

Insurance Times: P/C premium growth strong; ROE only modest

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HARTFORD — The U.S. property casualty insurance industry outlook is improving, but not dramatically, according to Conning Research and Consulting, Inc.

Premium growth is significant, but income and return on equity are projected to improve only modestly over the next two years.

Conning's assessment is provided in its recently released third quarter "Property-Casualty Forecast & Analysis by Line of Insurance."

Conning expects "strong premium growth in 2002 with continued but lesser growth in 2003 and 2004, which we expect will result in combined ratio improvement," said Jack Gohsler, a senior vice president at Conning. "While underwriting improvement is expected, investment returns are likely to remain depressed. Overall, we expect the industry to be slightly more profitable, but overall financial performance leaves much room for improvement."

The industry's net written premiums increased by 10.0% in 2001. For the second consecutive year, premium growth rates were more than double the prior year's increase. Conning projects even stronger premium growth in 2002, 13.3%, with growth rates declining to 9.2% in 2003 and 6.5% in 2004.

Driven largely by catastrophic losses, including September 11th, the industry's 2001 combined ratio increased to 115.6%. Conning expects the combined ratio to improve to 109.0% in 2002, 105.2% in 2003 and 104.5% in 2004.

Despite these underwriting improvements, GAAP after-tax income and return on equity (ROE) are projected to improve only modestly. The industry suffered its first-ever after tax loss in 2001, \$8.3 billion, and ROE was a negative 2.4%. While improvement is expected in 2002, 2003 and 2004, Conning projects after tax income to reach only \$11.5 billion in 2004, with an ROE of 3.6%. Conning projects that GAAP capital and surplus will continue to decline in 2002, 2003 and 2004.

Several factors cloud Conning's future outlook of the industry.

"First, the industry will continue to address significant reserve deficiencies. With premium growth continuing, more reserve strengthening is likely. While reserve additions strengthen balance sheets, they constrain earnings growth. Second, history indicates that hard markets are generally short-lived. There are more indications that rate increases are beginning to moderate," Gohsler said.

"The industry faces numerous and diverse challenges. More regulatory constraints on insurers' pricing and underwriting actions are likely after several rounds of significant rate increases. Economic recovery has been slow and appears fragile. Litigation continues to threaten the industry on many fronts. Insurers face highly uncertain catastrophic risks from natural disasters and terrorism. Finally the industry continues to face difficult capital markets with low interest rates, declining equity prices and rising credit defaults."

While Conning considers these factors in its forecasts, they defy accurate projection, he added.