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## **Weathering the Storm**

**Insurance companies, agencies, plow through rough conditions. Will rates rise?**

Think you're sick of bad weather? Consider those in the insurance industry, who are tallying several years of bad weather and its impact on their business.

Add to that the mounting issues related to the economic recession, and a highly competitive atmosphere among insurance companies: the third leg in what has become a pressure cooker.

As the industry grapples with changing conditions, companies are assessing their services, practices and opportunities.

"I expect insurance companies are going to have to figure out a way to gain rate in the marketplace," said Mike Moore, executive vice president of insurance operations at M3 Insurance in Madison. "That doesn't mean that every insured will see a rate increase; some will go down or remain stable."

In 2008, business and home insurance claims for U.S. catastrophes topped \$25 billion. The year saw 37 catastrophes, the highest frequency of storms in a decade, according to analysis by ISO's Property Claim Service Unit, a New Jersey firm that tracks information on risk. Hurricanes, severe weather, winter storms and tropical storms accounted for the high number of events, with hurricanes causing the most loss.

Over the past five years, the insurance industry has experienced either a higher frequency of catastrophes, or a high insured loss total. Cases in point: 2004 resulted in \$27.5 billion in losses; 2005, \$62.3 billion; and in 2006, a near-record 33 storms ravaged the nation.

While years of bad weather are taking a toll on insurance companies across the country, according to those in the industry, some firms note that it's all part of doing business.

"We expect catastrophic claims every year, and budget for them based on a historical average with emphasis on most recent years," according to Madison-based American Family Insurance Director of Strategic Communication and Media Relations Ken Muth. "Catastrophic losses can have an impact that's not as dramatic as some people might think. You develop your rates based on what you expect to pay for the upcoming year."

## **SHRINKING SHARE**

When payroll and sales of insured firms shrink, so do insurance premiums. Furthermore, when companies which buy commercial insurance products are not investing in infrastructure or aren't spending money on vehicles, their insurance needs shrink. Likewise with consumer insurance products: the economic slowdown creates less need for insurance products.

“When your assets go down, when payroll and sales are shrinking or going backwards [insurance] business will shrink with it,” explained Craig Butler, a principal and vice president of sales at Hausmann-Johnson Insurance in Madison. Butler said his company began noticing the diminishing payroll and sales trend last year. And it has had a ripple effect.

“We do a lot of business in the contracting field. Overall, that shrunk 10 to 15 percent last year,” said Butler, noting that when building slows, so does the need for a whole host of other related services, such as roofing and landscaping.

In addition, insurance experts say the market for insurance products has been soft for several years with premiums decreasing. Insurance companies draw revenue on investments which have, in general, declined. These factors have caused a buzz in the industry about pricing. “There will be a little bit of a challenge going forward because there’s pressure to raise rates.” Butler forecasted.

## **BUYERS MARKET**

Mike Schimke, vice president of workers compensation with General Casualty in Sun Prairie, a subsidiary of Australia-based QBE Group, called the environment for insurance sales “hypercompetitive.”

“Experts predict that what has been a very competitive market over the last few years may flatten from a rate standpoint, or rates may go up,” Schimke said.

General Casualty/QBE has not made any decisions, however, on whether they will adjust rates. Schimke said the company continues to carefully monitor how the economy is faring, as well as weather bands.

American Family Insurance reviews rates each fall, according to Muth. During its review last October, rates adjusted down for auto insurance three percent, and up, on average, for Wisconsin home policy holders 11.4 percent due to storm and non-storm losses, including winter-related ice dams and burst pipes.

“It’s too early to tell where rates will adjust in 2009,” Muth said. “The financial market does not impact the rate-setting process.”

With recent unprecedented events in the financial markets and the global economy, Butler said he has stopped trying to predict what will happen within his industry. But he does believe rates will increase. “It’s a question of when,” he said. “Most of the companies talk about rate increases coming forward in 2009 but nobody wants to be the first to do it. And we have to be the messengers.”

Insurance experts argue that both companies and consumers will need insurance products because they can now least afford to have an uncovered claim. Smart companies will be creative, Butler said, to structure an affordable program for clients.

Muth pointed out that American Family Insurance has shored up its efforts to maximize customer value through ongoing programs – including a single point of contact for any questions or issue, and 24-hour rapid response claim centers, where simple claims are handled on the spot. The company is focusing its efforts on delivering these customer services, “making sure we’re being very efficient in how we operate,” Muth said.

To that end, the company cut 160 contract information technology positions in the fourth quarter of 2008.

Another strategy, Moore said, is to tighten up underwriting policies.

“Each company has different exposures in its portfolio that will determine how they take a look at that and see how the company makes a profit on the account,” explained Moore. “You reserve your best pricing and best terms for your best customers.”

On January 1, American Family began selling insurance in the Atlanta, Georgia, area, adding its 19th state. The M3 agency expanded, too, opening its first out-of-state office in Denver, which began selling employee benefit insurance and plans to add property-casualty products to its portfolio.

Wisconsin has the fifth highest number of property and casualty insurance companies in the country, home to 183 of these firms, according to a recent study done for the Wisconsin Insurance Alliance trade group. In the fall 2008 report by the Wisconsin Taxpayers Alliance, the group noted that Wisconsin benefits from 17,000 insurance industry employees and lower rates as a result of the high number of insurers in the state.

“The insurance industry has a long history in Wisconsin that has weathered a lot of bad economic times, and we are poised as an industry to continue,” said WIA President Andrew Franken.