2016 RIMS Benchmark Survey: Another decline in TCOR

The total cost of risk (TCOR) fell in 2015 and now sits at $10.55 spent on risk per $1,000 of revenue, according to the 2016 RIMS Benchmark Survey.

TCOR, defined as the cost of insurance plus the cost of retained losses, in 2015 is 2 percent less than 2014, primarily due to declines in property and liability costs as well as overall risk management costs paid by businesses.

State of the market

Low investment income, pressure on prices and benign catastrophe losses were drivers for a fiercely competitive US P&C insurance marketplace in 2015.

Capital remained plentiful in 2015. Capital markets continued to flood the property reinsurance market with capital and the economy remained sluggish—depressing investment returns.

Interest rates in the US in 2015 remained stubbornly low, affecting the insurance industry's ability to enhance underwriting profits with investment gains. Investment returns in 2015 grew slightly to $46.9 billion compared to $46.2 billion the prior year but returns remain well below levels seen right before the financial crisis ($54.6 billion in 2007).

Additionally, global insured losses totaled $37 billion in 2015, well below the previous 10-year average of $62 billion, according to a recent report from Swiss Re.

Advisen has shown flat overall premiums at renewal from 2014 to 2015 in most lines of insurance and across most sizes of business. Macro factors point to overall pressure on rates in the US P&C market but, looking ahead, there could be some pockets of rate increases in troubles or rapidly-evolving sectors.

One leading broker predicted 11 insurance lines of business will see rate increases, including cyber, environmental, E&O and workers compensation. Primary casualty, EPL, construction and D&O are marked as stable lines in 2016, while decreases are most pronounced in property, terrorism and aerospace.

Growth areas

Areas of growth in 2016 include cyber and transactional insurance.

Advisen predicts the cyber sector could double in size to $5 billion by 2020 and, for the first time, the RIMS Benchmark Survey broke out the TCOR for cyber. The total cost of cyber risk to survey respondents was $0.38 per $1,000 of revenue.

This TCOR is low, considering the strategic priority most corporations purport to be affording cyber risk. More than 90 percent of the 450 respondents to an Advisen survey last year said cyber risks are at least a moderate threat to their organization—4 percentage points above the five-year average.

Twenty-nine percent said cyber risk pose an extremely serious threat to their organization, up from 20 percent in the 2014 survey.

More organizations are looking at insurance as a key part of their overall cyber risk management strategy. Advisen data shows the penetration rate of cyber insurance is higher among large companies, with about 30 percent of businesses with revenues above $300 million buying cyber insurance in the US.

Limits purchased and premium paid for cyber insurance appear on the low side compared to other lines of insurance. There is plenty of room for growth as purchasing habits change and insurance products evolve to meet developing cyber risks.

Transactional insurance is also primed for growth based on higher M&A deal volumes (about $2.2 trillion in 2015 compared to $1.5 trillion in 2014).

The insurance market has refined a series of transactional risk insurance products to address sticking points in completing M&A deals, such as breach of representations, warranties and indemnities on the state of the business, and unclear or uncertain outcomes on known tax liabilities.

The market for transactional insurance products has taken off the last few years as the legal community and brokers accept the products as valuable tools for the M&A process.

Advisen research shows a 208 percent increase in the number of policies written between 2011 and 2015. From 2014 to 2015 the market grew 54 percent, with about 20 carriers worldwide offering the coverage on a regular basis. Interest is increasing in this profitable area of business.

Market trends

Speaking of M&A, market pressures have led to a boom in insurance M&A, as organizations seek growth in the absence of organic drivers.

Consolidation in commercial insurance has been a presiding force over the market in 2015 and will continue to shape the sector in coming years, experts predict. The ACE/Chubb merger closed in January 2016 and dominated carrier M&A in 2015, which also saw (among others) XL close its Catlin deal in May 2015; Tokio Marine bought HCC in October 2015; and Endurance purchased Montpelier Re. On the broker side, Willis acquired Towers Watson.

Insurance M&A has various consequences, some of which will become clearer in 2016: there will be fewer carriers and brokers for insurance buyers to choose from for many lines of business (partially offset by spin-offs and start-ups that may emerge from the merger fallout).

Another trend can be seen in the technology revolution.

Digital technology is eroding the advantages of scale enjoyed by established insurers and empowering smaller players to compete for market share through more flexible pricing models and new distribution channels.

This is not just a personal lines phenomenon, however. In the commercial P&C sector, the use of technology to power rating models, loss assessment tools and distribution channels is a considerable force for change in the sector.

2011-2015 Components of the Cost of Risk per $1,000 of Revenue