

Why are my insurance rates going up?

The property/casualty insurance cycle

Before we can begin to explain why your insurance rates may be increasing, it helps to understand the property/casualty (P/C) insurance cycle.

Like many other industries, the P/C insurance industry is cyclical. It's characterized by periods of soft market conditions where premiums are stable or falling and hard market conditions in which rates increase and insurance becomes harder to find.

It's easy to find and buy insurance during a soft market because companies are reducing their rates in an attempt to increase their market share. As rates decrease, however, so do profits. This, in turn, depletes the capital needed to write new business.

A hard market, on the other hand, is characterized by less intense competition in which underwriting standards are tougher. Insurance availability is limited because insurers don't have the capital to take on more business. Consequently, rates go up.

For the past seven years, the P/C industry has experienced soft-market conditions. Now the cycle has started to turn upward toward a hard market.

Other factors can affect insurance rates

Besides the P/C insurance cycle, other factors can affect rate increases. Some of these factors are:

- 1. Weather.** In 2011, insured catastrophe losses in the U.S. totaled \$35.9 billion, according to the Insurance Information Institute. Hurricanes and flooding along the East Coast, as well as tornadoes, wind, and hail losses in the Southeast and Midwest were major causes. By comparison, catastrophic losses averaged \$23.8 billion per year from 2000 to 2010.

While larger events like hurricanes are more widely covered in the media, thunderstorms consistently produce large scale losses. Thunderstorms alone account for a record \$25.8 billion in losses in 2011. In fact, 2008-2011 are the most expensive years on record for thunderstorm losses.

It's not just weather-related losses in the U.S. that affect premiums. Catastrophic losses that occur in other countries also affect American insurers. Insurance is a world-wide pooling of risk so when major losses occur in other countries, it affects the reinsurance rates for American insurance company's insurance.

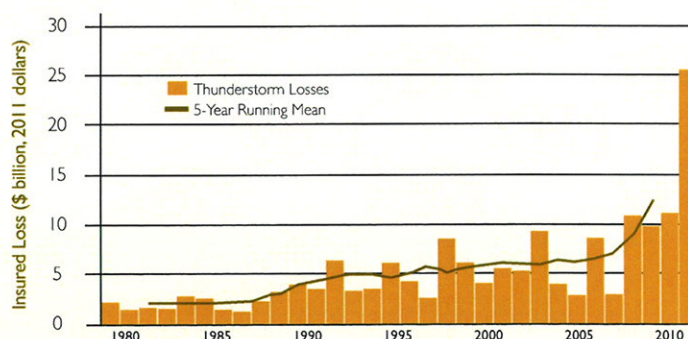
The Japanese tsunami and earthquake, Chilean and New Zealand quakes, Australian hailstorms, and Polish floods contributed to the increased price of reinsurance in 2011.

- 2. The continuing recession.** During a recession, home owners may not be able to afford necessary maintenance on their homes, so claims for leaky roofs, ice dams, or flooded basements are more likely. People are also more likely to purchase older, more affordable homes that can raise the average loss amount for claims. The recession can also result in an increase in fraudulent claims for both homes and vehicles. Municipalities and state governments may not be able to fix roads and provide basic services. Deteriorating roads and delayed or discontinued services can contribute to an increase in auto claims, as well as the duration of business interruption

claims. And in difficult economic times, some people just don't buy insurance which can lead to an increase in the price of uninsured and underinsured coverages.

- 3. The improving economy.** Even though the recession continues, there have been improvements in the economy. As companies hire more people, their payrolls increase. Increases in payroll increase the cost of insurance premiums.
- 4. Increased health care costs.** Consumer Price Index data shows healthcare costs have outpaced the overall inflation rate. This affects many types of claims, particularly workers' compensation which is often the largest commercial line of business for P/C companies. From 1999 to 2007, workers' compensation medical costs doubled. And they continue to rise due primarily to the increase in healthcare costs.

U.S. Thunderstorm Loss Trends 1980 – 2011



Source: Property Claims Service, MR NatCatSERVICE

What can you do?

