

## Survey of Analysts Projects Healthy P/C Underwriting Profits, Zero Growth

**E**ACH YEAR THE INSURANCE INFORMATION INSTITUTE invites a panel of Wall Street stock analysts and industry professionals to review the prospects for the industry in the year ahead.

The 2008 Earlybird survey results indicate that the continuing respite in catastrophe losses in 2007 combined with strong performances in virtually all major lines of property/casualty (P/C) insurance will propel the industry to one of its best underwriting performances in the past 80 years. Analysts expect the industry's profitability to continue in 2008, albeit with an underwriting performance that will generate a moderately smaller underwriting profit.

The poll also shows that analysts uniformly expect premium growth in 2007 to come in below expectations while the outlook for 2008 remains completely flat to slightly negative.

### Premium Growth: Stuck in Neutral

The average forecast calls for negative growth in net written premiums in 2008 of 0.3 percent, a slight deterioration from the zero growth (0.0 percent) estimate for 2007. The 0.3 percent decline in premium growth that analysts project for 2008, if accurate, would represent the first decline in annual premiums since 1943, when premium volume declined by 2.4 percent in the midst of World War II.

Premium growth has decelerated steadily since peaking at 15.3 percent in 2002. The major exception to this general trend is hurricane-exposed coastal property insurance coverage, where insurers are seeking to charge premiums that are commensurate with the substantial risks they assume.

It is notable that the premium growth estimate for 2008, though slightly negative, represents a leveling out of growth rather than a continuation of the sharp deceleration trend that began in 2003. This suggests that analysts expect pricing dis-

cipline to be a key element in the complex dynamics at work in insurance markets in 2008. Historically, the travel time from the cyclical peak of premium growth to the cyclical trough has been five to six years. Reaching a trough in 2008 would be consistent with historical experience. However, history paints two distinctly different pictures for the years immediately following a trough. During the hard market of the mid-1970s, premium growth peaked in 1975, hit a trough in 1981, and peaked once again in 1985-1986. The next trough was effectively reached by 1992, after which the industry experienced very slow growth through the remainder of the decade.

It should be noted that while premium growth came in below expectations in 2007, the combined ratio estimate for 2007 of 93.8 is materially better than the 97.6 figure predicted a year ago and is up only marginally from the 92.7 combined

ratio recorded in 2006. The implication is that the industry's underwriting performance has not deteriorated as quickly as many had anticipated. Consequently, many insurers delivered strong earnings during the year, powered in large part by healthy underwriting profits.

Though top-line growth has slowed to a standstill, profits (measured in dollar terms) and profitability (as measured by return on equity) remain healthy owing to a variety of factors, including lower-than-expected catastrophe losses in both 2006 and 2007. At the same time, there is excess capital in the industry today—estimated by some analysts to be as much as \$100 billion—that is driving down returns on equity. In an effort to manage this impact, insurers are returning capital to shareholders in the form of increased dividend and share repurchases.

Profits continue to bolster the industry's policyholder surplus—a measure of claims-paying capacity, or capital—providing an additional buffer against the mega-catastrophes that lie ahead.

### The Insurance Information Institute's 2008 Earlybird Forecast

#### Net Written Premium Growth\*

Company	Est. 2007	Forecast 2008*
Conning & Co.	0.7	1.4
Tillinghast	0.4	1.1
Fitch Ratings	0.5	0.1
Gill & Roeser	1.0	0.0
Langen McAlenney	0.0	0.0
Merrill Lynch	0.0	0.0
Standard & Poor's	-0.5	0.0
Lehman Brothers	0.0	-1.0
Piper Jaffray	-0.5	-2.0
A.M. Best	-1.5	-2.2
<b>Average</b>	<b>0.0%</b>	<b>-0.3</b>

\*Ranked highest to lowest for 2008

#### Combined Ratio\*

(After Dividends)

Company	Est. 2007	Forecast 2008
A.M. Best	95.7	99.0
Fitch Ratings	93.5	98.1
Lehman Brothers	93.0	98.0
Piper Jaffray	95.0	98.0
Conning & Co.	94.3	97.9
Merrill Lynch	93.0	97.5
Langen McAlenney	93.0	97.0
Standard & Poor's	93.8	96.5
Gill & Roeser	93.5	96.0
Tillinghast	93.0	95.0
<b>Average</b>	<b>93.8</b>	<b>97.3</b>

\*Ranked highest to lowest for 2008