

***Insurance Times:*** S&P says auto market returns to stability

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NEW YORK— Higher pricing underlies the prospect of improved earnings among U.S. auto and homeowners' insurers, according to Standard & Poor's, which has been revised its outlook for this line to stable (from negative at year-end 2001).

Personal-lines underwriters are generally operating in a more favorable environment than their commercial-lines brethren, and even the State Farm group, hitherto a dampening influence on pricing, is conforming to a firmer pricing trend.

"You have a number of companies that don't have the latitude any more to go after market share aggressively," said Charles Titterton, a director in Standard & Poor's Financial Services Ratings, "and that's going to drive pricing up."

Although the personal-lines sector incurred negligible payouts to terrorism in 2001, some of the large players in the sector did undergo a significant reduction in capital from Sept. 11 losses, because their coverage also straddles commercial-lines business. This effectively reduced supply in the industry. Dividend payments by operating companies to fund stock buyback programs have also limited available capital.

Titterton projects an improvement in the combined ratio for automobile coverage to about 103.5% for 2002, compared with 108.4% for 2001. For the homeowners line, where mold exposures have proven a drag on underwriting performance, the combined ratio is projected at 112%, compared with 122% in 2001. In the case of State Farm, which wields about 20% of the national personal-lines market, large losses have galvanized the group into pressing for rate increases. State Farm has also ceased writing new homeowners policies in Texas and California.