Property/Casualty Insurance Results: Nine-Months 2021

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Private U.S. property/casualty insurers' net income after taxes rose to $42.1 billion in nine-months 2021 from $35.2 billion in nine-months 2020. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus rose to 6.0% from 5.5% a year earlier, according to Verisk (Nasdaq: VRSK) and the American Property Casualty Insurance Association (APCIA).[1]

Insurers' combined ratio[2] deteriorated to 99.5% for nine-months 2021 from 98.8% for nine-months 2020, and $5.6 billion of net underwriting losses[3] in nine-months 2021 contrast with $0.4 billion in net underwriting gains a year earlier. Net written premium growth accelerated to 9.4% for nine-months 2021 from 2.9% for nine-months 2020.

Insurers' net investment income increased to $39.6 billion in nine-months 2021 from $37.2 billion a year earlier, and insurers' realized capital gains rose to $12.5 billion from $3.4 billion, resulting in $52.1 billion in net investment gains[4] for nine-months 2021, up $11.5 billion from $40.6 billion for nine-months 2020.

The industry started 2021 with $910.1 billion in surplus[5] as of December 31, 2020. The $24.2 billion increase in the first quarter of 2021 followed by the $40.6 billion increase in the second quarter brought the industry surplus to a new all-time-high value of $974.9 billion as of June 30, 2021. Industry surplus changed very little during the third quarter, ending up at $974.8 billion as of September 30, 2021.

Insurers' annualized rate of return on average surplus rose to 6.0% in nine-months 2021 from 5.5% in nine-months 2020, as the growth rate for the net income after taxes outpaced the growth in average surplus.

Underwriting Results

In the first nine months of 2021, earned premiums grew 7.2% to $509.6 billion. Loss and loss adjustment expenses (LLAE) grew 10.9%, to $372.1 billion, other underwriting expenses grew 5.0% to $141.2 billion, and policyholders' dividends receded to $1.9 billion from the extraordinary $5.0 billion in 2020. As a result, the industry reported a $5.6 billion net underwriting loss, a significant deterioration from the $0.4 billion net underwriting gain for nine-months 2020. The first quarter of 2021 delivered a $3.3 billion underwriting gain, followed by a $2.4 billion underwriting gain in second-quarter 2021, but those gains were completely wiped away by an $11.3 billion underwriting loss in third-quarter 2021.

Net written premiums rose $46.4 billion to $541.6 billion in nine-months 2021 from $495.3 billion in nine-months 2020. Net written premium growth accelerated to 9.4% from 2.9% for nine-months 2020, while the 7.2% growth in net earned premium growth compares to 2.7% a year earlier.

To assess the underlying direct premium growth and to provide a consistent quarterly pattern, Verisk compiled premiums for a large cohort of insurers whose data was available for first, second, and third quarters of 2019, 2020, and 2021, which represents more than 95% of total net written premiums for the industry. Aggregated net written premiums for these insurers grew 3.0% in nine-months 2020 and then grew 9.3% in nine-months 2021, while direct written premiums grew approximately 2.3% in nine-months 2020 and then grew 9.4% in nine-months 2021. This growth pattern can be traced to the COVID-19 impact. The reduction in the insured exposures caused a decline in the associated direct written premiums, with effects strongly concentrated in second-quarter 2020. The first-quarter direct written premiums grew 4.6% in 2020 and 6.0% in 2021, the second-quarter direct written premiums declined 0.2% in 2020 and grew 11.8% in 2021, and the third-quarter direct written premiums grew 2.7% in 2020 and grew 10.3% in 2021.

The 10.9% increase in LLAE in nine-months 2021 outpaces earned premium growth and compares with the 2.6% increase a

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year earlier. Private U.S. insurers' LLAE from catastrophes declined slightly to $48.1 billion from $48.5 billion a year earlier. Net LLAE for losses other than catastrophes increased $36.9 billion, or 12.9%, to $324.0 billion in nine-months 2021 from $287.1 billion in nine-months 2020.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $48.1 billion in net LLAE from catastrophes in nine-months 2021 is primarily attributable to catastrophes that struck the United States. Though estimating U.S. insurers' LLAE from catastrophes elsewhere around the globe is difficult, the available information suggests that U.S. insurers' LLAE arising from such events were not large in either nine-months 2021 or in nine-months 2020.

