



The Property and Casualty Underwriting Cycle In the United States: Behavior and Belief

CAS-Seminar on Reinsurance Cambridge MA

May 19th-20th , 2008





- 1 Introduction**
- 2 Behavior/Belief Issues**
- 3 Recap**

1



Introduction

A. Adam Smith's Invisible Hand



B. The Handwriting on the Wall



C. Talk to the Hand



2



Behavior/Belief Issues



- **Council of Insurance Agents and Brokers (CIAB) Survey**
 - Place 80%, Over \$90 Billion, of All US Insurance Products and Services Protecting Business, Industry and Public at Large
 - Quarterly Market Survey
 - Lines
 - *Business Interruption, Broker E&O, Commercial Auto, Commercial Property, Construction, D&O, Flood, Employment Practices, General Liability, Medical Malpractice, Surety, Terrorism, Umbrella, Workers Compensation*
 - Fourth Quarter 1999 to First Quarter 2008
 - Approximately 120 Responses

Remember Mood Rings?



ORANGE- Obsessive Attachment - Big Rate Decreases

YELLOW – Happy - Small Rate Decreases

GRAY- Satisfied, Uncertain, or Actuarial - Stable Rates

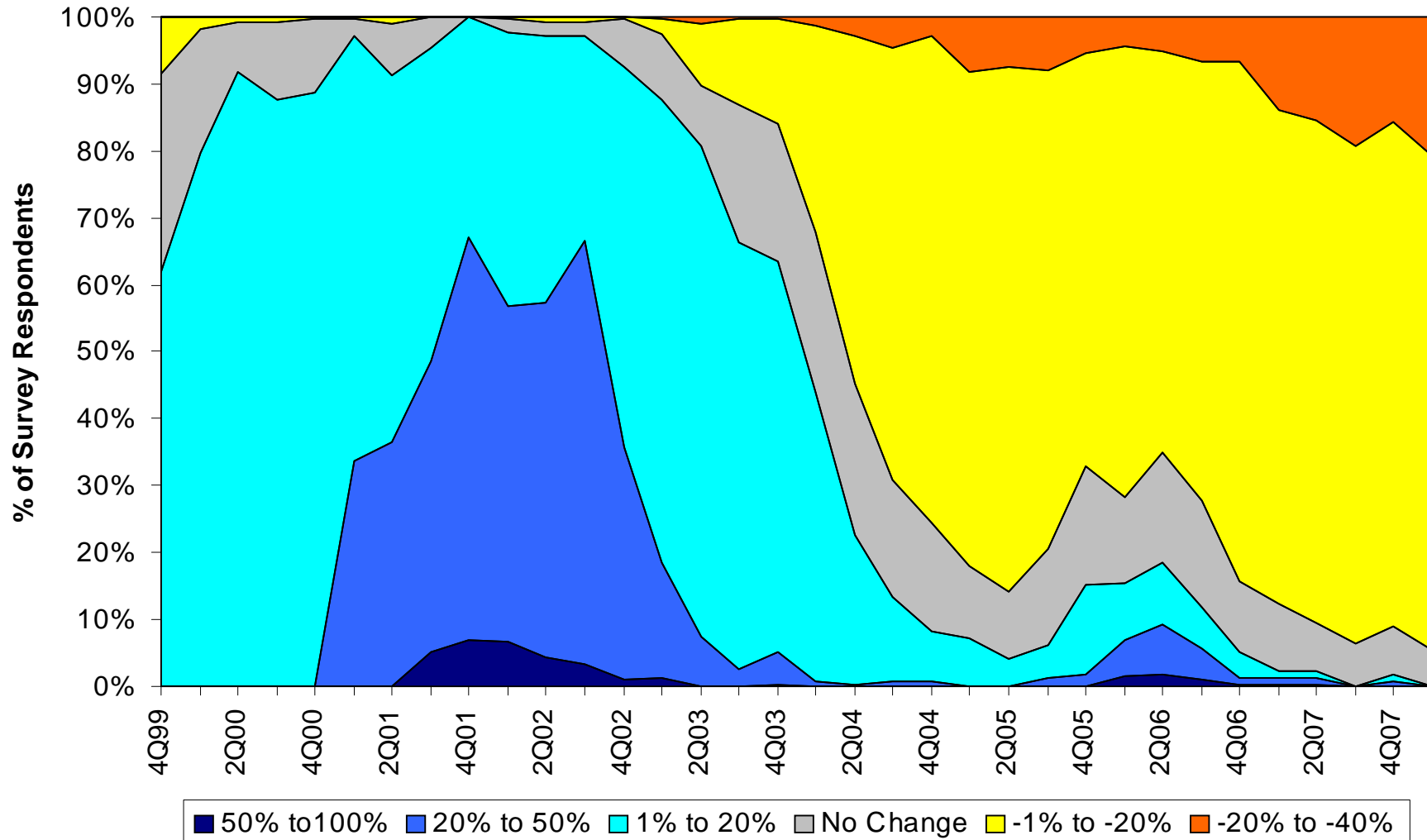
LIGHT BLUE - Worried - Small Rate Increases

