

THE RUBIN GROUP  
**Insurance Talk**

Current News & Market Updates

The concept of "INSURANCE TALK" came about as an attempt to give you, our valued clients, an insight as to what we read about on a daily basis. 2001 has proven to be a year of great change in our industry and we feel it is important to keep you abreast.

## A Word from David Rubin

The tragic events of September 11th are having a major impact on the insurance industry. As we have discussed with you in Volume I of this year, 2001 has been a year of hardening markets, rising premiums and diminished capacity. September 11th has magnified all of the above dramatically. Even as I write this, the insurance industry is unable to determine just how large the losses are. We are hearing numbers in excess of \$100 billion dollars. Clearly losses of this magnitude are sure to impact premiums further.

Just prior to September 11th, The Rubin Group was about to send to you Volume II. We have enclosed it for your review even though some of the articles have become outdated.



Below we have printed a number of articles from various sources to give you a sense of the direction the insurance industry is moving in.

Lower Manhattan continues to rebuild and forge ahead with doing business. It continues to be the epicenter of the insur-

ance universe and I am amazed at how quickly the insurance companies have let us know they are up and running. It remains an undeniable fact that all decisions affecting terms and pricing for insurance come from just a few blocks of the World Trade Center.

I would like to thank all our clients for the outpouring of genuine care and concern. I personally find it very touching and comforting. As most of you are aware, our offices are just four (4) short blocks from the World Trade Center and we were forced to evacuate. The period in which we were closed and without phones was most difficult and your understanding has been very much appreciated. We still have periodical interruptions of phone and fax services and we ask for your understanding. We thank you!

## Insurance Rates Are Rising Sharply Across U.S.

JOSEPH B. TREASTER  
October 25, 2001  
New York Times

The terrorist attacks on the World Trade Center and the Pentagon have triggered steep increases in insurance prices across the nation, raising costs for small businesses, factories, farms, homeowners and drivers, as well as large corporations.

Far from being limited to cities and companies that seem most vulnerable, the rising rates are reaching into the quietest, most remote areas of the country. At the same time, the demand for insurance has soared.

"The insurance companies have just taken a big hit and, to recoup, they have to raise prices for people in Santa Barbara and Oshkosh, Wis., and Tillamook, Ore., and everywhere else in the country," said Tom Caesar, an owner of Caesar & Seider, a commercial insurance broker in Santa Barbara, Calif. "The fact that people want

more coverage is only making matters worse, as far as prices go."

The increased rates stand as a vivid and direct example of how the attacks have raised the costs of living and doing business, often in ways only indirectly related to terrorism.

Rates are rising high enough that investors are seeking to take advantage of the insurance industry's growth potential. Yesterday, two investment firms announced plans to invest \$750 million in the Arch Capital Group (news/quote), an insurer based in Bermuda. Investors are working on at least a dozen more deals.

The higher insurance prices are taking effect immediately for many commercial customers as, toward the end of the year, renewals come up. Increases, far from uniform, are in many cases extreme. Customers considered the most likely to file claims — based more on their records and their perceived riskiness than on the terrorism threat — face the highest increases.

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## Attack Loss Tally Grows, May Pass \$30 Billion

MARK A. HOFMANN  
September 24, 2001  
Business Insurance

Insured losses from the Sept. 11 terrorist attacks could ultimately exceed \$30 billion, according to estimates issued last week by several analysts.

That would make the disaster the largest single insured loss in history. And some experts have cautioned that the losses could climb even higher, particularly after Munich Reinsurance Co. and Swiss Reinsurance Co. both roughly doubled their initial estimates of their losses and Berkshire Hathaway Inc. estimated that it would face losses of about \$2.2 billion.

In issuing its estimate, Berkshire Hathaway said that it was sticking to its earlier assumption that its losses would amount to 3% to 5% of the industry total. If that estimate proves to be correct, total losses would be about \$44 billion.

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Meanwhile, New York-based Standard & Poor's Corp. lowered its financial strength ratings of two insurers because of exposures relating to the Sept. 11 attack. Lloyd's of London's rating fell to A from A+, and Zurich Insurance Co.'s dropped to AA from AA+. S&P had already placed two insurers exposed to losses from the attacks under CreditWatch with negative implications, and on Thursday it assigned that status to an additional 15 insurers, as well as to Lloyd's and Zurich.

In a Friday morning teleconference, Mark Puccia, S&P's managing director-financial services group, said that although the attacks were likely to become the largest insured loss in history, the rating agency is not ready to endorse any particular loss projection. By Friday morning, S&P had tallied \$19.2 billion in claims from various public and confidential sources.

