Business Insurance

Market turn appears unlikely

August 10, 2011 - 5:10pm Rodd Zolkos

BURLINGTON, Vt.—Events including the U.S. debt and budget crisis and Standard & Poor's Corp.'s downgrade of the U.S. debt rating continue to fuel a climate of fear and provoke the question, “What in the world is going on?” said Wednesday morning's keynote speaker at the annual conference of the Vermont Captive Insurance Assn.

But, the impact of those events, along with catastrophe losses occurring at a record pace, are not going to lead to a turn in the insurance market, said Robert P. Hartwig, president and chief economist at the New York-based Insurance Information Institute.

Despite all the attention given S&P's recent rating action, it will have no impact on the solvency, liquidity or claims paying ability of U.S. property/casualty insurers, Mr. Hartwig said.

“The reality is that there's no other market that's as large and liquid as the U.S. Treasury market is,” he said, adding that the National Assn. of Insurance Commissioners issued a statement saying that the S&P downgrade has no impact on insurer investments in U.S. government and government-related securities, and that insurers' risk-based capital and asset valuation reserves are unaffected.

Regarding the condition of the property/casualty industry, Mr. Hartwig said first-quarter profits were down 12.2% from the prior-year period to $7.8 billion, and second-quarter catastrophe losses might keep profits for the first six months from being any greater.

As of June 30, 2011 was already the greatest catastrophe loss year on record globally, with $260.0 billion in economic losses and $55.0 billion of insured catastrophe losses worldwide. In the United States, there were $27.0 billion in economic losses and $17.3 billion in insured losses arising from 100 catastrophe events in the first six months of the year. Meanwhile, U.S. cat losses of nearly $15.1 billion in the second quarter set a record for second-quarter losses.

Despite all those factors, Mr. Hartwig said he doesn't expect a turn in the insurance market. For the market to turn, he said, four conditions have to be met.The first is a sustained period of large underwriting losses. “That has not yet happened,” he said.

The second condition is a material decline in insurers' underwriting capacity and surplus, but surplus remains at or near record highs.

The third condition, he said, is a tight reinsurance market. “That one has been somewhat or partially in place,” Mr. Hartwig said.

The final condition is renewed underwriting and pricing discipline, which thus far is not broadly evident, the economist said.