



THE COUNCIL
of Insurance Agents + Brokers

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NEWS RELEASE

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A Hard Market in Real Distress, The Council's Second Quarter 2002 Rate Survey Shows

Prices Increase, Capacity Shrinks and Business Flows to Alternative Markets

Washington, DC – Today, The Council of Insurance Agents + Brokers released its second quarter Commercial Insurance Market Index¹, documenting the deep and deepening distress of the commercial insurance market. In the data for the period April – June 2002, which includes July 1 renewals – The Council's members reported rates up, capacity down, and growing use of alternative risk management mechanisms.

“Absent definitive action on the federal terrorism backstop, there is no relief in sight on either the supply or demand side of the market,” said Ken A. Crerar, The Council's president. “Our members report commercial insurance rates show no signs of peaking. Closing the third business quarter since September 11 terrorist attacks – and seismic aftershocks of record-shattering natural catastrophes and corporate scandals – consumers, carriers and brokers alike are clearly on the cutting edge of pain now spreading to all segments of the US economy.”

Among major findings:

- Terrorism coverage is scarce, and particularly hard for property, general liability and umbrella coverages. More than 80 percent of broker respondents say the number of policies renewed with terrorism exclusions grew between the first and second quarters this year. “Virtually everyone excludes terrorism,” said a broker from the Northeast.
- Small, medium and large commercial accounts throughout the United States continue to experience rate increases from 10 percent to 50 percent, with the largest increases (20 percent to 50 percent) hitting medium and large accounts. “All accounts are being re-

¹ The Commercial Insurance Market Index is a quarterly industry service of The Council of Insurance Agents + Brokers, Washington, DC. The Index presents findings from a quarterly survey of The Council's members, who are all in the top one percent of all commercial insurance brokers, a group responsible for placing 80 percent of total commercial insurance premiums. The second quarter 2002 poll took place from July 1 – July 15, 2002. Responses were received from 136 respondents from across the United States commercial insurance market. Complete findings from the latest survey and trend data from previous surveys (beginning January 2002) are available at The Council's website, www.CIAB.com/Resources.

underwritten. (But,) terms and conditions are being restricted. Property capacity has been reduced,” a broker from the Pacific Northwest commented.

- Carriers continue to tighten terms and conditions with much tighter underwriting. Broker respondents report much higher deductibles, more coverage exclusions and “fewer things to negotiate.” The trend is apparent across the market, with 96 percent of broker respondents reporting mold exclusions added to property and construction renewals, and 71 percent saying pollution exclusions are added at renewal.

Though nearly all individual lines surveyed saw noteworthy increases in the 20 percent to 50 percent range, umbrella and medical malpractice insurance have spiked, with most brokers reporting increases of 30 percent to 100 percent or more. Moreover, coverage problems are not limited to any one region of the country.

- “Umbrella pricing is up 100 percent and most carriers have only half the capacity they had last year.” (Northeast region)
- “Umbrella markets have doubled and tripled renewal prices – pointing to reinsurance terms as the driver.” (Southeast region)
- “Umbrella [market] has gone wild!” (Southwest region)

One broker described “a near crisis” in the medical malpractice area on a primary and excess basis. “Those carriers who are willing to write excess want to attach at \$5 million or higher.” Brokers also report physicians forced to join assigned risk pools or go without coverage. “The JUAs (Joint Underwriting Associations) have become the market of only resort!” a broker from the Northeast said.

Distresses are spread among all commercial lines. The D&O market is buffeted by the Enron and WorldCom accounting scandals. Property blanket limits are not available on most large real estate schedules. Though property capacity is a generalized problem across the market, it is particularly restricted in coastal areas subject to catastrophic risks, which, brokers report, are subject to tight and tightening underwriting scrutiny.

A significant number of brokers surveyed reported some carriers have suspended writing new business entirely, while others are rejecting accounts that are not “squeaky clean.” “Any account that is not renewed is finding it tough to get anyone interested in quoting,” one Midwest broker stated.

Unquestionably, the tight primary market has forced more business to turn to the alternative market, where there are fewer regulatory restrictions on exclusions and policy terms and conditions. Overwhelmingly, 97 percent of surveyed brokers reported they used the excess and surplus lines market most often as an alternative for traditional coverages, and 20 percent reported use of captives.

And how are consumers fairing amid a market in such distress? Brokers reported customers responding to price and capacity issues most often by lowering limits, dropping some coverages, raising deductibles and looking at alternative risk management mechanisms.