DARK BLUE – Desperate - Big Rate Increases

Mood Ring for the Industry



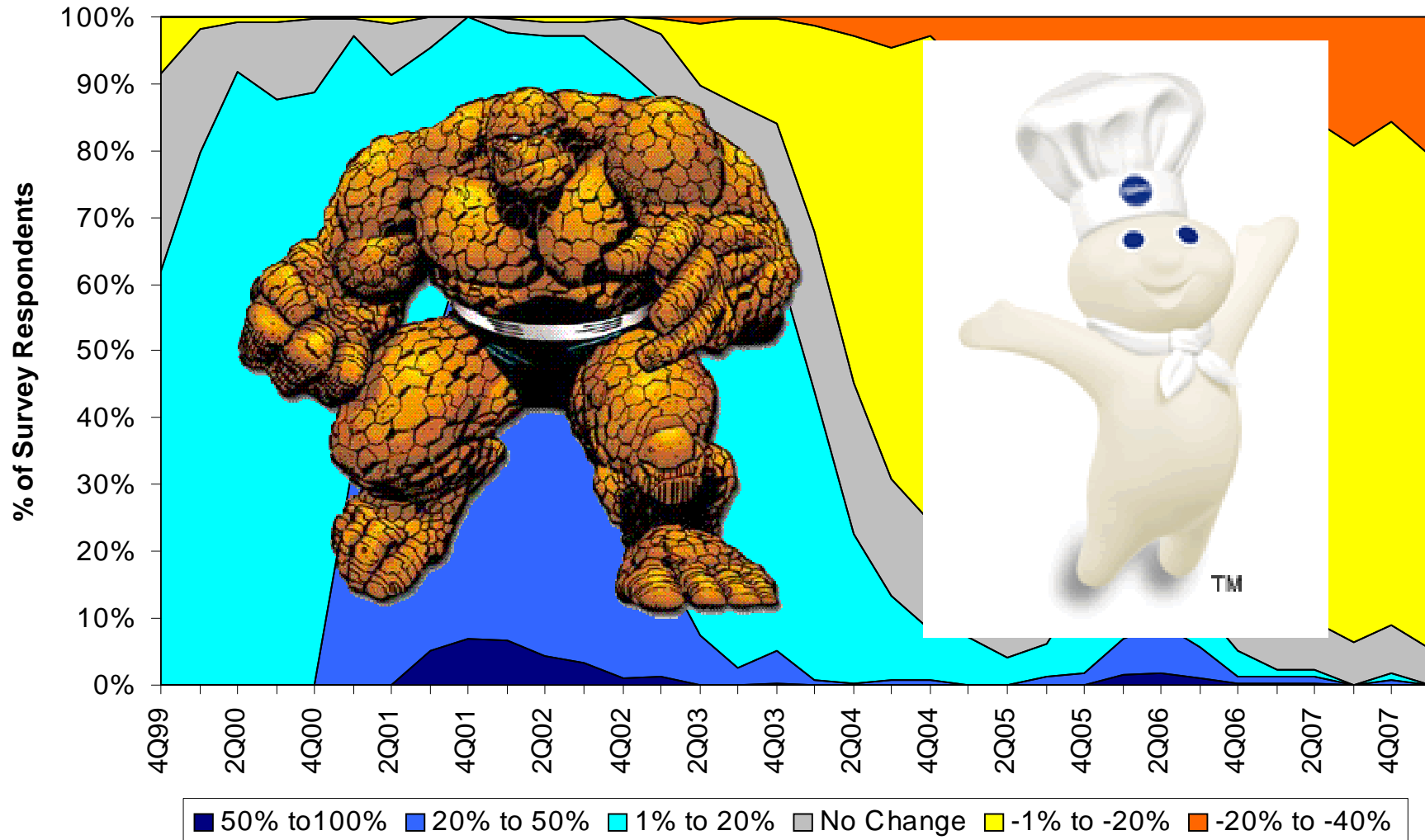
CIAB Survey: Historical Commercial Lines Rate Change



