

# News Release

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## **As Insurance Market Cycle Evolves, Carriers Must Review Underwriting Strategies**

**New York, October 29, 2018** – Guy Carpenter & Company LLC, a leading global risk and reinsurance specialist and a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), has completed its annual review of property & casualty (P&C) results and found that insurers' operating environment today is very different than just a few short years ago.

Formerly stable lines produced significant volatility in 2017, while others that often struggle to produce underwriting returns enjoyed multi-decade highs in profitability. And the familiar underwriting cycle has decoupled materially across long-tail casualty lines, with profitability, growth and reserve development moving in widely different directions by line and segment. These are just a few of the findings reported in the company's 2018 Risk Benchmarks Research Report, which focuses on the risk and performance of US P&C insurers.

"The accelerating rate of change has been a constant in the P&C insurance market over the past several years," according to Tim Gardner, CEO, North America at Guy Carpenter. "The recent performance of the P&C industry seems a departure from the long-term trend, rather than the familiar regression towards it."

In its annual review of US insurance statutory financial data, Guy Carpenter's Global Strategic Advisory team found that strong equity market performance pushed industry surplus to its highest level ever at the end of 2017. But the largest year of North American cat activity since 2005 drove the gross loss ratio of the study's median insurer up 12 percent in just two years.

In auto lines, claims frequency and severity increased as road congestion, repair costs and jury awards grew; road speeds increased; and more drivers were distracted by devices. These trends represent a shift for many carriers who, until recently, viewed personal auto insurance as a steady source of profitability, causing some to focus on homeowners or diversify into commercial lines.

Meanwhile, over 60 percent of workers compensation carriers have achieved an underwriting profit since 2013, even as rates continue to decline. Though decreasing job readiness and trends in opioid abuse and legalized marijuana may impede future profitability, advancements in claims management and workplace safety are helping carriers manage risk, and many are already adjusting loss trend assumptions for such innovations.

"Insurtech innovations that just recently seemed like science fiction now offer insurers more nimble platforms and more granular data to better price, manage and mitigate risk. Profitable growth over the next 10 years is likely to be driven by realizing greater efficiency by transitioning away from legacy systems and leveraging new technology and data," said Gardner.

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Commercial casualty lines saw performance diverge to an extent not seen in over two decades, with correlations on initial and ultimate booked loss ratios dropping from near-perfect dependence to near independence or negative correlation in some cases, as line-specific claims and exposure trends trumped cyclical market conditions. If this decoupling persists it could mean an increase in diversification benefit for carriers writing multiple commercial casualty lines.

Finally, increases in non-modeled losses like wildfires and Assignment of Benefit claims have implications for existing models calibrated on historic data. As awareness of these and other emerging risk grows, carriers must factor them into capital and risk management strategies.

With every element of the insurance value chain evolving at a rapid pace, insurer understanding of these fundamental shifts in the market is more vital than ever. Guy Carpenter's BenchmaRQ<sup>®</sup> Advisory Services and Strategic Advisory practice can customize client-specific analyses using data and information from the Risk Benchmarks Research.

To download the Executive Summary, please [click here](#).

### TAGS/KEYWORDS

Guy Carpenter, Tim Gardner, Strategic Advisory, Risk Benchmarks, BenchmaRQ<sup>®</sup>, property and casualty, risk, insurance, capital, risk management, personal auto, workers compensation

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