Brokers said “terrorism legislation” and “investment conditions” are the two major factors that most affect stability in the longer-term insurance market. Most brokers said they prefer to “wait and see” rather than predict what lies ahead.

“The market is rough,” said Ken Crerar. “Not surprisingly, our members see increasing consumer frustration. Many industry consumers had hoped the market would settle down by the July 1 renewal period. But our survey proves categorically that did not happen. And, I don’t know anyone in the brokerage or carrier leadership who doesn’t understand the pain consumers feel and the very real challenges they face.”

Crerar continued, “Our industry has honored its commitments from September 11. As the industry has fought mightily to regroup, it has been buffeted by corporate accountability scandals and natural catastrophes. There’s no question that House and Senate passage of the federal terrorism backstop legislation – now working its way to conference – provides some hope. The Council joins other insurance advocates in urging federal policymakers to have a bill signed into law by the president in time to help buyers in the final two quarters of the year. It’s good we have made it this far this fast. Then again, with economic fallout so clear and widespread, it’s frustrating it is taking Congress so long to act.”

Since 1913, **The Council of Insurance Agents + Brokers** has provided industry leadership while representing the largest, most productive and most profitable commercial insurance and employee benefits agencies and brokerage firms in the U.S. and around the globe. The Council’s members in over 3,000 locations, place nearly 80% — well over \$90 billion — of the U.S. commercial property/casualty premiums and billions of dollars in employee benefits. Web site: www.ciab.com.



Commercial Property – Casualty Market Survey

2nd Quarter 2002

Released: July 2002

Total Responses: 136 (Represents independent insurance agents + brokers across the United States)

Below are the survey results for: All Regions of the United States

1. On average, how have premium rates changed over the last 3 months, including July 1 renewals, for the following accounts. Please check N/A if you don't know or don't handle the type of account.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Change	5 Up 1 – 10%	6 Up 10 – 20%	7 Up 20 - 30%	8 Up 30 - 50%	9 Up 50 - 100%	10 Up >100 %	N/A
Small (<\$25K Comm. & Fees)	0 %	0 %	1 %	4 %	8 %	40 %	35 %	7 %	1 %	0 %	4 %
Medium (\$25K – \$100K)	0 %	0 %	0 %	1 %	4 %	19 %	43 %	28 %	1 %	0 %	4 %
Large (>\$100)	0 %	0 %	1 %	1 %	4 %	10 %	32 %	31 %	4 %	3 %	14 %

2. How much have premium rates changed over the last 3 months, including July 1 renewals, for the following lines? Please check N/A if you don't know or don't handle the line.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Chan ge	5 Up 1 - 10%	6 Up 10 – 20%	7 Up 20 - 30%	8 Up 30 - 50 %	9 Up 50 - 100%	10 Up >100 %	N/A
Business Interruption	0 %	0 %	0 %	3 %	8 %	32 %	33 %	10 %	1 %	0 %	13 %
Commercial Auto	0 %	0 %	1 %	2 %	6 %	28 %	39 %	21 %	1 %	0 %	2 %
Commercial Property	0 %	0 %	0 %	3 %	4 %	16 %	30 %	31 %	13 %	1 %	2 %
Construction Risks	0 %	0 %	0 %	1 %	1 %	7 %	21 %	38 %	15 %	4 %	13 %
D&O	0 %	0 %	0 %	2 %	6 %	10 %	22 %	28 %	14 %	4 %	14 %
Employment Practices	0 %	0 %	1 %	6 %	12 %	18 %	29 %	18 %	5 %	1 %	10 %
General Liability	0 %	0 %	0 %	2 %	9 %	24 %	45 %	15 %	2 %	1 %	2 %
Medical Malpractice	0 %	0 %	0 %	2 %	1 %	6 %	2 %	7 %	22 %	18 %	42 %
Surety Bonds	0 %	0 %	0 %	10 %	13 %	16 %	14 %	6 %	0 %	1 %	40 %
Umbrella	0 %	0 %	0 %	2 %	4 %	10 %	20 %	27 %	17 %	16 %	4 %
Workers Compensation	0 %	0 %	0 %	5 %	13 %	19 %	32 %	15 %	5 %	2 %	9 %

Commercial Property – Casualty Market Survey

2nd Quarter 2002

Released: July 2002

1. Below are the survey results for: **NORTHEAST (CT,DE,DC,MA,ME,MD,NH,NJ,NY,PA,RI)**

2. On average, how have premium rates changed over the last 3 months, including July 1 renewals, for the following accounts. Please check N/A if you don't know or don't handle the type of account.