Mood Ring for the Industry



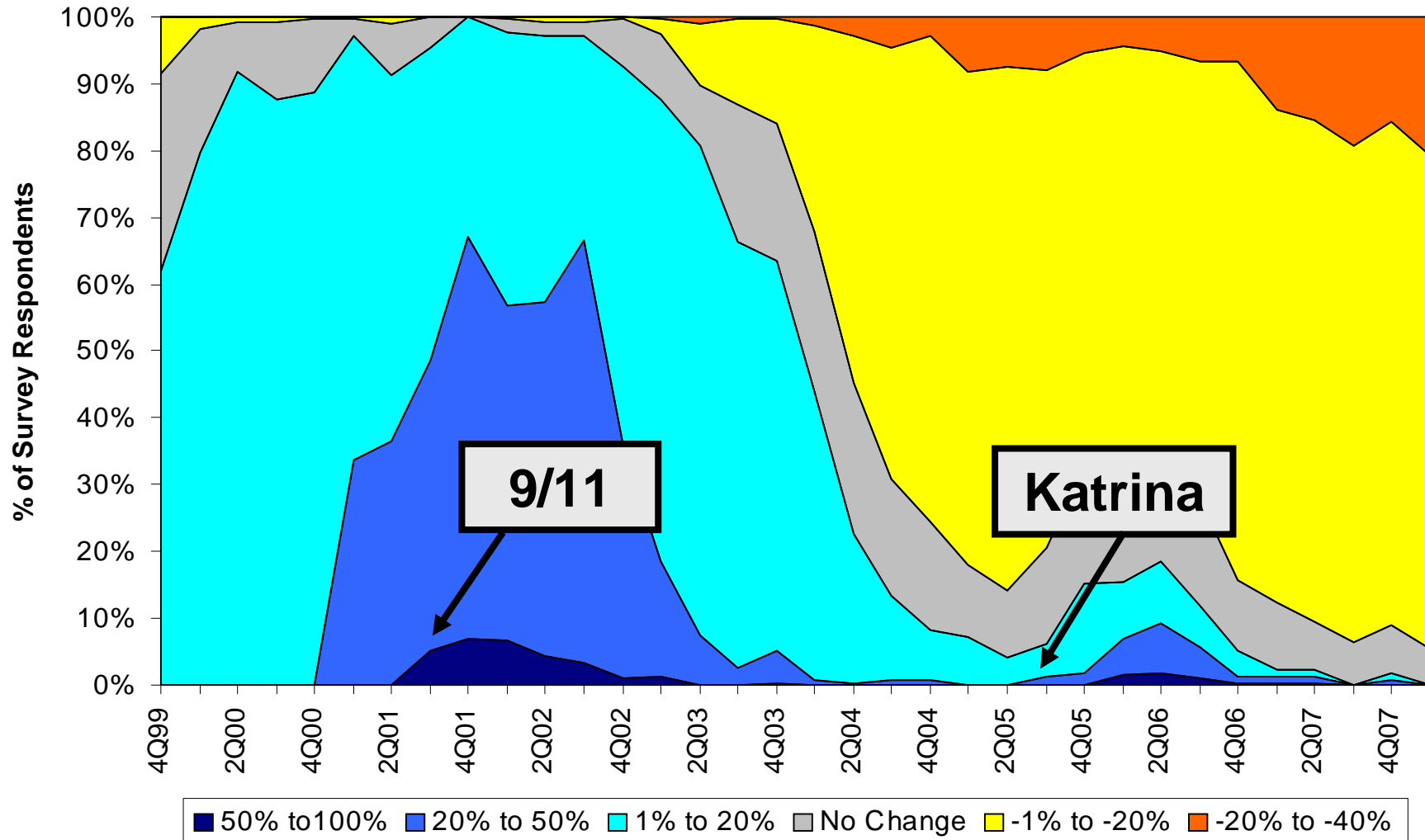
CIAB Survey: Historical Commercial Lines Rate Change



