

Property Insurance Forecast for the Remainder of 2012

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For the last 5 years the property insurance market in Hawaii has been “soft” (low premiums and high availability). Hopefully, you have benefited from the “soft” market and used the premium savings wisely. It appears that the property insurance market may be firming up.

In general, property insurance premiums during the first half of 2012 have remained the same or increased slightly when compared to 2011 premiums. Fierce competition among insurance companies such as First Insurance, Dongbu, DTRIC and Lexington appears to be the strongest force that is keeping premiums down. For the most part this is expected to continue through the remainder of the year despite pressure from

reinsurers to increase rates. Reinsurers provide insurance to insurance companies such as First Insurance, Fireman’s Fund, Dongbu, DTRIC, Lexington, etc. in order for them to be able to cover catastrophic losses.

One reason reinsurers are trying to increase their rates is that 2011 was the second most expensive year with insured losses estimated at \$108 Billion worldwide.

Most of the losses were related to natural disasters which

required reinsurers to pay for the damages.

For comparative purposes

2005 had \$123 Billion in losses and was the largest year ever. 2010 had only \$48 Billion in losses.

The Top 2011 losses include the following:

- \$35 Billion—Japan Earthquake/Tsunami
- \$12 Billion—New Zealand Earthquake
- \$8-11 Billion—Thailand Floods
- \$18-19 Billion—US Storms and Tornadoes (April and March 2011)
- \$4.9 Billion—US et al Hurricane Irene
- \$2.3 Billion—Australia Floods

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Here are my thoughts regarding where the insurance market is heading



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for the remainder of the year.

Fire Resistive Construction

Rates for these buildings will continue to be flat or increase slightly. Fire Resistive buildings have seen competitive forces at work for the past few years. First Insurance, Fireman's Fund, State Farm, Dongbu and DTRIC have been aggressively competing for fire-resistive properties. Buildings with Total Insurable Values of \$100 Million or higher will be more likely to see rate increases. Most insurance companies that do business in Hawaii will need to procure facultative reinsurance and the cost of reinsurance is expected to increase into the beginning of next year.

Wood Frame and Other Non-wind Resistive Construction

Rates for buildings of this construction are expected to increase slightly. Dongbu, Lexington and DTRIC have

been aggressively writing frame construction. Recently they have become more selective and prefer insuring newer, higher quality frame construction away from the shoreline.

Associations that have Earthquake and Flood Coverage

These risks will likely see the largest increases. Earthquake and Flood coverage is commonly purchased together via Difference-in-Conditions policies and much of last year's losses were earthquake and flood related.

The National Flood Insurance Program has announced rate increases effective October 1. Of Maui County's 12,000 policyholders, the largest premium increases will be seen by those in A and V zones. *On June 6th President Obama signed H.R. 4348. It extended the NFIP for 5 years. As part of the new bill, the NFIP's maximum allowable premium increase*

went from 10% to 20%. Therefore, higher increases are possible in 2013 and beyond.

The above are just overall predictions which are being made in the middle of hurricane season. As a word of caution, the insurance market continues to be volatile with major upward swings possible especially, if there are any large catastrophic losses between now and the end of the year.

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