

Insurance Industry and the Credit Crunch

Rates may continue to rise in 2009 but there is still competition for well run businesses

No industry is immune from the impact of the credit crunch and the insurance sector is no exception. Since 2005, rates overall for most types of insurance policies have reduced, although premiums might have increased reflecting growth in business activity. The cumulative impact of these reductions, however, has affected the results of major insurers and the industry is now in a position where the cost of claims and expenses are exceeding the premiums paid. Any shortfall in the past may have been covered by interest earned on reserves kept for paying outstanding claims but as interest rates fall, this amount reduces. Insurers are now looking to increase rates for the remainder of 2009 to balance their figures

Each insurer has its own plan and the majority look at each customer and make a decision based on the customer's past claims and risk profile and the claims for the business sector and class of business. It is impossible to give finite information in advance but overall rates are expected to rise over the year by about 5% with some increasing more and others with no increases at all. For customers where activity is reducing, rates may increase but premiums could still come down.

There is still competition to insure well run businesses but this has decreased in the past few years as some insurers deliberately reduce the amount of business they handle and some become much more selective. We are also wary of the financial security of some insurers who are overseas based following the problems of one of the world's largest insurers, AIG, and the number of insurers we are prepared to recommend has reduced.

We are, of course, very aware of the financial strains facing our clients at present and will make sure the insurance arrangements reflect current business activities. We also have strong relationships with all the quality insurers in the market and will continue to negotiate the best deals available for you.