Mood Ring for the Industry



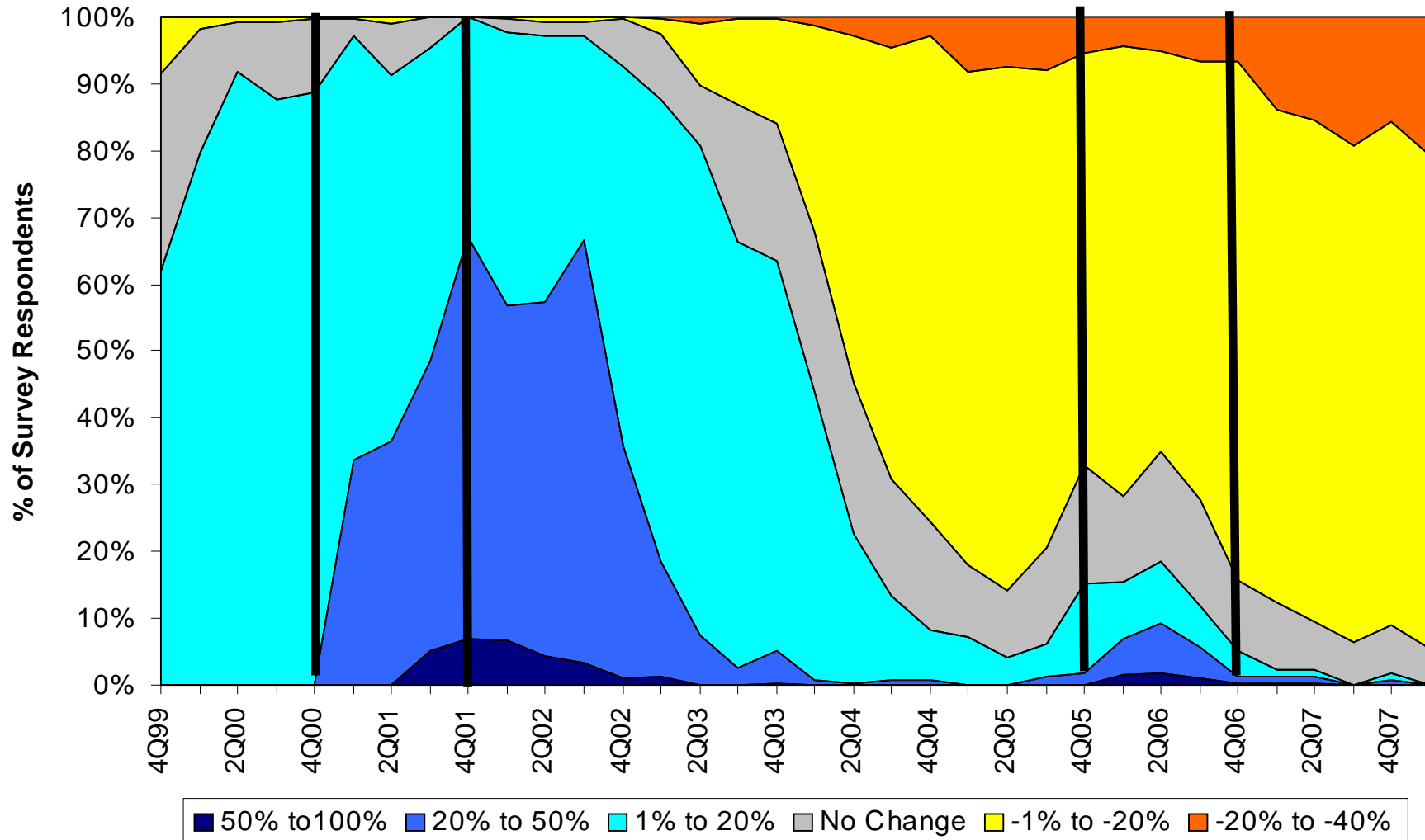
CIAB Survey: Historical Commercial Lines Rate Change



