

Property/Casualty Insurance Cycle

Most industries are cyclical to some extent. The property/casualty (P/C) insurance industry cycle is characterized by periods of soft market conditions, in which premium rates are stable or falling and insurance is readily available, and by periods of hard market conditions, where rates rise, coverage may be more difficult to find and insurers' profits increase.

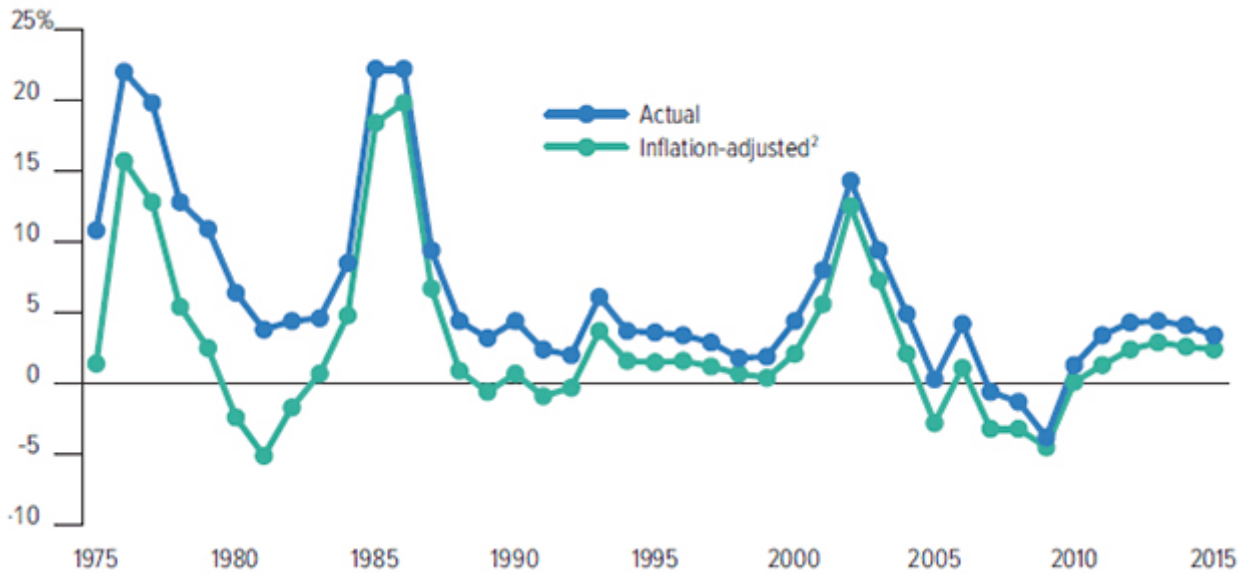
A dominant factor in the P/C insurance cycle is intense competition within the industry. Premium rates drop as insurance companies compete vigorously to increase market share. As the market softens to the point that profits diminish or vanish completely, the capital needed to underwrite new business is depleted. In the up phase of the cycle, competition is less intense, underwriting standards become more stringent, the supply of insurance is limited due to the depletion of capital and, as a result, premiums rise. The prospect of higher profits draws more capital into the marketplace, leading to more competition and the inevitable down phase of the cycle.

The chart below shows the real, or inflation-adjusted, growth of P/C net premiums written over more than three decades and three hard markets. Premiums can be accounted for in several ways. This chart uses net premiums written, which reflect premium amounts after deductions for reinsurance transactions.

During the last three hard markets, inflation-adjusted net premiums written grew 7.7 percent (1975 to 1978), 10.0 percent (1984 to 1987) and 6.3 percent (2001 to 2004).

Percent Change From Prior Year, Net Premiums Written, P/C Insurance, 1975-2015 (1)

52_2017.gif ^[1]



- (1) Excludes state funds and other residual market insurers.
- (2) Adjusted for inflation by ISO using the GDP implicit price deflator.

Source: ISO®, a Verisk Analytics® business.

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