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Cheaper Insurance Rates Point To Decline in Life, Business Risks

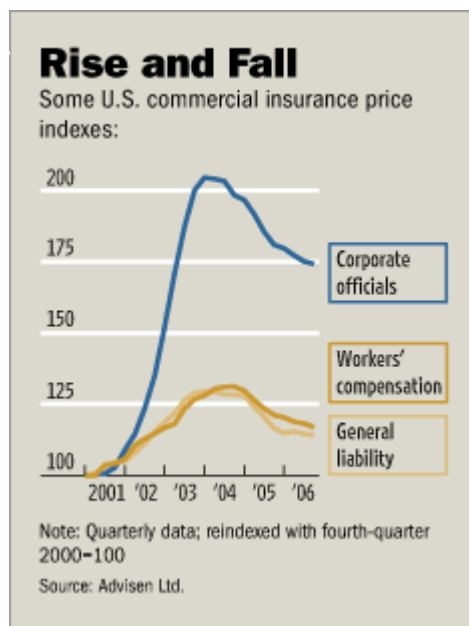
By LIAM PLEVEN

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The world seems awash in risk: nuclear rumblings in North Korea, bloodshed in Iraq, bird-flu scares, terrorism, hurricanes, corporate scandals, political uncertainty and more. But one barometer of risk -- the price of insurance -- indicates that many facets of life and business are getting less risky.

Insurance is a hedge against risk, and in many areas it has gotten cheaper lately.

Homeowners' insurance costs are falling in many parts of the nation. Car-insurance prices are rising at a slower rate than inflation. This year, companies are spending less than they did in 2005 to protect themselves against injuries to their employees, lawsuits aimed at directors and officers and liability claims in general. The cost of some life insurance, too, has fallen in recent years, as has insurance against terrorism.



The trend isn't universal. In hurricane-prone areas, homeowners still face higher insurance rates. And health-insurance costs continue to soar because of spiraling health-care costs.


But the widespread declines in insurance rates indicate that many risks that directly touch Americans' lives are on the decline. Car-collision claims have decreased in frequency, thanks in part to safer cars and safer driving. Workplace-injury claims are down, in part because of improved technology. Americans are living longer, meaning life insurers often face lower odds of making big payments on the term policies they write.

Americans "are getting better at controlling risk," says Richard Zeckhauser, a professor of political economy at Harvard University. "In general, technological advance has made the world a safer place."

Moreover, insurance rates, which jumped broadly after the Sept. 11, 2001, terrorist attacks in many cases are settling back to lower levels as that tragedy recedes into the past.

It isn't clear if these lower costs will persist. Insurance costs run in cycles. When catastrophes like Hurricane Katrina or 9/11 produce big losses, investors anticipate big increases in insurance premiums

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and flood the market with capital. That creates a glut, which intensifies competition and eventually drives prices back down. Another terrorist strike on U.S. soil or a major weather-related disaster could send rates higher again.

In the meantime, however, the decline in rates has been good news for many consumers and businesses. In 2001, a 40-year-old Californian man in good health could buy \$500,000 of life insurance coverage for 20 years at \$495 a year, says Bob Barney of Compulife Software Inc., a Nicholasville, Ky., firm whose products help compare policy prices. These days, that man might pay \$460, a 7% drop.

"It's a highly competitive market out there," says Tresa Leftenant of Kenmore, Wash., who estimates she saved \$300 to \$400 when her family switched the insurance on their home and five cars to a new carrier this year.

Consolidated Risk Management, a Cleveland company that buys property and liability insurance for midsize companies, says customers who don't have big or frequent losses are getting price reductions of as much as 2% to 12% on average from last year.

According to a survey by insurance broker Marsh Inc., a unit of **Marsh & McLennan Cos.**, the cost of terrorism coverage in the U.S. fell last year compared with 2004. **Aon Corp.**, another broker, says the price has fallen sharply since the federal government created a backstop program in 2002 to help insurers manage their losses from any terrorism claims, but that rates have risen slightly over the past year.

Incidents of terrorism and hurricanes are less predictable than more routine events like car crashes. The added uncertainty makes them harder for insurers to price.

