

PERSONAL LINES

Personal Umbrella Liability continues to be one of the best buys in Personal insurance, with most companies charging less than \$1000 for \$5 million of coverage per year, and some less than \$500 depending upon the exposures covered.

Personal fortunes may rise and fall with the gyrations of the general economy, but Personal Lines of insurance are often immune to some of the more dramatic turns of the general commercial insurance world. A review of the market for key Personal Lines follows our discussion in previous issues of *Marketplace Realities*, with some notable updates, including a new section on international exposures.

PROPERTY

The Personal Lines Property market remained relatively stable in most parts of the U.S. this past year. Notable exceptions were coastal catastrophe areas like the Southeast U.S. and states bordering the Gulf of Mexico, plus other coastal areas such as Long Island, New York and Cape Cod, Massachusetts. In these areas, market capacity remains limited, despite the emergence of a number of non-rated or low-rated Property carriers in Florida. Earthquake-prone areas such as California and the Pacific Northwest are likewise limited in capacity. In the standard market, the impact of these trends on rates is moderate, as most carriers take gradual increases or depend on rising dwelling values to realize small increases in premium. Home values have not recovered from the declines of the last year and a half. Underwriting appetite tends to drive the current market, particularly for properties in the areas mentioned above.

When reviewing Property insurance be aware:

- Wind exposed coastal states will be affected negatively by a poor hurricane season. Hurricane and other catastrophe losses surged in 2008, reaching \$26.2 billion as of July 2009. In response to the 37 catastrophes in 2008, the highest number since 1999, Personal Lines carriers will seek to make up for their losses – as well as for losses dating back to 2005, the year of Hurricanes Katrina and Rita. Last year, Property & Casualty insurers paid out \$10.7 billion in losses from Hurricane Ike, \$2.1 billion from Hurricane Gustav, and \$3.6 billion from tornadoes and related damage.
- California, Washington and other states near major faults (such as the New Madrid fault in the Midwest) will be affected by any earthquake activity as far as availability of coverage is concerned. In California, companies are required to offer Earthquake coverage when a dwelling or Personal Property policy is placed. Many companies will limit the amount of EQ they will provide. Recently, companies have become increasingly concerned with brush fires in California and most will consider fire risk in addition to earthquake risk prior to making an offer to provide coverage.



- Capacity changes from year to year. The more time that lapses after an earthquake or hurricane, the more capacity is available.
- Companies leave and enter markets. There are new underwriters in the market since the 2005 (post Katrina) and more carriers interested in the high-net-worth market.
- ACE Private Risk has boldly entered the market serving the insurance needs of the affluent. Perennial leaders in the field, Chubb, Fireman's Fund and AIG Private Client Group (now part of Chartis), have clearly taken notice and continue to modify and improve their products and rates to counter the competition. Another fairly new entry into the marketplace is PURE. PURE is a reciprocal insurance exchange that provides an alternative for affluent clients in Florida, South Carolina, New Jersey, Connecticut and New York.

A good agent or broker will guide clients through market changes and make you aware of new players and new products each year.

AUTOMOBILE

In 2008, private passenger Auto insurance was the largest line of insurance based on net premiums written, making up 36% of all Property & Casualty insurance and 73% of Personal insurance. Automobile claims have been down for quite a few years and as their loss experience has improved most companies have expanded their Auto insurance capacity. Although Auto coverage is more of a commodity, with heavy regulation from consumer-driven insurance departments, companies have invested heavily in new technology that can more accurately rate drivers with varying underwriting factors. Most companies are using many more variables and rating tiers. This allows them to more accurately set premiums with the intention of rewarding good drivers and penalizing poor drivers. This generally helps the consumer, and many drivers are seeing rate reductions in their Auto insurance as this technology is put in place.

When reviewing Auto insurance be aware:

- It is best to come clean regarding your accident and violation record at the beginning of the application process. Companies find out in an instant whether your application is accurate through Motor Vehicle Reports and claim history reports.
- Credit scores are still a factor in the Auto insurance rating process.
- The cost of repairing a car, not just the car's value, is a major factor in physical damage coverage premiums.

- Multi-car discounts are available from most companies.
- Multi-coverage discounts are also available. Check with your existing Property insurance carrier to see if placing Auto insurance with them affords any benefit.

PERSONAL UMBRELLA LIABILITY

This continues to be one of the best buys in Personal insurance, with most companies charging less than \$1000 for \$5 million of coverage per year, and some less than \$500 depending upon the exposures covered. Up to \$50 million is available where appropriate and \$100 million still available in special cases. Carriers specializing in coverage for the affluent usually offer options for EPLI (Employment Practices Liability Insurance), Nonprofit Directors & Officers Liability and the more traditional Excess Uninsured/Underinsured Liability, all of which may be added by endorsement to the Personal Excess Liability contract.

INTERNATIONAL EXPOSURES

Although not a regular occurrence, more people are purchasing property outside of their country of citizenship. If you work with an international insurance broker, it may be possible to have your broker place coverage for you, possibly with the same insurance company that provides your domestic Property and Casualty coverage. More often than not, however, property purchased outside the country of your primary residence will require a separate policy placed by an insurance agent or broker licensed in the country where the property is located.

Automobiles must be insured in the country where they are registered and/or operated. Owners must comply with the financial responsibility laws or the specific legal requirements of that country for motor vehicles. There may be some coverage afforded between countries, but it is typically limited. Coverage should be confirmed before driving an automobile in a foreign country.

Although some Personal Excess Liability policies do provide some coverage on a worldwide basis, this does not typically include coverage for foreign residences or automobiles operated in a foreign country without prior agreement. Cars must be listed on the policy as a covered location or vehicle.

In all cases, you should check with your domestic agent or broker regarding coverage limitations or coverage that might be available under your domestic policies and for assistance in obtaining the appropriate coverage for foreign exposures.

NEW PERSONAL COVERAGES

New coverages emerge in Personal insurance in response to changing risks and needs.

- Workers' Compensation coverage can be purchased for domestic staff, including housekeepers, nannies, personal assistants and caretakers. Chartis recently provided an option to provide basic health insurance for domestics as well.
- Specific coverage may be secured now for a variety of personal watercraft ranging from large yachts to waverunners and jet skis.
- Golf carts, ATVs and utility vehicles utilized to service client properties can be covered on personal contracts.
- Kidnap & Ransom coverage is available in the Personal insurance marketplace today as well.

Personal insurance continues to evolve and adapt to the needs of this select consumer group. The Madoff case reminded policyholders that protection for theft of securities is limited under Homeowners policies. Some carriers now cover this exposure for an additional premium as a separate endorsement to their Homeowners coverage.



STATE BY STATE

Personal Lines insurance is heavily regulated on a state-by-state basis. In most states, rates must be approved by insurance departments. It takes time for significant rate changes to happen, even in states like Florida and California, where catastrophe losses have significantly cut into companies' policyholder surpluses.

Rates can also vary significantly from company to company, even in a heavy regulatory environment. Massachusetts recently transitioned from a system in which the commissioner of insurance set automobile rates for all companies to a (managed) competitive rate environment. Based on their loss history and underwriting appetite, companies can and will charge a wide range of premiums. Underwriting guidelines also vary and will impact premiums from company to company as well.

Individuals should select an agent or broker who works with a variety of companies. Knowledge of a changing Personal Lines marketplace is a must, and a good agent or broker will do a risk and premium analysis to ensure the individual is with the right company with the right coverage at the most cost-effective price.

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