Carriers must Carve out Distinctive Strategies to Maximize their Potential for Success

New York, October 21, 2019 – Guy Carpenter & Company, LLC, a leading global risk and reinsurance specialist and a business of Marsh & McLennan Companies (NYSE: MMC), has completed its annual review of property and casualty (P&C) results and found that competition and change are the only certainties (re)insurers are promised in today’s market.

New sources of capital and low interest rates are increasing the pressure to focus on underwriting rather than investment returns. Business models for insurance companies have been progressing and the pace and opportunity associated with data, information and technology have influenced how risk is analyzed, selected, distributed and mitigated in the insurance equation of rate, exposure and capital.

Results by segment and business model emphasize the pressure companies are under to generate profitable returns. “Our deep analysis of industry segment breakouts reveals pockets of volatility and profitability amid the evolving challenges and opportunities faced by carriers as they carve out distinctive strategies and operational initiatives to create opportunities,” according to John Trace, CEO, North America, at Guy Carpenter.

Regional insurers, with their traditional reliance on personal lines as a dependable source of profits, are facing pressures from some of the most sophisticated insurers. Over the past three years, Large Mutuals have experienced the effects of catastrophic events on homeowners in addition to significant competition in personal auto that began to improve in 2018 due to advanced analytics. These are just a few of the findings reported in the company’s 2019 Risk Benchmark Research briefing, which focuses on the risk and performance of U.S. P&C insurers.

In its annual review of US insurance statutory financial data, Guy Carpenter’s Global Strategic Advisory team found that property lines in excess of USD 200 billion of written premiums are experiencing pressure due to catastrophes, reinsurer rate actions and atypical reserve adverse development. “Insurers are reevaluating capital and how to better leverage reinsurance as market dynamics shift. In addition, companies have begun to think about how to translate this all into strategic evaluations of which lines/insureds are driving loss cost increases, rather than broadly passing rate increases to the entire portfolio,” said Trace.

In auto lines, personal auto rebounds to profitable levels for the first time in five years while homeowners suffers at the hands of catastrophic loss. Overall balance is possible where companies are diversified and have purchased reinsurance appropriately. Commercial auto is under new pressure as carriers, such as Progressive, push into the market with predictive models to attack the small commercial risks in ways similar to their personal lines approach. This comes at a time when many other carriers are still unable to reach profitable levels using traditional pricing and underwriting approaches.
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Meanwhile, Workers compensation direct written premiums declined slightly in 2018 to just over USD 57 billion. Combined ratios continued to inch upwards, with more sophisticated carriers withstanding the drift more effectively through effective return to work programs, loss control discipline, and medical cost management to name a few. Workers compensation carriers, Nationals, and the largest carriers have started to separate themselves from the regionals as they leverage technology and scale in their pricing, claims and underwriting disciplines.

Small and package commercial have been impacted by deteriorating property results while insurers battle for market share around deployment of advanced analytics and new carriers enter the market. While a portion of this deterioration was due to catastrophe losses, another part was attributed to companies competing for those accounts that best fit into their straight through processing underwriting approaches.

Finally, social inflation, marked by a rising propensity to sue and higher jury verdicts, is poised to drive increased pressure on loss costs through liability-exposed lines. Companies will need to reevaluate how they handle claims and minimize risks by assessing which types of claimants will have the highest potential for litigation and the influence of jurisdiction on loss costs.

Overall, the industry’s need to address challenges in the face of competition and growth will continue. In this ever changing landscape, insurers will be tested in picking their opportunities with care in their efforts to maximize their potential for success. Having good data and analytics is not enough – successful carriers will be those who are able to leverage the data and nimbly turn it into actionable strategies that create opportunities for growth. With our Risk Benchmark initiative, analytics tools and solutions, and market-leading insights, Guy Carpenter looks to help insurers navigate their day-to-day business challenges and capture profitable growth opportunities.

To download the report, please click here.

TAGS/KEYWORDS
Guy Carpenter, John Trace, Strategic Advisory, Risk Benchmarks, property and casualty, risk, insurance, capital, risk management, personal auto, workers’ compensation

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