	1 Down 20 – 30%	2 Down 10 – 20%	3 Down 1 – 10%	4 No Change	5 Up 1 – 10%	6 Up 10 – 20%	7 Up 20 – 30%	8 Up 30 – 50%	9 Up 50 – 100%	10 Up >100 %	N/A
Small (<\$25K Comm. & Fees)	0 %	0 %	0 %	9 %	0 %	41 %	32 %	9 %	0 %	0 %	9 %
Medium (\$25K – \$100K)	0 %	0 %	0 %	0 %	9 %	21 %	41 %	26 %	0 %	0 %	3 %
Large (>\$100)	0 %	0 %	0 %	0 %	6 %	6 %	41 %	32 %	3 %	0 %	12 %

3. How much have premium rates changed over the last 3 months, including July 1 renewals, for the following lines? Please check N/A if you don't know or don't handle the line.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Change	5 Up 1 - 10%	6 Up 10 – 20%	7 Up 20- 30%	8 Up 30 - 50 %	9 Up 50 - 100%	10 Up >10 0%	N/A
Business Interruption	0 %	0 %	0 %	6 %	6 %	32 %	35 %	15 %	6 %	0 %	0 %
Commercial Auto	0 %	0 %	0 %	3 %	3 %	26 %	50 %	18 %	0 %	0 %	0 %
Commercial Property	0 %	0 %	0 %	9 %	6 %	6 %	35 %	38 %	6 %	0 %	0 %
Construction Risks	0 %	0 %	0 %	3 %	6 %	0 %	18 %	24 %	21 %	6 %	22 %
D&O	0 %	0 %	0 %	3 %	0 %	6 %	35 %	26 %	18 %	3 %	9 %
Employment Practices	0 %	0 %	0 %	3 %	15 %	15 %	39 %	9 %	12 %	0 %	7 %
General Liability	0 %	0 %	0 %	6 %	9 %	20 %	47 %	18 %	0 %	0 %	0 %
Medical Malpractice	0 %	0 %	0 %	3 %	3 %	9 %	0 %	9 %	18 %	18 %	40 %
Surety Bonds	0 %	0 %	0 %	6 %	9 %	18 %	6 %	6 %	0 %	3 %	52 %
Umbrella	0 %	0 %	0 %	6 %	0 %	9 %	24 %	28 %	24 %	9 %	0 %
Workers Compensation	0 %	0 %	0 %	6 %	15 %	21 %	29 %	18 %	3 %	0 %	8 %



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2nd Quarter 2002

Released: July 2002

2. Below are the survey results for: SOUTHEAST (AL,FL,GA,KY,LA,MS,NC,SC,TN,VA,WV)

2. On average, how have premium rates changed over the last 3 months, including July 1 renewals, for the following accounts. Please check N/A if you don't know or don't handle the type of account.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Change	5 1 – 10%	6 Up 10 – 20%	7 Up 20 - 30%	8 Up 30 - 50%	9 Up 50 - 100%	10 Up >100 %	N/A
Small (<\$25K Comm. & Fees)	0 %	0 %	0 %	0 %	15 %	28 %	41%	5 %	3 %	0 %	8 %
Medium (\$25K – \$100K)	0 %	0 %	0 %	0 %	5 %	10 %	46 %	36 %	3 %	0 %	0 %
Large (>\$100)	0 %	0 %	0 %	0 %	5 %	8 %	36 %	26 %	5 %	3 %	17 %

3. How much have premium rates changed over the last 3 months, including July 1 renewals, for the following lines? Please check N/A if you don't know or don't handle the line.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Chan ge	5 Up 1 – 10%	6 Up 10 - 20%	7 Up 20 - 30%	8 Up 30 - 50 %	9 Up 50 - 100%	10 Up >100 %	N/A
Business Interruption	0 %	0 %	0 %	0 %	8 %	38 %	26 %	13 %	0 %	0 %	15 %
Commercial Auto	0 %	0 %	0 %	0 %	10 %	26 %	31 %	31 %	0 %	0 %	2 %
Commercial Property	0 %	0 %	0 %	0 %	3 %	21 %	33 %	21 %	18 %	3 %	1 %
Construction Risks	0 %	0 %	0 %	0 %	0 %	10 %	33 %	36 %	8 %	3 %	10 %
D&O	0 %	0 %	0 %	0 %	8 %	10 %	26 %	33 %	5 %	0 %	18 %
Employment Practices	0 %	0 %	3 %	3 %	15 %	26 %	18 %	21 %	0 %	0 %	14 %
General Liability	0 %	0 %	0 %	0 %	13 %	21 %	51 %	13 %	0 %	0 %	2 %
Medical Malpractice	0 %	0 %	0 %	0 %	0 %	8 %	0 %	8 %	26 %	21 %	37 %
Surety Bonds	0 %	0 %	0 %	10 %	18 %	8 %	13 %	10 %	0 %	0 %	41 %
Umbrella	0 %	0 %	0 %	0 %	0 %	3 %	28 %	28 %	15 %	18 %	8 %
Workers Compensation	0 %	0 %	0 %	8 %	13 %	18 %	36 %	13 %	3 %	3 %	6 %



