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For US Insurers, Bad News May Be Good News After All

By Erik Holm and Serena Ng

NEW YORK -(Dow Jones)- For U.S. property-casualty insurers, the bad news about last year's financial performance may actually be hiding some good news.

The industry as a whole spent more on claims and expenses than it collected in premiums in 2010, resulting in an underwriting loss that worsened as the year wore on, according to an analysis from SNL Financial released Wednesday.

The numbers weren't pretty: In a large group of traditional property-casualty insurers that includes all the major companies, the total underwriting loss was \$2.64 billion in 2010, compared to a profit of \$4.37 billion in 2009.

But the value of the policies sold, or total net premiums written, rose slightly last year, climbing 0.9% to \$408.3 billion, according to SNL.

Much of the bump came in the fourth quarter, when net premiums grew 3.3%, SNL's data showed. The increase was largely driven by growth in premiums written on coverage sold to individuals, like home and auto insurance. The value of policies sold to U.S. businesses, meanwhile, declined by 2% in 2010 compared to 6.6% in 2009, suggesting the sector might be close to bottoming out following four years of declines.

Changes in commercial insurance premiums are closely watched by insurers and buyers alike. Premiums have been falling for several years as competition among insurers has intensified and most insurers are flush with capital. The falling prices have squeezed the profitability of property and casualty insurers but have so far been a boon to businesses, enabling them to pay less for coverage they need and reduce their corporate expenses amid the slow economy.

"The pricing is very favorable to companies, but I think this is the bottom of the cycle and I don't see how much softer it can get," says Len Resto, director, risk management at Global Crossing North America in Florham Park, N.J. He adds the telecommunications company has seen its insurance premiums fall 25% to 30% over the last five years, and is now trying to lock in renewal premiums on some insurance policies for two years to take advantage of the low rates.

Advisen Ltd., which collects data about the insurance industry, last month estimated that roughly \$74 billion in excess capital needs to be drained from the U.S. property and casualty insurance industry before a so-called hard market--or an environment of rising premiums--can be sustained. Some Wall Street insurance analysts have put that excess capital estimate at closer to \$100 billion and are predicting the cycle won't turn before 2013, unless several major catastrophes wipe out most of the industry's excess capital in the nearer term.

Many insurance analysts and executives have suggested that commercial insurers would face substantial pain until prices reversed. But the SNL analysis, compiled from data insurers provide to state regulators, seems to show that the industry could be changing course before its usual boom-and-bust cycle has reached its nadir. Written premiums are flat for some lines of commercial coverage, and in other lines like workers' compensation, they are declining less severely than in previous years.

The improvement in written premiums appears to be coming from an increase in demand for coverage. Travelers Cos. (TRV) and Liberty Mutual, two large commercial insurers, have said their business clients are finally showing a need for more coverage. The economic downturn had previously reduced the demand for commercial insurance as companies laid off workers, slowed production and closed facilities.

For insurance buyers, the worry is that a turn in the market could cause insurers to increase premiums quickly, as happened following major disasters like Hurricane Katrina in 2005 and the Sept. 11 terrorist attacks in 2001. Then, certain types of insurance coverage became a lot more expensive within a matter of days or weeks.

Chuck Magazine, Risk Manager for the City of Boynton Beach, Fla., says he has been working hard over the past few years to reduce his city's insurance spending amid broader budget constraints. "So far we've been able to reduce our insurance premiums through aggressive negotiations, but it's not getting easier," he says. "One of my concerns is what we're going to do if the market turns hard all of a sudden and insurers raise prices and limit the amount of coverage, making us pay more and take higher risks. It'll be a different ball game," Mr. Magazine adds.

The SNL analysis includes data from 95% of the industry. The figures for the yearly underwriting loss and net premiums written exclude some insurers focused on financial lines, mortgage and bond insurance, or accident and health coverage.

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