Mood Ring for the Industry



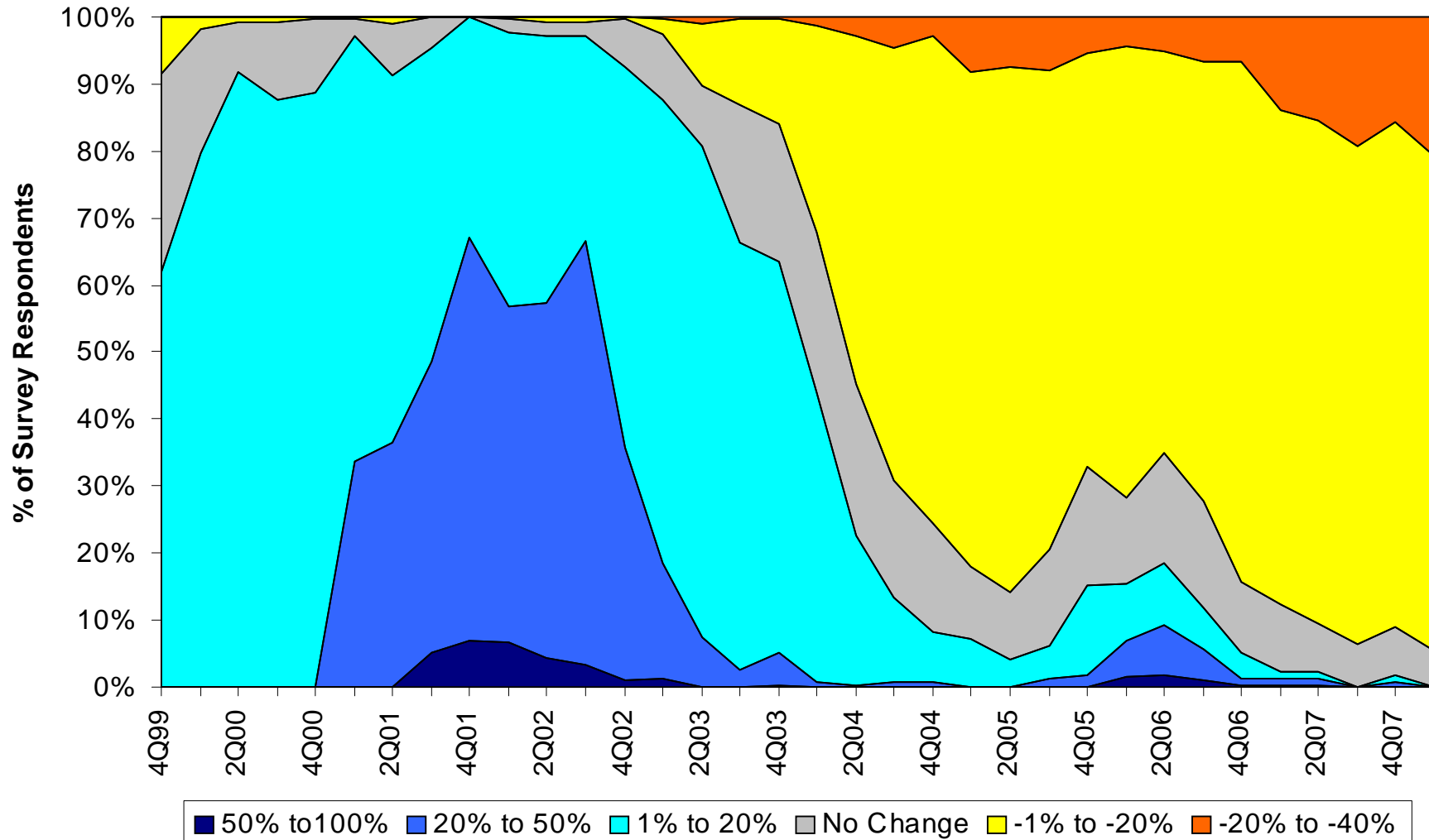
CIAB Survey: Historical Commercial Lines Rate Change