Commercial Property – Casualty Market Survey

2nd Quarter 2002

Released: July 2002

3. Below are the survey results for: MIDWEST (AR, IL, IN, IO, KS, MI, MO, MN, NE, ND, SD, OH, WI)

2. On average, how have premium rates changed over the last 3 months, including July 1 renewals, for the following accounts. Please check N/A if you don't know or don't handle the type of account.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Change	5 Up 1 – 10%	6 Up 10 - 20%	7 Up 20 - 30%	8 Up 30 - 50%	9 Up 50 - 100%	10 Up >100 %	N/A
Small (<\$25K Comm. & Fees)	0 %	0 %	3 %	0 %	3 %	52 %	38 %	3 %	0 %	0 %	1 %
Medium (\$25K – \$100K)	0 %	0 %	0 %	0 %	3 %	28 %	48 %	21 %	0 %	0 %	0 %
Large (>\$100)	0 %	0 %	3 %	0 %	3 %	21 %	24 %	28 %	7 %	3 %	11 %

3. How much have premium rates changed over the last 3 months, including July 1 renewals, for the following lines? Please check N/A if you don't know or don't handle the line.

	1 Down 20 – 30%	2 Down 10- 20%	3 Down 1 - 10%	4 No Chan ge	5 Up 1 – 10%	6 10- 20%	7 Up 20 - 30%	8 Up 30 - 50 %	9 Up 50 - 100%	10 Up >100 %	N/A
Business Interruption	0 %	0 %	0 %	0 %	7 %	38 %	31 %	7 %	3 %	0 %	14 %
Commercial Auto	0 %	0 %	3 %	0 %	7 %	17 %	52 %	14 %	3 %	0 %	4 %
Commercial Property	0 %	0 %	0 %	0 %	3 %	21 %	28 %	31 %	14 %	0 %	3 %
Construction Risks	0 %	0 %	0 %	0 %	0 %	14 %	14 %	48 %	10 %	0 %	14 %
D&O	0 %	0 %	0 %	7 %	14 %	10 %	10 %	28 %	17 %	3 %	11 %
Employment Practices	0 %	0 %	0 %	7 %	14 %	24 %	31 %	14 %	0 %	0 %	10 %
General Liability	0 %	0 %	0 %	3 %	7 %	34 %	41 %	10 %	0 %	0 %	5 %
Medical Malpractice	0 %	0 %	0 %	3 %	3 %	3 %	10 %	10 %	14 %	24 %	33 %
Surety Bonds	0 %	0 %	0 %	3 %	10 %	21 %	24 %	7 %	0 %	3 %	32 %
Umbrella	0 %	0 %	0 %	3 %	14 %	21 %	10 %	21 %	10 %	17 %	4 %
Workers Compensation	0 %	0 %	0 %	3 %	17 %	24 %	41 %	3 %	0 %	0 %	12 %



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4. Below are the survey results for: SOUTHWEST (So. CA, AZ, NM, OK, TX)

2. On average, how have premium rates changed over the last 3 months, including July 1 renewals, for the following accounts. Please check N/A if you don't know or don't handle the type of account.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Change	5 Up 1 – 10%	6 Up 10 – 20%	7 Up 20 - 30%	8 Up 30 - 50%	9 Up 50 - 100%	10 Up >100 %	N/A
Small (<\$25K Comm. & Fees)	0 %	0 %	0 %	4 %	12 %	38 %	31 %	12 %	0 %	0 %	3 %
Medium (\$25K – \$100K)	0 %	0 %	0 %	4 %	0 %	19 %	31 %	35 %	4 %	0 %	7 %
Large (>\$100)	0 %	0 %	0 %	4 %	0 %	8 %	23 %	38 %	4 %	8 %	15 %

