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# Flood Losses From Sandy Demonstrate Need For Greater Consumer Education, Product Development, Say Ceos At Joint Industry Forum

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**NEW YORK, January 17, 2013** ? Property-casualty insurers need to step up efforts at educating consumers about flood insurance, a panel of insurance CEOs agreed at the 17th annual ***Property/Casualty Insurance Joint Industry Forum***, held here.

Flood insurance holds great potential, both in terms of consumer awareness and product development. Before superstorm Sandy hit last year, many consumers in the Northeast United States didn?t realize that the standard homeowners policy doesn?t cover storm surge, the CEOs explained. The typical insurance policy covers wind damage, but not flood.

?Particularly hard-hit were small businesses,? said Liam E. McGee, chairman, president, CEO, The Hartford. ?Many lacked business interruption insurance, which covers revenue lost until a business can reopen,? he said. ?As an industry, we need to do a better job of educating our customers that flood is not a covered peril. We need to do a better job educating our entrepreneurs what is covered and what is not under business interruption.?

Some of that education will come from insurance agents, said John J. Bishop, chairman and CEO, The Motorists Insurance Group. ?Though many insurance sales take place on-line, computers can?t grasp many of the nuances involved in running a typical business. Complexity of issues always creates opportunity for an individual adviser to assist a client,? he said.

Edward B. Rust Jr., chairman and CEO, State Farm, said that any major catastrophe offers lessons, and Sandy provided some evidence of how to mitigate losses. ?Communities where beaches were buttressed by sand dunes against the rising tide fared better than those which left their beaches bare to preserve better ocean views. But learning is only a start,? noted Rust. ?Do we act on what we learned? There are simple steps we can take to really help with mitigation. But,? he noted, ?People don?t always do them, even when they are relatively easy.?

?Reinsurers need to work harder to understand their exposure to business interruption and its cousin, contingent business interruption,? said Nikolaus von Bomhard, CEO Munich Re, who explained that CBI covers a business if its supplier is shut down from an insured loss. ?Because the insurer doesn?t deal directly with the supplier, it can?t get important information about it, such as whether it is located near the coast. And the reinsurer is one step further removed.?

?Even so, the information is important to obtain,? said von Bomhard. ?There?s a long way to go, but we have to start.?

Education will become especially important if private industry starts offering more flood insurance. Traditionally, U.S. insurers have offered little flood coverage, with the majority held by the

government.

?In the United Kingdom, the government and the private industry entered a 10-year agreement in which insurers provide cover while the government encourages loss mitigation,? said Richard Ward, CEO, Lloyd?s.

The panel also looked at the financial challenges facing the industry. Although profitable overall, the insurance industry?s return on capital lags many industries, the CEOs said. Combined ratios are above 100, and low interest rates mean investment income doesn?t provide the bang it used to.
?Through September 2012, the industry posted an ?acceptable performance,?? said McGee. ?It appears that most insurers capably handled the impact of Sandy. And in most lines, insurers were prudently trimming exposures rather than lowering prices, with workers? compensation a notable exception.?

Still, panelists could point ahead to a lot of uncertainty. They noted that the Affordable Care Act will have an as-yet unknown impact on workers? compensation, perhaps reducing use of the line or shifting costs onto it. They noted that the economy seems to be creeping back into normalcy, with housing and auto sales climbing.

But high-stakes negotiations in Washington over fiscal cliffs and debt caps threaten this progress, according to Rust. ?Some of that is a trend, but how durable the industry is remains to be seen,? he said. ?The wrong action out of Washington could cause people to pull in and cut back on consumption.?

Interest rates, low now, will one day rise. And some companies will face challenges redeploying their bond portfolios, CEOs said. Meanwhile, companies have benefited from falling reserves, as early estimates of losses in prior years proved too high. That, too, appears likely to end soon. For unprepared insurers, ?it?ll be like a dog running into his choke chain and it will be interesting to watch,? said Michael S. McGavick, CEO, XL Group.

The CEOs also had a spirited discussion on the merits of Solvency II, a new system to unify regulation of European insurers. Its rollout has been delayed, in part because of its broad scope and in part because regulators have been distracted handling problems in banking.

According to Ward, Solvency II?s most controversial feature - the introduction of models to help determine how much capital an insurer needs - might be put off until 2016. ?Insurers would be able to select whether they use the regulators? model or get approval for one of their own,? he said.

?Small insurers would most likely use the regulators? model, but that seems likely to force them to hold more capital to insure a risk than would be needed by a larger insurer working off its own model. The smaller insurer would have to charge more to get an appropriate return on capital,? he explained. ?The plan encourages companies to practice risk management and take responsibility for their actions.?

Von Bomhard also likes the plan, noting that ?most large European companies already run themselves on principles similar to those set forth by Solvency II.? He acknowledged that smaller companies find them more difficult ? ?rocket science.? And life insurers have additional challenges, as older policies need more capital than was anticipated when the business was written.

?The plan has ideas worthy of support,? said McGavick. ?But it might just bring a new layer of regulation into the marketplace - a marketplace that has weathered the current financial climate well. As a European regulation, Solvency II won?t directly affect U.S. insurers, but the ideas born there are likely to influence American regulators.?

Frank Nutter, president of the Reinsurance Association of America, moderated the panel.
The ***Property/Casualty Insurance Joint Industry Forum*** was created to provide leaders from the widest spectrum of the industry with an opportunity to meet with each other in discussion of topics of general interest. Participants included nearly 250 representatives from property/casualty insurance and reinsurance companies and organizations. Of these, roughly 40 percent responded to the survey.
The sponsoring organizations of the Forum represent a broad range of insurance interests and audiences. They include: American Insurance Association; Association for Cooperative Operations Research & Development; Association of Bermuda Insurers and Reinsurers; The Geneva Association for Risk & Insurance Economics; Insurance Institute for Business & Home Safety; Insurance Information Institute; Insurance Institute for Highway Safety; International Insurance Society, Inc.; ISO; National Association of Mutual Insurance Companies; National Council on Compensation Insurance; National Insurance Crime Bureau; Property Casualty Insurers Association of America; Property Loss Research Bureau; Reinsurance Association of America; and the Institutes.

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