Oldwick, N.J.-based A.M. Best Co. warned early last week that it is too early to precisely gauge the financial impact of the disaster, in which hijacked commercial jets were crashed in New York, the District of Columbia and Pennsylvania. Based on information provided by insurers and reinsurers and on its own analysis, though, Best estimated that losses for all lines of insurance-including life insurance-could go above \$30 billion. That would make the terrorist attacks the most costly catastrophe in history in terms of insured losses.

According to Best, property, aviation, business interruption, workers compensation, commercial liability and life insurance would probably see the largest losses.

In an interview late last week, Matthew Mosher, Best's group vp-property/casualty, said: "We're not too surprised to see some of the original estimates being increased. I think, at the time they were made, the general view of the overall cost wasn't as high as it is now."

"If you were to say the likelihood of up or down, our guesstimate is that it is more likely to go up than to go down," Mr. Mosher said.

"I wouldn't be surprised all that much if estimates rose. Insurers almost never revise down, but they very frequently

revise up," said Michael Baum, an analyst with Friedman, Billings, Ramsey & Co. Inc., an Arlington, Va.-based brokerage.

Kenneth S. Zuckerberg, vp-equity research for Dresdner Kleinwort Wasserstein in New York, said insured property and liability losses could run as high as \$25 billion to \$30 billion. He said that the losses would break down roughly as: \$8.5 billion to \$9 billion in aviation liability and hull losses; \$4.5 billion in commercial property for the World Trade Center, and \$1 billion to \$2 billion for other buildings in the affected area; \$5 billion to \$10 billion in business interruption; \$2 billion to \$3 billion in workers compensation; and as much as \$2 billion in other insured damage. In addition to the property/casualty loss, there could be an additional \$2 billion to \$4 billion in life insurance losses, Mr. Zuckerberg said.

Morgan Stanley estimated the insurance industry would sustain losses at the "high end" of the \$25 billion to \$30 billion range, with reinsurers bearing the brunt. "We believe large swaths of the reinsurance market are likely insolvent. Uncollectible reinsurance is going to be a problem," the company said in a Sept. 17 document.

During the Friday teleconference, S&P's Mr. Puccia repeated the rating agency's earlier contention that total industry losses would have to exceed \$50 billion before S&P would begin worry that a substantial number of insurers' claims-paying ability may be compromised. He stressed that he does not believe that any of S&P's interactively rated leading insurers and reinsurers face solvency-threatening levels of claims. ☐

## AIG Ups Attack Loss Estimate

DOUGLAS McLEOD  
October 15, 2001  
Business Insurance

NEW YORK-American International Group Inc.'s estimated pretax loss from the Sept. 11 terrorist attacks has grown to \$800 million net of reinsurance recoveries, and its gross loss before reinsurance will total about \$2 billion, Chairman Maurice R. Greenberg said last Tuesday in a conference call with investment analysts and journalists.

AIG had previously estimated its pretax net loss at \$500 million. Mr. Greenberg did not break down the revised estimate by line of coverage, but AIG had relatively little direct exposure to the destruction of the World Trade Center itself. AIG's Lexington Insurance Co. unit wrote only a \$5 million share of the \$3.55 billion property insurance program covering the Trade Center, while its Commerce & Industry Insurance Co. subsidiary wrote \$100 million of the \$1.1 billion liability program covering the Port Authority of New York & New Jersey, the Trade Center's owner, documents show.



Maurice R. Greenberg

Mr. Greenberg predicted litigation over whether the destruction of the Trade Center towers represents one event or two under property policies insuring the Port Authority and Silverstein Properties Inc., holder of a long-term lease on the Trade Center. Silverstein has contended that the attack was two events triggering two \$3.55 billion payouts, but Mr. Greenberg, referring to this argument, commented, "Obviously there is going to be some litigation on that."

Meanwhile, insurance buyers can expect to see rates "going up by leaps and bounds, dramatically," on upcoming renewals as industrywide capacity shrinks in the wake of the Sept. 11 disaster, he said.

"Many companies in the industry have been weakened and will not have the firepower to respond" to coverage demands, he said, adding that he expects the current hard market to last longer than the hard market of the 1980s.

The recently completed aviation war risk and hijacking liability facility led by AIG has so far written \$350 million in premiums for 100 insured airlines, and that premium volume could double or triple within 12 months, Mr. Greenberg said. The facility offers up to \$1 billion in limits in excess of the \$50 million offered by primary markets (BI, Oct. 1).

