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COMMERCIAL INSURANCE RATES CONTINUE TO FALL WHILE INSURER PROFITS SKYROCKET TO RECORD LEVELS

NEW YORK — The latest industry data provide continuing evidence that the skyrocketing insurance rates of 2000 to 2003 have led to record industry profits but commercial insurance rates have stabilized or dropped in almost every sector, including medical malpractice. According to J. Robert Hunter, Director of Insurance for the Consumer Federation of America, co-founder of Americans for Insurance Reform and former Texas Insurance Commissioner and Federal Insurance Administrator, "this drop in prices has been underway for three years as the country experiences a sustained soft market."

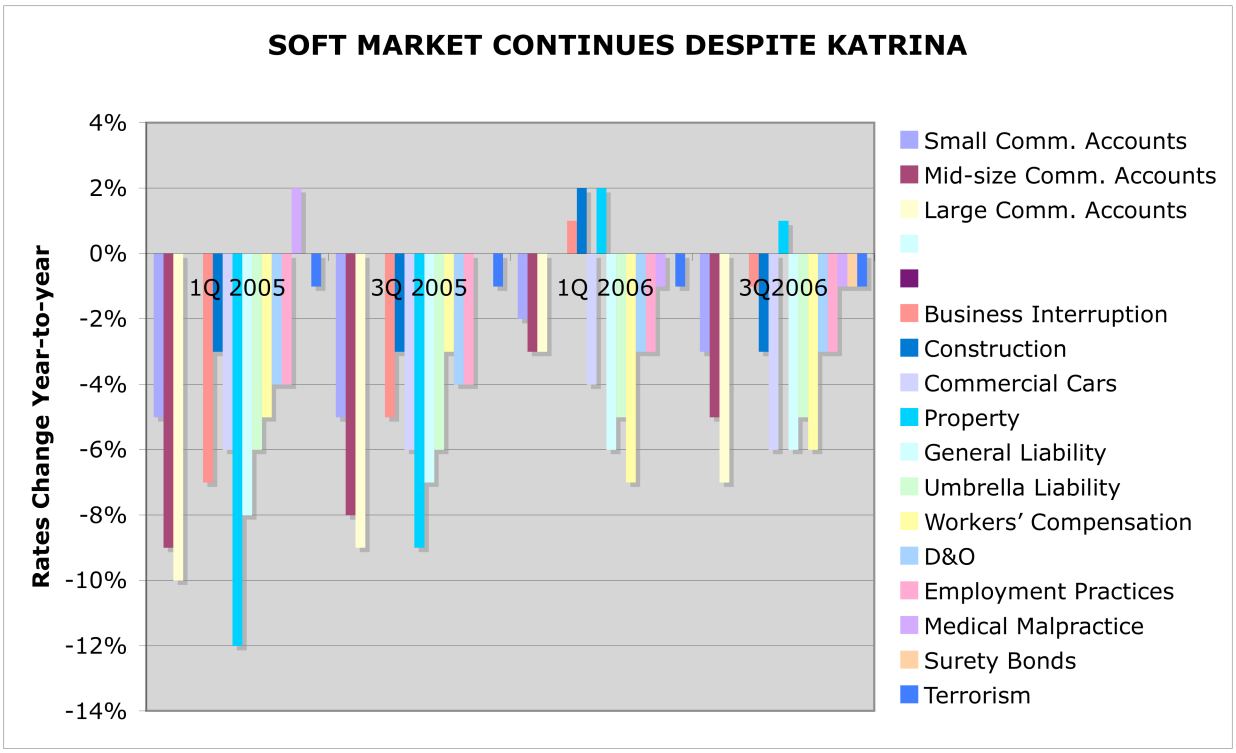
The current soft market (falling rates) follows a hard market (large price hikes) that hit most lines of insurance in the early 2000s, particularly medical malpractice. Said Hunter, "It now appears clear that the industry's record profits in 2004 and 2005, and the exceptional record profit about to be reported for 2006, are due in large part to the years of huge rate hikes in the earlier part of the decade, which were not caused by any accompanying increase in claims or payouts. In fact, inflation-adjusted payouts and claims never increased at all during this period. Rather, this is all part of a well-documented cyclical phenomenon for the property/casualty insurance industry."

According to Joanne Doroshow, AIR co-founder and Executive Director of the Center for Justice & Democracy, "Americans for Insurance Reform and consumer rights organizations have long maintained that the 'crisis' of skyrocketing insurance rates for doctors and other policyholders would end when the insurance cycle stabilized, and that this would occur whether or not 'tort reform' laws were enacted. Indeed, this is exactly what is happening now. This is because what drives rate hikes has little if anything to do with the legal system." Indeed, according to the third-quarter Council of Insurance Agents and Brokers survey of market conditions, commercial insurance rates are now dropping significantly across the country, irrespective of enactment of "tort reform." Even medical malpractice insurance rates have dropped 1 percent this quarter, as they did the first quarter of the year.

At the same time, newly released data shows that insurance company profits for 2006 are at record highs. The U.S. property/casualty industry's underwriting profit for the first half of 2006 was $15.1 billion - 31.8 percent higher than the first six months of 2005 which were already record-breaking. As recently reported in the *New York Times*, "Industry experts are estimating that profits may reach $60 billion, on a combination of higher premiums along the coasts, no major payouts for natural disasters and strong investment returns." This follows an incredible 2005, where the property-casualty industry's after-tax net income for 2005 was the highest ever, a record-breaking $44.8 billion. 2005 profits were up 18.7 percent over 2004, which had been the record until 2005.

The following chart shows rate increases or decreases in commercial areas or lines of insurance. Source: Analysis of Council of Insurance Agents and Brokers quarterly survey of market conditions.

	1Q 2005	3Q 2005	1Q 2006	3Q2006
Small Comm. Accounts	-5%	-5%	-2%	-3%
Mid-size Comm. Accounts	-9%	-8%	-3%	-5%
Large Comm. Accounts	-10%	-9%	-3%	-7%
Business Interruption	-7%	-5%	1%	-1%
Construction	-3%	-3%	2%	-3%
Commercial Cars	-6%	-6%	-4%	-6%
Property	-12%	-9%	2%	1%
General Liability	-8%	-7%	-6%	-6%
Umbrella Liability	-6%	-6%	-5%	-5%
Workers' Compensation	-5%	-3%	-7%	-6%
D&O	-4%	-4%	-3%	-3%
Employment Practices	-4%	-4%	-3%	-3%
Medical Malpractice	2%	0%	-1%	-1%
Surety Bonds	0%	0%	0%	-1%
Terrorism	-1%	-1%	-1%	-1%



"These data show that no matter how much insurance lobbyists like to complain about claims, payouts, jury verdicts or the legal system, losses do not determine the rates that insurers charge," said Hunter. "Rates stabilize during the soft market, in which we are now, irrespective of insurers' losses – such as the large hurricane losses of 2004 and 2005 during which time record profits were earned and most rates in the nation declined. And rates spike during the hard market, which ended three years ago, despite flat claims experience. These odd patterns are driven by the same thing: the insurance industry's economic cycle."

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