3. How much have premium rates changed over the last 3 months, including July 1 renewals, for the following lines? Please check N/A if you don't know or don't handle the line.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Chan ge	5 Up 1- 10%	6 Up 10 - 20%	7 Up 20 - 30%	8 Up 30 - 50 %	9 Up 50 - 100%	10 Up >100 %	N/A
Business Interruption	0 %	0 %	0 %	8 %	12 %	19 %	38 %	8 %	4 %	0 %	11 %
Commercial Auto	0 %	0 %	0 %	4 %	4 %	38 %	27 %	23 %	4 %	0 %	0 %
Commercial Property	0 %	0 %	0 %	4 %	4 %	19 %	23 %	35 %	15 %	0 %	0 %
Construction Risks	0 %	0 %	0 %	4 %	0 %	8 %	12 %	50 %	19 %	4 %	3 %
D&O	0 %	0 %	0 %	0 %	4 %	12 %	19 %	15 %	19 %	12 %	19 %
Employment Practices	0 %	0 %	0 %	12 %	4 %	8 %	31 %	23 %	12 %	0 %	10 %
General Liability	0 %	0 %	0 %	0 %	0 %	27 %	35 %	23 %	11 %	4 %	0 %
Medical Malpractice	0 %	0 %	0 %	0 %	0 %	4 %	0 %	0 %	31 %	12 %	53 %
Surety Bonds	0 %	0 %	0 %	23 %	12 %	23 %	19 %	0 %	0 %	0 %	23 %
Umbrella	0 %	0 %	0 %	0 %	0 %	12 %	12 %	31 %	15 %	27 %	3 %
Workers Compensation	0 %	0 %	0 %	4 %	0 %	19 %	23 %	27 %	12 %	8 %	7 %



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2nd Quarter 2002

Released: July 2002

5. Below are the survey results for: PACIFIC NW (No.CA,AK,CO,HI,ID,MT,NV,OR,UT,WA,WY)

2. On average, how have premium rates changed over the last 3 months, including July 1 renewals, for the following accounts. Please check N/A if you don't know or don't handle the type of account.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Change	5 Up 1 - 10%	6 Up 10 – 20%	7 Up 20 - 30%	8 Up 30 - 50%	9 Up 50 - 100%	10 Up >100 %	N/A
Small (<\$25K Comm. & Fees)	0 %	0 %	0 %	13 %	13 %	50 %	13 %	0 %	0%	0 %	11 %
Medium (\$25K – \$100K)	0 %	0 %	0 %	0 %	0 %	25 %	63 %	0 %	0 %	0 %	12 %
Large (>\$100)	0 %	0 %	0 %	0 %	0 %	13 %	38 %	38 %	0 %	0 %	11 %

3. How much have premium rates changed over the last 3 months, including July 1 renewals, for the following lines? Please check N/A if you don't know or don't handle the line.

	1 Down 20 – 30%	2 Down 10 - 20%	3 Down 1 - 10%	4 No Chan ge	5 Up 1 – 10%	6 Up 10 - 20%	7 Up 20 - 30%	8 Up 30 - 50 %	9 Up 50 - 100%	10 Up >100 %	N/A
Business Interruption	0 %	0 %	0 %	0 %	13 %	25 %	50 %	0 %	0 %	0 %	12 %
Commercial Auto	0 %	0 %	0 %	12 %	0 %	50 %	25 %	13 %	0 %	0 %	0 %
Commercial Property	0 %	0 %	0 %	0 %	13 %	12 %	25 %	38 %	12 %	0 %	0 %
Construction Risks	0 %	0 %	0 %	0 %	0 %	0 %	25 %	25 %	25 %	13 %	12 %
D&O	0 %	0 %	0 %	0 %	0 %	13 %	0 %	50 %	13 %	13 %	11 %
Employment Practices	0 %	0 %	0 %	13 %	0 %	0 %	25 %	38 %	0 %	13 %	11 %
General Liability	0 %	0 %	0 %	0 %	25 %	13 %	50 %	12 %	0 %	0 %	0 %
Medical Malpractice	0 %	0 %	0 %	13 %	0 %	0 %	0 %	13 %	25 %	13 %	36 %
Surety Bonds	0 %	0 %	0 %	13 %	25 %	13 %	0 %	0 %	0 %	0 %	49 %
Umbrella	0 %	0 %	0 %	0 %	13 %	0 %	25 %	25 %	25 %	0 %	12 %
Workers Compensation	0 %	0 %	0 %	0 %	38 %	0 %	25 %	12 %	25 %	0 %	0 %