Mr. Greenberg also reported that AIG will incur \$1.3 billion in pretax costs in the third quarter related to its August acquisition of American General Corp. ☐

## Attacks Raise Stakes on Risk

SARAH VEYSEY  
September 24, 2001  
Business Insurance

LONDON-U.K. insurers say the terrorist attacks on U.S. targets signify the existence of a new breed of suicidal terrorism capable of causing destruction on a far greater scale than previously known.

"We are operating in a new world now," said Charles Philipps, chief executive of Lloyd's of London insurer Amlin P.L.C.

Following the Sept. 11 attacks, risk managers worldwide are being forced to determine whether they have insurance coverage to address such risks. And insurers are being prompted to look at new ways to cover terrorism exposures.

"In the aftermath of the terrible human tragedy of Tuesday's events, the insurance world now has to work out how it can deal with the threat of mass terrorism on a global scale," according to a written statement released the day after the attacks by the London-based research advisory company Datamonitor P.L.C.

"Terrorism has traditionally focused on local issues and targets," the Datamonitor statement said, citing as examples the activities of such groups as the New Irish Republican Army, also known as the Real IRA, an armed movement dedicated to the unification of Ireland, and the Basque nationalist ETA in Spain. "But Tuesday's tragedies highlight the likelihood that terrorism in future will work on a global scale, as the political and business power blocs that terrorists seek to influence increasingly cross national borders," the statement said.

Datamonitor said that the terrorist attacks in the United States forced U.K. risk managers to put terrorism back at the top of their agendas, because the United Kingdom is seen as an ally of the United States and is, therefore, a potential target.

But the Datamonitor statement added that the events could contain a lesson for insurers worldwide about how to deal with terrorist events. "The world insurance market would do well to look towards the U.K. model in trying to ensure that cover

for acts of terrorism is available on an affordable basis in the future," the statement said.

One risk manager for a London-based company said he has received several calls from U.S. colleagues who are interested in learning about the workings of Pool Reinsurance Co. Ltd., the terrorism insurance pool backed by the U.K. government (see story, this page).

David Gamble, executive director of the London-based Assn. of Insurance & Risk Managers, said the existence of Pool Re provides some comfort for U.K. risk managers in these times of uncertainty.

"Particularly in the present circumstances, the knowledge that we have essentially got backing for a major terrorist attack brings a degree of certainty in the U.K. property market," Mr. Gamble said.

He added that there is relatively little that a company, even a large company, could do to protect itself from a terrorist attack of the scale seen in the United States this month.

A model based on the Pool Re structure could work in the United States, Mr. Gamble suggested, but he added that it would "depend on political will." He pointed out that the creation of Pool Re required the passage of an act of the U.K. Parliament.

Rob Jones, director of the financial services group of Standard & Poor's Corp.'s Insurance Rating Services in London, said that a government-backed reinsurance pool to cover terrorism risks might someday be established in the United States.

"If coverage isn't going to be available in normal circumstances in the commercial market, then it could be a possibility," Mr. Jones said. But he added that the insurance industry in the United States is regulated on a state-by-state basis and noted that states may seek to set up their own statewide pools.

Amlin's Mr. Philipps said companies must find new ways to cover emerging terrorism risks such as those seen in the attacks on the World Trade Center and the Penta-

gon. He said that the United States should "certainly look" at the possibility of setting up a structure similar to Pool Re.

Ed Creasy, chief executive of integrated Lloyd's vehicle Kiln P.L.C., said it is too early to tell whether a system similar to Pool Re might be suitable for the coverage of terrorism risk in the United States. Mr. Creasy pointed out that the efforts of the U.S. government are currently focused on reviving the country's ailing air transportation industry. ☐

## After the Attacks: The Insurers; For Insurers, Some Failures And Rate Jumps

JOSEPH B. TREASTER  
September 15, 2001  
The New York Times

Insurers and analysts say terrorist attack on World Trade Center will cause cost of commercial insurance coverage to rise by at least 20 percent as insurers struggle to recoup losses; they say some insurance companies will fail under burden of claims that may run as high as \$30 billion to \$40 billion; Fox-Pitt Kelton, investment firm specializing in insurance, says losses to just 13 of dozens of insurance companies that provided coverage at World Trade Center will exceed \$7 billion; Metropolitan Life Insurance expects to pay claims of as much as \$460 million on lives lost, mostly covered by group insurance paid for by corporations; Employers Reinsurance Corp, unit of General Electric Corp, expects to pay out \$600 million in claims and other expenses at twin towers; experts say besides need to make up losses, prices will be driven up by demand for more coverage from business executives. ☐

*Continued from "Insurance Rates are Sharply Rising Across the U.S."*

Premiums have doubled, for example, for one poultry farm in Missouri. A heavy equipment manufacturer in California received the same shock; its umbrella liability coverage bill doubled to \$8 million.