Reflecting the differences between written premium growth, earned premium growth, and the growth in LLAE and other costs of providing insurance, the combined ratio deteriorated by 0.7 percentage points to 99.5% in nine-months 2021 from 98.8% in nine-months 2020, consistent with the decline in underwriting gains.

Underwriting results benefited from $11.3 billion in favorable development of LLAE reserves in nine-months 2021, based on new information and updated estimates for the ultimate cost of claims from prior accident years, including catastrophe losses. The $11.3 billion of favorable reserve development in nine-months 2021 followed $7.3 billion of favorable development in nine-months 2020. Favorable development reduced the combined ratio by 2.2 percentage points in nine-months 2021 and by 1.5 percentage points in nine-months 2020.

Excluding development of LLAE reserves, LLAE grew $40.4 billion, or 11.8%, to $383.3 billion in nine-months 2021 from $342.9 billion in nine-months 2020. Excluding catastrophes and the development of LLAE reserves, LLAE increased $46.5 billion, or 15.9%, to $338.9 billion in nine-months 2021 from $292.4 billion a year earlier. The combined ratio deteriorated 0.7 percentage points in nine-months 2021. If catastrophe LLAE and LLAE reserve development in nine-months 2021 would have been at the same level as in nine-months 2020, the combined ratio would have deteriorated by 3.2 percentage points.

The $5.6 billion net loss on underwriting in nine-months 2021 amounted to 1.1% of the $509.6 billion in net premiums earned during the period. The $0.4 billion net gain on underwriting in nine-months 2020 amounted to 0.1% of the $475.5 billion in net premiums earned during that period.

Underwriting losses in third-quarter 2021 drove the worst quarterly net income after taxes since 2011.

While overall net written premium growth rate in nine-months 2021 quickened to 9.4% from 2.9% a year earlier and the combined ratio deteriorated to 99.5% from 98.8%, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines recovered to 5.2% in nine-months 2021 from 0.8% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines accelerated to 14.5% in nine-months 2021 from 6.5% in nine-months 2020. Premium growth for insurers writing more balanced books of business increased to 9.0% in nine-months 2021 from 1.1% in nine-months 2020.

Underwriting profitability as measured by the combined ratio deteriorated for personal lines insurers and improved for other segments. Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio improved 4.3 percentage points to 96.6% in nine-months 2021. Personal lines insurers' combined ratio deteriorated to 101.9% from 95.7% a year earlier, and balanced insurers' combined ratio improved 0.7 percentage points to 100.7% in nine-months 2021.

Direct premiums and losses[7] show significant variation of underwriting results across lines of business. For the available consistent company sample, direct written premiums for Fire and Allied lines (including earthquake) increased 19.1% in nine-months 2021, while the direct pure loss ratio changed to 71.9% from 72.4% a year earlier. Direct written premiums for General Liability (Other Liability and Products Liability combined) grew 21.1% while the direct pure loss ratio improved to 56.1% from 59.9% a year earlier. At the same time, direct written premiums for Homeowners grew 7.9%, but the direct pure loss ratio deteriorated to 76.1% from 70.4% as direct losses grew 15.0%. Direct written premiums for private passenger automobile liability grew 3.0% and the corresponding direct pure loss ratio worsened to 64.3% from 57.2% a year earlier, as the direct losses increased 14.1%. However, the direct pure loss ratio for 2020 does not reflect the COVID-19 driven premium refunds recorded as underwriting expenses, nor the dedicated policyholder dividends. For all automobile lines combined, direct written premiums grew 6.7% and direct pure loss ratio deteriorated to 65.6% from 56.6%. Direct written premiums for Workers' Compensation grew 0.5%, and direct pure loss ratio deteriorated slightly to 49.0% in nine-months 2021 from 47.9% a year earlier.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—increased 6.4% to $39.6 billion in nine-months 2021 from $37.2 billion in nine-months 2020. Insurers' realized capital gains on investments rose to $12.5 billion in nine-months 2021 from $3.4 billion for nine-months 2020. Combining net investment income and realized capital gains, overall net investment gains increased $11.5 billion, or 28.3%, to $52.1 billion in nine-months 2021 from $40.6 billion a year earlier.

