Homeowners ROE Outlook

UPDATE: SEPTEMBER 2009

The prospective return on equity (ROE) for the homeowners line of insurance has declined in the last twelve months from 6.5 percent to 6.1 percent. This annual review by Aon Benfield Analytics of actual rate changes and supporting actuarial information in rate filings available as of July, 2009 confirms that the prospective ROE is now far less than the increased cost of insurer capital resulting from the global credit and liquidity crisis. The prospective ROE is based on estimated capital requirements sufficient for an A.M. Best “A” rating, net of expected reinsurance benefit estimated by Aon Benfield. Homeowners insurers continue to struggle through the labyrinth of state rate making laws, regulations, consumer price protections, rate making process delays, and market disruptions from lightly financed and competitive state funds to recover their increasing costs of capital—and they lost ground during the last year even though they paid billions in catastrophe claims to policyholders in recent years. The inability to earn reasonable returns from writing the staple product of homeowners insurance has the long-term effect of discouraging the participation of private capital in the market, leaving states to attempt to finance the highly volatile risks of their constituents. In turn, states have looked and will continue to look to the federal government to aid their growing homeowners insurance financing needs. These growing needs could be decreased through a more reasonable balance between the actual cost of providing insurance for one of the most volatile lines of business and rates allowed by insurance regulators and state law makers. The current imbalance is not new but it is getting worse and reasonable actions can still prevent a regional or national homeowners insurance crisis over the next decade.

In our service to clients, Aon Benfield Analytics provides information regarding their own unique costs of catastrophe risk, including expected losses, reinsurance, and cost of capital. This information may be integrated into rate filings and also into underwriting and pricing management at all levels of detail including state, territory, and individual risks.
Homeowners ROE—Now Far Less Than the Increased Cost of Insurer Capital

August 2009 Prospective ROE’s at Current Rates

August 2009 Rate Increases* for 14% ROE

August 2009 by Region

History of Countrywide Prospective ROE’s

Prospective ROE’s at Current Rates and Rate Increases for 14% ROE’s are based on analysis of actuarial support for rate filings of the five leading companies in states making up 80 percent of U.S. population, where publicly available. Estimates are based on review of rate filings by these largest insurers through July, 2009. Smaller states were estimated using combined ROE of reviewed states, credibility-adjusted based on state loss ratio data reported in Annual Statements. Estimates include an Aon Benfield analysis of capital allocation and cost of reinsurance by state for a company with an A.M. Best “A” rating. Estimates also include expected cost of assessments from state sponsored insurers. Prospective ROE’s and needed rate increases to meet ROE objectives will vary for individual companies.
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