

## Insurers setting the stage for rate hikes

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Insurers stress '11 a costly year, suggest rate hikes ahead  
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Record insured losses globally in 2011 mean insurance companies will pay more for their own policies, called reinsurance, which is expected to lead to higher property insurance rates for policyholders. Representatives of Munich Reinsurance America Inc. and the Insurance Information Institute, a nonprofit backed by the insurance industry, reviewed a year of catastrophes on Wednesday. Insured losses worldwide in 2011 were \$105 billion, topping the 2005 record of \$101 billion. An earthquake that triggered a tsunami in Japan and a New Zealand earthquake accounted about half those losses. In the United States, spring tornadoes topped the costliest disasters list, and were fourth in terms of costs worldwide. In fact, the tornadoes represented the fourth highest cost for insured losses in United States history, topped only by 9/11, Hurricane Andrew and costliest of all, Hurricane Katrina. Insured losses from the tornadoes were \$21.3 billion. However, only one hurricane, Irene, made landfall in 2011. Robert Hartwig, who heads the Insurance Information Institute, said property insurance rates should be expected to increase. Overall, he said, insurance companies paid out \$1.16 for each premium dollar collected in 2011. In hurricane-prone areas such as the Mississippi Coast and Florida, he always says, it's a matter of when, not if, a hurricane hits. When one does, it wipes out years of premium profits. However, Mississippi Insurance Commissioner Mike Chaney, who must approve rate hikes for property and casualty insurance companies, said all 2011 worldwide catastrophes won't necessarily translate into higher rates in Mississippi. "All he's trying to do is justify rate increases," Chaney said. "We have to look at rate increases based on their merit. I'm not opposed to granting small increases, but I don't like huge rate increases." Katrina, with a record \$47.6 billion in insured losses, led to steep insurance rate hikes and a shrinking market. The Mississippi wind pool, insurer of last resort, ballooned with policyholders no longer able to buy insurance in the private market. The wind pool has just started shopping for reinsurance for the coming year. Reinsurance provides excess coverage to insurance companies for catastrophic losses. Chris Boone, chairman of the wind pool board, said he has heard that reinsurance costs will be going up, but hasn't seen that happen yet for his own clients at Stewart Sneed Hewes insurance. He said the wind pool could absorb an increase in reinsurance costs of up to 5 percent

without a rate hike. He hopes there will not be an increase, however. The wind pool is expected to have its reinsurance in place by mid-March. "We are hopeful on the wind pool board that the wind pool has done the kinds of things to improve its own profile that will make it a better placement for reinsurers," Boone said. "We continue to tell a really positive story that construction quality has improved. Distance to the water has increased, generally speaking, and there are private commercial carriers back in the game." He said the private homeowner's insurance market is improving more slowly. Chaney said he's heard plenty of talk that reinsurance rates will increase, but it hasn't happened. If reinsurers had a bad year in Japan, he said, they are more likely to look to the United States market for more business. He said only 25 percent of the worldwide reinsurance business is in the property and casualty market. Because Munich Reinsurance is in the insurance business, Chaney said, "they're looking for anything they can hang their hat on to justify rate increases." If reinsurance costs do go up, he said, the wind pool can consider buying less reinsurance.