Insurers' net investment income increased 6.4%, while average cash and invested assets for nine-months 2021 grew 9.2% compared with nine-months 2020. The annualized yield on insurers' investments in nine-months 2021 was 2.6%, down from 2.7% a year earlier, and below the 3.2% average annualized quarterly yield for the last ten years. From 1960 to 2019, insurers' annual investment yield averaged 4.9% but ranged from as low as 2.8% in 1961 to as high as 8.2% in 1984 and 1985. In recent years, investment yields have trended downward, and annual yields have not exceeded 4.0% since 4.2% for 2008. As a consequence of the downward trend, the 2020 yield of 2.7% was 0.6 percentage points below the average annual yield for the preceding ten years from 2010 to 2019 and the annualized yield for nine-months 2021 remained close to this historically low level.

Combining the $12.5 billion in realized capital gains in nine-months 2021 with the $46.8 billion in unrealized capital gains[8] during the same period, insurers posted $59.3 billion in overall capital gains for nine-months 2021—a $60.1 billion improvement from nine-months 2020. Over the past 30 years, insurers' total capital gains have averaged $4.5 billion per quarter but have ranged from as high as $50.6 billion in fourth-quarter 2020 to as low as negative $83.1 billion in first-quarter 2020.

Pretax Operating Income

Pretax operating income[9] fell $2.0 billion to $35.8 billion for nine-months 2021 from $37.8 billion for nine-months 2020. The decline in operating income was the net result of the $5.9 billion deterioration in underwriting results, partially offset by a $1.6 billion increase in miscellaneous other income and a $2.4 billion increase in net investment income.

Net Income after Taxes

Combining operating income, realized capital gains (losses), and federal and foreign income taxes, the insurance industry's net income after taxes increased $7.0 billion to $42.1 billion for nine-months 2021 from $35.2 billion for nine-months 2020. The $7.0 billion increase in net income after taxes is largely attributable to the $9.1 billion increase in realized capital gains. Nine-months 2021 net income after taxes exceeds the $38.2 billion average nine-month income for the last ten years. However, the large dollar amounts of income in recent years are associated with historically high surplus levels and the average profitability of 7.1% for the ten most recent nine-months periods (as measured by the annualized rate of return on average policyholders' surplus) meaningfully exceeds the 6.0% profitability for nine months of 2021.

> Strong premium growth in 2021 is partially due to ongoing recovery from COVID-19 disruptions.

Policyholders' Surplus

Policyholders' surplus rose $64.8 billion to $974.8 billion as of September 30, 2021, from $910.1 billion as of December 31, 2020. Additions to surplus in nine-months 2021 included $42.1 billion in net income after taxes, $46.8 billion in unrealized capital gains on investments (not included in net income) and $2.9 billion in net capital inflow. Deductions from surplus consisted of $22.1 billion in dividends to shareholders and $5.0 billion in miscellaneous charges against surplus.

Insurers' $46.8 billion in unrealized capital gains in nine-months 2021 constitute a $51.0 billion swing from $4.2 billion in unrealized capital losses a year earlier. The net $2.9 billion of capital inflow in nine-months 2021 compares with $2.6 billion of capital inflow a year earlier. Dividends to shareholder increased $3.0 billion, or 15.6%, to $22.1 billion in nine-months 2021 from $19.2 billion in nine-months 2020. The $5.0 billion in miscellaneous charges against surplus in nine-months 2021 is a $6.4 billion deterioration from $1.4 billion in miscellaneous credits to surplus in nine-months 2020.

> Investment gains pushed up insurers' income despite underwriting losses.

