

A forward-looking survey of the major non-life insurance markets in 1996 and 1997

5 Jun 1996 CET Press Release

sigma-prospect No. 3/1996

The insurance cycle passes its peak - increased price competition and a sluggish economy dampen premium growth. Featuring forecasts for the major insurance markets, the latest issue of Swiss Re's *sigma* offers a concise survey of profit and growth trends - both current and future - in the insurance sector. The report, which includes seven countries, covers approximately 80% of the world's non-life premium volume.

1994-95: improved results, weaker volume growth

The insurance industry in major markets profited both from lower incurred losses in 1994-95 and a wave of price increases that began in 1994. Higher deductibles and better loss prevention in Japan and Europe exerted a positive influence on motor and property business. In 1995, a world-wide drop in catastrophe losses with respect to the previous year also contributed to the improved result. Growth in premium volume weakened over the past two years, particularly in the United States and Great Britain.

Since 1993, bond market fluctuations have brought volatility to financial results in the insurance industry. After an unexpected interest rate surge resulted in considerable market price losses in 1994, lower rates in 1995 allowed a return to good financial results. The slip in interest rates created a very favourable climate for capital gains, with bond portfolio yields on old positions continuing high.

The insurance sector posted good total results overall in 1994-95 and used retained profits to build up capital funds. The increased capacity and the clearly improved income picture increased willingness to engage in more intensive competition. The base has thus been laid for a new downswing in the insurance price cycle, particularly in European markets. In Great Britain, the downward trend has been in progress since 1994.

1996-97 holds only average economic growth in store

From the perspective of overall economic demand, the insurance industry in the large economies has neither cause for euphoria nor reason for pessimism. After a temporary slump, the world economy will return to expansion. We predict that average GDP growth for the OECD countries will amount to a moderate 2.0-2.5% in real terms for 1996-97. This will produce only a modest increase in the overall demand for insurance cover.

Structural change and favourable results intensify price pressure and competition

The 1996 insurance market in Europe is overshadowed by the increasing impact of structural changes. The introduction of new marketing channels and the rationalisation of traditional ones, as well as a trend towards risk-based rating, is altering the insurance supply. This transformation has not taken place overnight but as the result of a long adaptation phase that began with the EU single market programme in 1992. Inescapably, however, insurance companies' 1996 balance sheets will begin to reflect the results of the intensified competition and structural adjustment measures.

1996-97: sluggish premium growth and deteriorating results in Europe

Due to these developments, we forecast lower premium growth rates for the coming years (see table). The predicted downturn in overall results in the European insurance markets will remain within the range defined by normal cyclical fluctuations; only in the long term will the volatility of insurance results exceed the historical limits in markets that until now have been more strictly regulated.

In the US, modest growth will continue

In the United States, the phase of consolidation, cost optimisation and strategic reorientation is continuing. The strategy, used by numerous insurers, of concentrating on key areas is intensifying competition or creating new competitors, thus accelerating the erosion of the fleeting lucrative phases experienced in

some branches. Also, increased supply in the alternative risk transfer market, as well as the introduction of new financial market instruments that will make insurance risks tradable, are increasing the stability of the risk transfer market overall. Extreme cyclical fluctuations of the sort that the US insurance industry experienced in the seventies and eighties are a thing of the past. Premium growth will remain modest.

For further information please contact:

Media Communications:

Johann Thinnhof, tel. +41 1 285 3281

Click [here](#) for more information about *sigma* publications and download of the full reports.