2003 (decrease)
American International Group	\$2,656,000	35.9%	\$23,637,000	93.2% ²	93.1% ²	\$10,213,000 ²	23.9%	N/A	N/A
The St. Paul Travelers Cos.	587,200	72.7	4,127,500	91.9	99.9	3,471,300	9.6	\$8,788,000	12.1%
Hartford Financial Services Group Inc.	568,000	N/M ³	5,732,000	89.8	96.6	2,398,000 ²	10.7	6,100,000	3.4
ACE Ltd.	446,825	80.6	2,894,858	86.9	90.6	3,238,166	10.5	9,396,820	40.2
Chubb Corp.	360,700	60.6	3,178,300	92.6	95.3	3,017,400	12.8	6,750,000	39.2
SAFECO Corp.	236,200	162.4	1,498,300	89.9	98.2	1,375,700	14.1	3,028,200	17.7
Cincinnati Financial Corp.	146,119	158.0	870,545	87.1	95.1	790,015	15.1	2,791,419	0.4
Old Republic International Group	106,413	1.9	822,425	93.0	94.8	381,186 ²	9.5	1,899,073	11.6
American Financial Group	73,200	191.6	874,300	93.8	97.1	539,100	(3.2)	1,933,800	31.7
Ohio Casualty Corp.	19,200	(3.5)	415,300	100.7 ²	108.8 ²	364,100 ²	3.4	887,800	2.3
Argonaut Group Inc.	18,300	(45.5)	171,000	97.9	108.5	145,200	10.9	564,100	4.6
RLI Corp.	16,943	17.4	140,649	91.5	91.2	123,166	16.1	576,112	4.0
CNA Financial Corp.	(125,000)	N/M ⁴	2,270,000	105.0 ²	109.2 ²	1,820,000 ²	(5.2)	N/A	N/A
Liberty Mutual Insurance Co. (F2)	N/A	N/A	N/A	103.8	103.0	3,534,000	0.1	7,126,000	37.9
Cumulative	\$5,110,100	184.2%	\$46,632,177	93.8%	97.0%	\$31,410,333	13.2%	\$49,841,324	21.5%

1-Includes dividends. 2-Statutory. 3-Comparison not meaningful due to 2003 loss. 4-Comparison not meaningful due to 2004 loss. N/A Company did not provide data. Reprinted with permission from Business Insurance; Issue of May 24, 2004. Copyright 2004 Crain Communications Inc. All rights reserved.

Marketplace, continued from page 1

liability insurance for publicly held companies, hospital professional liability insurance and medical malpractice coverage for physicians.

First quarter underwriting results were extremely positive (see chart above). It remains to be seen whether companies will

maintain their discipline, achieve consistent profitability and ultimately ease market pressure. It is worth noting that the history of the insurance industry shows little of such discipline. The second half of 2004 and early 2005 should prove interesting.

WHAT THIS MEANS TO YOU

Renewal premiums should be more stable than they have been since 2000-2001. Some lines of coverage are actually experiencing premium reductions while most lines are seeing relatively modest rate increases of 4-8 percent. The exceptions to this remain directors and officers liability and certain malpractice/errors and omissions lines. Your upcoming renewal could be your most painless renewal in several years.

Help Your Teen Learn to Drive Safely

As a concerned parent, there is much you can do to help make your teen a safer driver. Set time aside to help your teen prepare and practice, and set limits for your young driver.

- Encourage awareness of traffic safety.
- Talk to teens and pre-teens about driving etiquette while they're driving with you. Set an example of safe driving practices—wear your seat belt, obey the traffic signs and don't speed.
- On the road, emphasize to your teen the importance of being aware of vehicles and hazards and leaving an adequate safety margin around the car.

- Gradually increase your teen's driving privileges commensurate with his or her developing skills and good judgment.
- Limit night driving until your teen has more experience behind the wheel. Though night driving accounts for only 20 percent of teen driving time, it accounts for 50 percent of teen crashes.
- Require permission for your teen carrying passengers (especially other teens) and restrict the number of people in the car.
- Set and enforce important rules.
- Negotiate an agreement regarding your teen's

continued on page 4

Need Individual Health Insurance?