Using 12-month trailing premiums, the premium-to-surplus ratio dropped to 0.71 as of September 30, 2021 from 0.75 as of September 30, 2020. Similarly, the ratio of loss and loss adjustment expense reserves to surplus fell to 0.77 as of September 30, 2021, from 0.80 a year earlier. These ratios remain low compared with their historical levels because surplus grew more rapidly than premiums or reserves. For example, over the 20 years ending 2020, the average premium-to-surplus ratio was 0.88 and the LLAE-reserves-to-surplus ratio was 1.02.

Third-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes declined to $4.7 billion in third-quarter 2021 from $10.9 billion in third-quarter 2020. Property/casualty insurers' annualized rate of return on average surplus declined to 1.9% in third-quarter 2021 from 5.2% a year earlier.

The $4.7 billion in net income after taxes for the insurance industry in third-quarter 2021 was a net result of $2.5 billion in pre-tax operating income, $3.3 billion in realized capital gains on investments, and $1.1 billion in federal and foreign income taxes.

The industry's third-quarter operating income in 2021 was $2.5 billion, three times less than $7.7 billion a year earlier. The industry's third-quarter 2021 pretax operating income was the net result of $11.3 billion in underwriting losses, $13.3 billion in net investment income, and $0.5 billion in miscellaneous other income. The third-quarter underwriting losses deteriorated $7.0 billion, investment income increased $1.6 billion, and miscellaneous other income increased $0.2 billion.

Net LLAE from catastrophes included in private U.S. insurers' financial results in third-quarter 2021 was $19.2 billion, still an improvement from $23.8 billion in third-quarter 2020. The contribution of catastrophe LLAE to the third-quarter combined ratio was 10.6 percentage points in 2021 after 14.6 percentage points in 2020.

Third-quarter 2021 net losses on underwriting amounted to 6.2% of the $180.5 billion in premiums earned during the period, while the third-quarter 2020 ratio of net losses on underwriting to earned premiums was 2.6%. The industry's combined ratio deteriorated to 104.5% in third-quarter 2021 from 101.3% in third-quarter 2020. Over the last 30 years, the third-quarter combined ratio averaged 104.0% but reached as high as 122.8% in 1992 and as low as 90.6% in 2006. The loss ratio for the quarter was 79.3%, the highest quarterly loss ratio since hurricanes Harvey, Irma, and Maria drove the loss ratio to 84.3% in third-quarter 2017.

Net written premiums rose $21.9 billion, or 12.8%, to $193.2 billion in third-quarter 2021 from $171.3 billion in third-quarter 2020. The overall trend has been for quarterly written premiums to rise, and indeed there have been increases in 44 of the past 46 quarters. The only decline after the end of the Great Recession and before the pandemic-affected second quarter 2020 occurred in first-quarter 2019. That decline in written premiums was due to an unusually high comparison base, triggered by changes in reinsurance utilization in 2018.

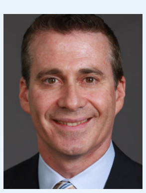
Net earned premiums grew 10.8% to $180.5 billion in third-quarter 2021 from $162.9 billion in third-quarter 2020. LLAE increased 17.8% to $143.1 billion in third-quarter 2021 from $121.4 billion in third-quarter 2020. The reported results for third-quarter 2021 benefited from $2.1 billion in favorable LLAE reserve development, compared with $2.8 billion of favorable LLAE reserve development in third-quarter 2020. Excluding catastrophes and reserve development, LLAE jumped 28.4% to $126.5 billion from $98.5 billion in third-quarter 2020.

Net investment income for the industry increased to $13.3 billion in third-quarter 2021 from $11.7 billion in third-quarter 2020. Miscellaneous other income increased to $0.5 billion in third-quarter 2021 from $0.3 billion in third-quarter 2020.

Realized capital gains on investments declined to $3.3 billion in third-quarter 2021 from $4.8 billion in third-quarter 2020. Combining net investment income and realized capital gains, net investment gains increased 0.9%, to $16.6 billion in third-quarter 2021 from $16.4 billion a year earlier.