Mood Ring for the Industry



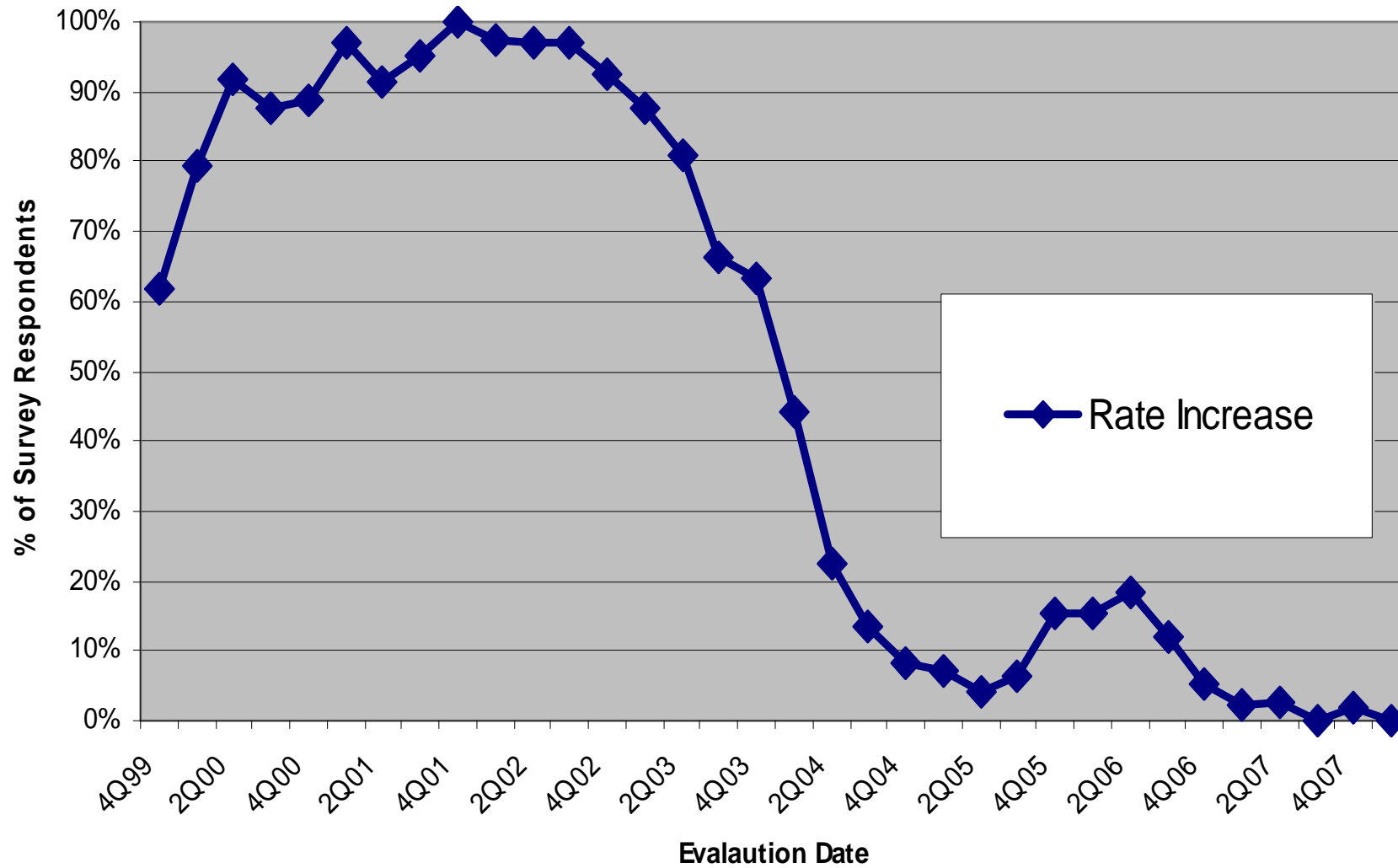
CIAB Survey: Historical Commercial Lines Rate Change