The insurance-price declines come at a time when insurers, helped by healthy returns on their investments and the fact that the latest hurricane season passed without major damage, are reporting booming profits. On Friday, Berkshire Hathaway Inc., which sells catastrophe reinsurance and also owns Geico, the big auto insurer, reported a more than fourfold increase in third-quarter net income. Allianz SE, the German insurance giant, said last week that its quarterly net profit doubled.

Insurance prices shot up broadly after the Sept. 11 attacks and corporate scandals early in the decade as those events persuaded insurers that the potential for steep losses was greater than they had realized. The recent price drops indicate insurers believe the world isn't as fraught with peril as it appeared to be in those frightful days.

"Panic just starts to reverberate... And then, everyone un-panics," says Michelle Rupp, the owner of NRG::Seattle, an insurance agency and brokerage in Washington state.

One of Ms. Rupp's clients, the Phinney Neighborhood Association, has seen the change firsthand. The Seattle nonprofit group runs day-care centers, a senior center and soup kitchens. It has insurance for property damage and liability. After Sept. 11, says Edward Medeiros, the group's executive director, "we saw big changes in our insurance premiums."

The two soup kitchens in Seattle -- thousands of miles from Ground Zero -- had been covered under a general liability policy. After 9/11, they were insured separately for an extra \$2,000 to \$3,000. In September of this year, when the association bought insurance for the coming year, the price for all of its coverage held steady at about \$32,000, even though potential losses went up because the group added youth programs, Mr. Medeiros says.

The market for directors and officers, or "D&O," insurance shows the same dynamic. Companies buy coverage to protect top officials from personal losses in connection with their roles as corporate

executives or board members. The meltdowns at Enron Corp., WorldCom Inc. and other companies helped double the cost of D&O insurance between 2001 and 2003.

But for three years, the cost of D&O insurance has been plummeting, even though new scandals have surfaced, including revelations about the backdating of stock options. Prices are 3.7% lower than last year, according to Advisen Ltd., which collects data from insurance buyers and risk managers.

Workers' compensation insurance costs, meanwhile, are down 3.5% from last year, Advisen says. The percentage of employees with workers' compensation insurance who have reported work-related injuries fell by more than 45% between 1991 and 2005, according to the National Council on Compensation Insurance Inc., based on 38 states for which it collects data.

In the auto market, insurance-price increases have slowed drastically. Between 1993 and 2002, firms that insure personal cars paid out more in claims and expenses than they took in from premiums every year but one. In 2002 and 2003, prices rose 8.8% and 7.8%, respectively.

However, collision claims have since fallen, in part because of technological improvements and stricter teen license requirements, says Robert Hartwig, chief economist at the Insurance Information Institute, an industry trade group. Claims are down by between 1.7% and 5.1% in each of the past four years, according to data compiled by industry organizations.

Car insurers, in turn, have recorded underwriting profits three years running, according to both the institute and insurance-rating company A.M. Best Co. With the business becoming less risky, car insurance prices rose just 1.1% in September from a year ago, less than the 2.1% inflation rate.

Regulatory changes at the state level have also played a role. New Jersey, for instance, streamlined its car-insurance regulations in recent years and there are now more companies competing in the state.

Lower potential losses also help explain why many people are paying less for term life insurance. With a term policy, a customer buys a certain amount of coverage by paying a set premium over a specified number of years. If the buyer dies during that "term" -- 20 years is a common period -- the beneficiaries collect a lump sum.

With Americans living longer, coverage is getting cheaper. Roger Blease, whose firm makes software that helps compare policies, says new mortality tables incorporate longer life expectancy. Insurers use them to help calculate how much money to put in reserves. The longer people live, the less insurers need to set aside, says Mr. Blease. That frees up money to reduce prices.

Nationwide, homeowners are paying 0.2% less for coverage than a year ago, according to the Bureau of Labor Statistics. The slowdown in the housing market may be one reason; if a house is worth less, it typically costs less to insure. But location is also a critical factor. In hurricane-prone Florida, insurance costs have soared. But in Michigan, insurers are fighting for customers. Dave Walker of Hartland Insurance Agency Inc., Hartland, Mich., says some customers are winning price cuts of 5% to 10%.

"We don't have the volatility of hurricanes and earthquakes and those kinds of catastrophes," says Mr. Walker. "From a consumer's perspective, that's great."

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