Don't Put Off Buying It—Delays Can Cost You

by Gary Donadio, Director of Employee Benefit Products

In the middle of her first semester of sophomore year, 20-year-old Sally Jones told her parents that she wanted to take the next semester, and perhaps longer, off. She wasn't sure what her direction was and was having a difficult time focusing in school. After confirming that Sally could withdraw from college

If your son or daughter is between the ages of 19 and 23 and not a full time student, he or she is **not covered** under your group health insurance policy.



temporarily in the second semester and still have the option of returning, her parents agreed that a break might be in Sally's best interest. Sally wanted to live at home, take one class at a local college and work as a waitress. Because they had to provide their insurance carrier with proof that Sally was enrolled as a full-time student, her parents knew they might not be able to keep Sally — soon to be a part-time student — on their policy. They were right. And the issue of procuring health insurance for adult children who are not full-time students is one many parents are facing lately.

If your son or daughter is between the ages of 19 and 23 and not a full time student, he or she is not covered under your group health insurance policy. And if that son or

daughter is not a full time employee of a company that provides health benefits, he or she has none.

As parents you have a couple of choices— both expensive. If you are employed by a company with 20 or more employees, your COBRA coverage is an option. COBRA gives you the opportunity to continue the coverage you already have for your son or

daughter for 36 months for the same rate as a single employee. This option is generally slightly less expensive than buying individual health insurance coverage. But either way, you can count on monthly premiums of between \$350 and \$450.

The same dilemma arises when one member of a couple retires and becomes a Medicare beneficiary. The partner who is not yet at retirement age and is not employed has no health coverage and loses his or her benefits. The retiring spouse can provide COBRA coverage for 36 months but the couple will then have to look into individual coverage.

Similarly, a person who becomes self-employed has to count on monthly premiums of about \$400 individually and at least \$1000 for family coverage.

WHAT THIS MEANS TO YOU

If you are making the change to individual coverage, it is important to do it sooner rather than later. If you have prior coverage through your old employer or under COBRA, individual health insurance policies will cover you for pre-existing conditions provided you haven't had a gap of 30 days or more between that coverage and your new individual health insurance. And any new illness will be covered once it is diagnosed — if you have the individual coverage. No new illness diagnosed during a gap in coverage will be covered.

Commercial/Business
Insurance

Personal Insurance

Hospitals & Health
Care Providers

Colleges, Universities
& Schools

Metalworkers Plus

Employee Benefit
Programs

Risk Management
Services

Drivers, continued from page 3

responsibilities for gas, insurance and other upkeep costs, and maintenance. Be sure your teen understands that he or she is responsible for paying all traffic and parking tickets.

- Enforce zero tolerance for alcohol use, yet make sure your teen knows he or she should call you for a safe ride home.
- Make sure your teen understands the importance of using safety belts. Insist upon full safety-belt use for everyone in the car at all times. It is the law!
- Remind teenagers of the new cell-phone restrictions. Talking on a cell phone (unless it is hands-free) can cost you a fine of up to \$250 (only if you have been stopped for another violation). But it is important for teens to learn to keep off cell phones while driving. The laws will only get stricter and cell phones are a dangerous distraction for drivers, especially new ones.

Is there a way to lower the auto insurance rates for my young driver?

Automobile rates tend to be higher for drivers under age 25 because as a group, they are involved in more crashes than people of other ages. As your professional, insurance agent, it is our job to see that you get the best coverage at the best price. Check

with our agency to see if your auto insurance company offers any of the following discounts:

Driving the family car:

Rates are usually higher for young people who own their own cars than for those who drive family cars.

Good student discounts: Full-time students age 16-25 who are in the upper 20 percent of their class, maintain a B average and/or make the honor roll or dean's list may be eligible for discounts.

Driver training discounts:

Discounts may be available for drivers under 21 who have completed an approved driver training course. Some companies give discounts to individuals of any age who complete "defensive" driving classes.

Resident student discounts:

Families with a young driver who resides at college more than 100 miles from home may receive discounts.

Remember, you may also elect to take on a higher deductible for collision coverage, which will lower the premium. Or, if you have an older car, you may wish to decrease the collision coverage.

Be sure to contact our agency when you are ready to add your teen driver to your auto policy.

4 *Articles which do not carry a byline are supplied by PIA.*