One More Graph



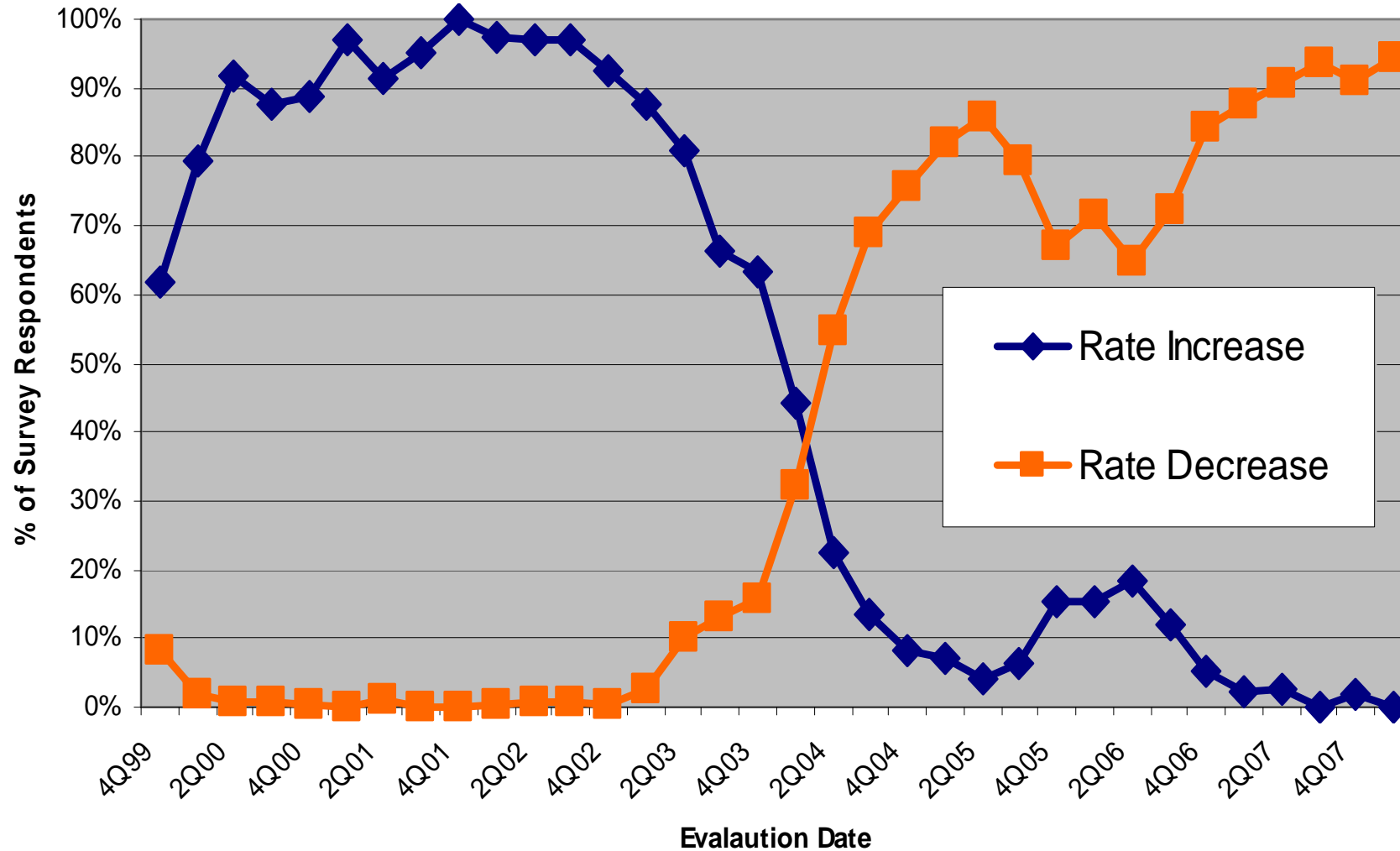
CIAB Survey: Historical Commercial Lines Rates Change Summary



One More Graph



CIAB Survey: Historical Commercial Lines Rates Change Summary



3



Recap



- **Rates Always in Flux**
 - *“No Change” Opinion Never Exceeded 30%*
- **Prior Hard Market Began Before 9/11**
- **Catastrophes**
 - *Reinforce Hard Markets (9/11)*
 - *Slow Down Soft Markets (Katrina)*
- **Someone Almost Always Sees No Change (Stability or Indecision?)**
- **Hard/Soft Inflection Point**
 - *2nd quarter, 2004*
 - *Second Largest “No Change” Opinion Level*
- **1st Quarter , 2008**
 - *0% Response for Rate Increases*
- **If Never More than 30% of Agents ever Believe Rates are Stable, Can a Period of Rate Stability Exist?**