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Notwithstanding dire warnings in the business press some are still not taking seriously the current insurance crisis. There are those who feel it will be short-lived and will thus pass soon. Since primary insurers retain only small portions of each risk, they are dependent upon reinsurers to hedge their bets.

Recently released figures clearly show that US reinsurers continued their poor showing in 2000. The unprofitable 1995 combined ratio of 113.8 actually deteriorated in 2000, leading Donald Watson, Director of Standard & Poor's Financial Services, to conclude that the industry had not turned the corner. "When you consider the fact that there were no significant property-catastrophe losses for the industry in 2000, it's shocking that the industry is reporting these kinds of results," Mr. Watson said. This led to his conclusion that there will be no instant return to profitability.

Since, in this industry, the tail wags the dog in that primary insurance rates are driven by reinsurance rates these underwriters are now turning down business perceived as unprofitable. This hold-back of reinsurance capacity has forced primary insurers to retain a larger portion of their risks and they, too, are unwilling to write business at a loss.

A Liberty Mutual survey of 200 risk managers indicated that 74.5 percent expect the market over the next two years to experience further hardening.

Some examples from recent renewals for Alpha real estate clients:

- A diverse portfolio of 34 million square feet had reported both a high frequency and severity of property losses. Their primary Property premium quadrupled even after taking a much higher deductible. At the same time their General Liability loss experience was contained and that premium rose 9%.

- A shopping center portfolio of 30 million square feet experienced sharp deterioration of their Liability losses, both as to frequency and severity. Their already substantial premium went up by $1.5 million, the best of several competitive bids received. Fair loss experience for their Property program led an increase of "only" 40%.

- Starting with unrealistically low Property rates and after acquiring a portfolio not up to their earlier quality standards, a 17 million square feet REIT had a 250% increase in Property premiums.

In all these cases (and many others), to add insult to injury, the premium increases were combined with diminished coverage. These took the form of lower sub-limits, loss limits substituted for blanket limits, and the imposition of new exclusions or watered-down coverage clauses.

Caveat emptor – let the buyer beware.