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Aon launches 2014 Homeowners ROE report

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The report, compiled by the firm's analytics division and updated annually, reviews industry aggregate state level statutory financial filing information along with rate filings and supporting actuarial information for the 20 top homeowners insurance groups by state.

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Global reinsurance broker Aon Benfield has launched its 2014 Homeowners ROE Outlooks report from the Property and Casualty Insurers Association (PCI) conference currently taking place in Arizona.

The report, compiled by the firm's analytics division and updated annually, reviews industry aggregate state level statutory financial filing information along with rate filings and supporting actuarial information for the 20 top homeowners insurance groups by state.

It concludes that insurers' prospective after-tax return-on-equity (ROE) for homeowners insurance is 7.9% on a countrywide average (2013: 4.6%), and 11.8% excluding Florida (2013: 8.0%). A small reduction in expected yields on insurers' invested policyholder funds prevented the estimated ROE from breaching the 8.0% threshold.

Drivers of estimated ROE improvement over the previous period include "continued positive activity in primary rates, a decline in the estimated catastrophe loss ratio resulting from updates to the vendor catastrophe models used in the study, and a reduction in the cost of reinsurance capital available to primary insurers", said the report.

The study also reveals that over the past 18 months positive rate momentum was maintained, as insurers' approved rate changes in US homeowners lines averaged an increase of above 7.0%, compared to the 7.7% seen in the prior period.

Aon Benfield Analytics Americas head, Greg Heerde, said: "In our latest study, we see trends emerging that support a positive profit outlook in the homeowners line of business, and we are working to ensure that this trend continues. Aon Benfield Analytics has developed tools to assist our insurer clients to generate a granular analysis of their exposures in rate filings, and account for the associated cost of reinsurance capital, enabling them to provide highly detailed cases for rate adjustments to state regulators."

Industry premium change from 2010 to 2013 showed strong growth for the Homeowners line - Midwest and Tornado Alley states achieving the largest premium increases with many exceeding 20 percent. Only one state, Hawaii, experienced an overall premium decrease over the three year interval.

Aon Benfield Global Risk and Capital Strategy team leader, Parr Schoolman, said: "Given the current market dynamics, we view the overall outlook for the U.S. homeowners line of business to be encouraging. Positive rate momentum was maintained in the period under review, and when viewed alongside positive factors such as a general reduction in the cost of reinsurance for primary insurers, the expected ROE for insurers in this line of business continues to improve. While rate activity is still required in some states, the number of states at or near rate adequacy is expanding."