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Return outlook improves for US homeowners insurers

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Published Date: 03:48, 27 October 2014

Rate increases and low catastrophe losses fuel improvement

Rising rates and low catastrophe losses have increased the prospective return on equity (RoE) for US homeowners insurance by more than three percentage points.

Analysis by Aon Benfield found insurers' prospective after-tax RoE for homeowners insurance is 7.9% on a countrywide average, compared to 4.6% in 2013.

Excluding Florida, the expected RoE for 2014 is 11.8%, up from 8% last year.

A small reduction in expected yields on insurers' invested policyholder funds prevented the estimated RoE from breaching the 8% threshold.

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, contributed to the improvement in RoE, according to Aon Benfield.

Over the past 18 months positive rate momentum was maintained, as insurers' approved rate changes in US homeowners lines averaged an increase of more than 7%, compared to the 7.7% seen in the previous period.

Homeowners line premium grew strongly between 2010 and 2013, with Midwest and Tornado Alley states achieving the largest premium increases, with many exceeding 20%. Only one state, Hawaii, experienced an overall premium decrease over the three-year interval.

Parr Schoolman, Aon Benfield global risk and capital strategy team leader, said: "Given the market dynamics, we view the overall outlook for the US 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,” he added.