A plastics maker in Lansing, Mich., paid \$388,000 for workers' compensation coverage, up from \$240,000, while a manufacturer of prefabricated houses north of Detroit paid \$185,000 for property coverage that last year cost \$50,000. "Prices are going through the roof," said Damian Testa, a division president of Kaye Insurance Associates, a regional broker in New York.

With less capital and more demand, the insurers are also rationing coverage. Many are providing full coverage to only the least-risky customers, offering others lower coverage limits, higher deductibles or prices they know are likely to be unacceptable.

Of all businesses, the airlines have been hit the hardest. "They're looking at total coverage costs of \$4 or \$5 a ticket as opposed to \$1 or \$2 before the attacks," said Grahame Chilton, chief executive of the Benfield Group, an international insurance broker in London. Analysts say the costs are being passed on to airline passengers.

People who live in co-op apartments and condominiums, which are covered by commercial insurance contracts, are already starting to pay significantly more. Mr. Caesar said that a town-house condominium in Newberry Park, Calif., north of Los Angeles, paid 40 percent more for \$30 million in coverage when it renewed last week.

But, partly because of tighter regulation, increases in the cost of insuring houses and cars are expected to be less pronounced, as they are gradually imposed over the next year. Economists and analysts say the attacks could add 2 percent to 4 percent to homeowner insurance bills, and probably less for drivers.

But prices for home and auto coverage had already been expected to rise this year, by an average of at least 6 percent, up from 3 percent last year.

While apartment towers will cost more to insure, in the New York area and across the nation, residential coverage is also likely to rise sharply where insurers, and their customers, face the greatest risks from causes apart from terrorism.

The increases are likely to be among the largest in Florida and California, where hurricane and earthquake coverage is sold separately from general coverage on houses, said Robert Hartwig, chief economist for the Insurance Information Institute, a trade group. This additional coverage relies heavily on reinsurers, who share major risks with retail insurers. But because the reinsurers are likely to bear so much of the costs from Sept. 11, they have become much more cautious.

The rate increases result from the \$40 billion in losses that insurers expect to suffer from the terrorist attacks, their worst losses ever. Most, though not all, insurers can cover their costs from last month's attacks. But some doubt they could sustain another huge round of losses. Insurers say they can continue to provide terrorism coverage only if Congress limits their potential losses.

Many corporate customers now need to patch together coverage from several insurers. The managers of a huge metal processing company in the South that has had some big claims was told last week, for example, that the insurer providing \$1 billion in coverage would sell them just \$10 million next year.

"We're going to have to scramble to get them coverage," said Stan Loar, the chief executive of Woodruff-Sawyer & Company, a broker in San Francisco. "It's going to take 15 to 20 companies to get what they bought from one company last year." He expects his client's annual premiums to double, to \$3 million.

Companies wanting added coverage are also in a squeeze. A maker of computer equipment in Silicon Valley, worried that a terrorist attack might disrupt its flow of supplies, doubled its business interruption coverage to \$10 million, Mr. Loar said. Usually, he said, the premium for the second \$5 million would be lower. But now, the insurer is charging \$35,000 for the added coverage, on top of an initial premium of \$22,000.

Commercial insurance costs had already been expected to rise 10 percent to 20 percent, at least, in part because of lower investment returns.

Some brokers say rates will probably increase again as most businesses renew their policies in January. "Premiums for some coverages will probably go up 200 percent or 300 percent next year," said David M. Lockton, chief executive of the Lockton Companies, a commercial insurance broker in Kansas City, Mo.

Among some businesses, desperation has set in. Tarragon Realty Investors (news/quote), based in New York, owns 85 apartment complexes around the nation. Usually, Tarragon shops around for the best insurance prices.

But after the attacks, Bette Slowther, who buys Tarragon's coverage, heard that more than half the insurers that cover apartment buildings had quit of the market. "The insurance companies are looking very carefully at what they write," she said, "and deciding they are not going to take as many chances."

When her present insurer, Royal Specialty, offered to renew her \$2 million premium at a 25 percent increase, with the same \$10,000 deductible, she jumped at it. She worried that if she hesitated, Royal Specialty might change its mind. "Then we might not have any insurance at all," she said. "Or we might end up with hundreds of thousands in deductibles or a price increase of 40 percent or 50 percent."

But her worries are not over. The companies that have been selling Tarragon coverage for employee lawsuits and general liability have told her they will not be renewing. The alternatives? "I'm hearing as much as 100 percent increases," Ms. Slowther said. ☐

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