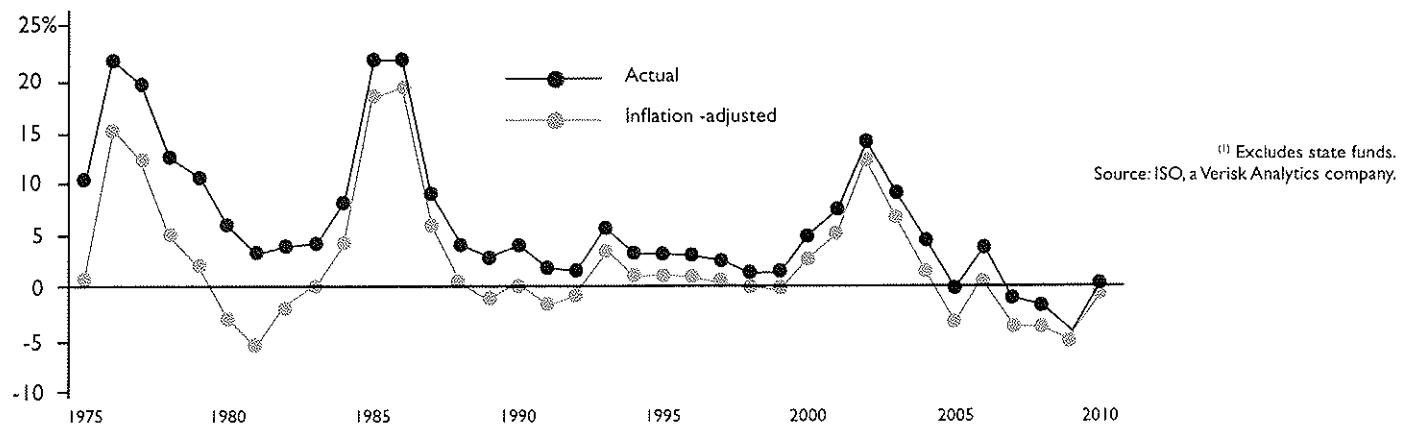
There are things you can do that may help reduce the price of your insurance premiums. Be sure to discuss these with your independent insurance agent who may offer other suggestions, as well.

In the end, being informed is the best policy. That includes reading your insurance policy so you know your rights and responsibilities. It is, after all, a legal contract. And when it comes to your particular insurance needs, as well as trends or changes in the insurance industry, your agent is your most trusted and reliable source.

1. Increase your deductible.
2. Install burglar alarm and fire alarm systems on your premises.
3. Put a written safety program into practice to help reduce workers compensation claims.
4. If you already have a safety program, review it with your agent to see if there's more you can do.
5. Institute an early return-to-work program for employees who may be injured on the job.
6. Institute a fleet safety program if you employ drivers.



Percent Change from Prior Year, Net Premiums Written, P/C Insurance, 1975 - 2010 ⁽¹⁾



Worldwide Natural Disasters 2011

Significant Natural Disasters (January - September only)

Period	Loss event	Affected area	Overall Losses	Insured losses
			US \$m, original values	
Dec 2010-Jan 2011	Floods, flash floods	Australia (Queensland)	7,300	2,550
January 12/16	Landslides, flash floods	Brazil (State of Rio de Janeiro)	**	**
February 3	Cyclone Yasi	Australia (Queensland)	2,000	1,000
February 22	Earthquake	New Zealand (Christchurch)	25,000	13,000
March 11	Earthquake, tsunami	Japan (northeastern Honshu)	210,000	~30,000
April 22-28	Severe storms, tornadoes	USA (esp. Tuscaloosa, Alabama)	12,000	7,300
April - May	Floods	USA (esp. Ohio River, Mississippi River, Missouri River)	2,600	**
April/September	Wildfires	USA (Texas)	1,500	680
May 14-22	Wildfires	Canada (Alberta, Slave Lake)	>1,500	720
May 20-27	Severe storms, tornadoes	USA (esp. Joplin, Missouri)	9,000	5,900
June 13	Earthquake	New Zealand (Christchurch)	**	**
August - Sept.	Floods, landslides	Thailand, Cambodia, Vietnam	**	**
August - Sept.	Floods	Pakistan	**	**
Aug. 22 - Sept. 2	Hurricane Irene	USA, Caribbean	15,000	7,000

Source: MR NatCatSERVICE

*As at October 2011 **Loss assessment still in progress