Industry Leaders Expect To See A Profitable Year In 2016, But No Improvement, I.I.I. Survey Finds

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NEW YORK, January 12, 2016? Leaders of the property/casualty insurance industry expect no increase in profitability in 2016 for most lines of insurance, according to a survey conducted by the Insurance Information Institute (I.I.I.) at its 20th annual *Property/Casualty Insurance Joint Industry Forum*, held here.

Broken down by lines of insurance, sixty-eight percent of executives see no improvement in the workers compensation line; whereas in 2015, 44 percent expected an improvement. Moreover, sixty-one percent see no increase in profitability of personal auto, homeowners or commercial lines.

Seventy-six percent of executives said they see cyber insurance as a major growth leader for insurers in 2016. Cyber-Crime is exposing businesses? both in the U.S. and abroad? to greater levels of liability than ever before, which is why the market is far from saturated.

Many executives in the property/casualty industry believe there will be a stricter regulatory environment in the year ahead. Eighty-seven percent believe the federal government is interested in further expanding its regulatory oversight of insurers.

Seventy-nine percent of p/c industry leaders believe the U.S. economic growth will remain the same in 2016. Sixteen percent believe the economy will accelerate.

?The U.S. economy appears to be growing slowly but steadily, which translates into more economic activity and the addition of capacity. Personal and commercial insurance will also grow as a result, assuming none of the many potential adverse economic shocks develop,? said Dr. Steven Weisbart, senior vice president and chief economist with the I.I.I. ?As the economy inches closer to full employment, we may begin to see wage increases that outpace inflation for the first time in nearly a decade, primarily affecting the workers compensation line.

?Furthermore, the low-interest rate climate, which has lasted longer than virtually everyone thought likely, has begun a return to normality, but is not expected to reach those levels until 2018,? he said.

Fifty-three percent of executives believe premium growth will grow at the same rate in 2016, compared to 2015; only 29 percent of respondents believe it will grow faster; and 18 percent believe it will be slower. In terms of capacity, as measured by policyholders? surplus, 61 percent of respondents expect it to increase; 21 percent believe it will remain flat; and 18 percent believe it will decrease.

As compared with 2015, 74 percent of respondents believe the combined ratio will be higher in 2016. The combined ratio is a percentage of each premium dollar a property/casualty insurer spends on claims and expenses. The combined ratio rose by 0.8 percentage points to 98 percent* in 2015 (estimated) from 97.2 percent in 2014. A combined ratio over 100 means that claims payments plus expenses exceeded insurance premiums.

?Combined ratios must be lower in today?s depressed investment environment to generate risk appropriate ROEs,? added Weisbart. ?Lower catastrophes helped pull up ROEs in 2015,? he said.

One way to lower expenses is by consolidation; 55 percent of respondents expect a continued increase in M&A activity among insurers and reinsurers in 2016.

On the investment side, 47 percent of industry leaders expect a lower year in the equity markets in 2016 (but for the industry as a whole, equities constitute only about 15 to 20 percent of invested assets). About 70 percent of invested assets are in bonds.

Industry leaders were asked whether they expect interest rates to rise, fall or remain flat in 2015. Sixty-eight percent think they will rise and 32 percent expect interest rates to remain flat.

On the political front, 55 percent of respondents think there will be a Democrat in the White House.

The *Property/Casualty Insurance Joint Industry Forum* was created to provide leaders from the widest spectrum of the industry with an opportunity to meet with each other in discussion of topics of general interest. Participants included over 200 representatives from property/casualty insurance and reinsurance companies and organizations. Of these, roughly 40 percent responded to the survey.

The sponsoring organizations of the Forum represent a broad range of insurance interests and audiences. They include: AAIS, ACORD, American Insurance Association, the Association of Bermuda Insurers and Reinsurers, The Geneva Association, Insurance Institute for Business & Home Safety, Insurance Information Institute, Insurance Institute for Highway Safety, International Insurance Society, National Association of Mutual Insurance Companies, National Council on Compensation Insurance, National Insurance Crime Bureau, Property Casualty Insurers Association of America, Property & Liability Resource Bureau, Reinsurance Association of America, The Institutes and Verisk Analytics.

For the poll questions and full results, go to 2016 Property/Casualty Insurance Joint Industry Forum.

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