Insurers posted $3.6 billion in unrealized capital gains on investments in third-quarter 2021, a $30.3 billion drop from $34.0 billion of unrealized capital gains a year earlier. Combining realized and unrealized amounts, the insurance industry posted $6.9 billion in overall capital gains in third-quarter 2021, a $31.8 billion drop from the $38.7 billion in overall capital gains on investments in third-quarter 2020. Third-quarter 2020 had unusually strong capital gains as the stock markets continued to recover after the COVID-19 panic in first-quarter 2020.

The key operating results for the industry are summarized in the table on page 5.



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Nine-Months 2021: BY THE NUMBERS

$974.8 billion
Industry surplus, slightly down from $974.9 billion on June 30,2021, and up from $910.1 billion at year-end 2020

$42.1 billion
Net income after taxes, up from $35.2 billion in nine-months 2020

$541.6 billion
Net written premium, after $495.3 billion in nine-months 2020

99.5%
Combined ratio, after 98.8% for nine-months 2020

$5.6 billion
Net underwriting loss, after a $0.4 billion underwriting gain for nine-months 2020

2.6%
Annualized investment yield, down from 2.7% a year earlier

$59.3 billion
Total capital gains, after $0.8 billion in total capital losses in nine-months 2020

Operating Results for 2021 and 2020 ($ Millions)

Nine-Months	2021	2020
Net Written Premiums	$541,628	$495,263
Percent Change (%)	9.4	2.9
Net Earned Premiums	509,637	475,491
Percent Change (%)	7.2	2.7
Incurred Losses & Loss Adjustment Expenses	372,053	335,584
Percent Change (%)	10.9	2.6
Statutory Underwriting Gains (Losses)	(3,629)	5,387
Policyholders' Dividends	1,947	5,020
Net Underwriting Gains (Losses)	(5,576)	367
Pretax Operating Income	35,840	37,829
Net Investment Income Earned	39,564	37,195
Net Realized Capital Gains (Losses)	12,505	3,389
Net Investment Gains	52,069	40,584
Net Income (Loss) after Taxes	42,141	35,189
Percent Change (%)	19.8	-27.3
Surplus (Consolidated)	974,818	863,099
Loss & Loss Adjustment Expense Reserves	752,885	691,558
Combined Ratio, Post-Dividends (%)	99.5	98.8

Third Quarter	2021	2020
Net Written Premiums	$193,189	$171,266
Percent Change (%)	12.8	3.0
Net Earned Premiums	180,537	162,887
Percent Change (%)	10.8	2.3
Incurred Losses & Loss Adjustment Expenses	143,088	121,434
Percent Change (%)	17.8	6.1
Statutory Underwriting Gains (Losses)	(10,890)	(3,648)
Policyholders' Dividends	389	642
Net Underwriting Gains (Losses)	(11,279)	(4,290)
Pretax Operating Income	2,500	7,656
Net Investment Income Earned	13,323	11,679
Net Realized Capital Gains (Losses)	3,275	4,770
Net Investment Gains	16,598	16,449
Net Income (Loss) after Taxes	4,687	10,899
Percent Change (%)	-57.0	-29.3
Surplus (Consolidated)	974,818	863,099
Loss & Loss Adjustment Expense Reserves	752,885	691,558
Combined Ratio, Post-Dividends (%)	104.5	101.3

1. This study defines the U.S. property/casualty insurance industry as all private property/casualty insurers domiciled in the United States, including excess and surplus insurers and domestic insurers owned by foreign parents but excluding state funds for workers compensation and other residual market carriers. The figures are consolidated estimates based on reports accounting for at least 96% of all business written by U.S. property/casualty insurers. All figures are net of reinsurance unless otherwise noted and occasionally may not balance due to rounding.
2. Combined ratio, defined as the sum of loss ratio, expense ratio, and dividend ratio, is a key measure of losses and other underwriting expenses per dollar of premium. The loss ratio is the ratio of losses and loss adjustment expenses (LLAE) to earned premiums; the expense ratio is the ratio of other underwriting expenses to written premiums; and the dividend ratio is the ratio of policyholders' dividends to earned premiums.
3. Underwriting gains (or losses) equal earned premiums minus LLAE, other underwriting expenses, and dividends to policyholders.
4. Net investment gains equal the sum of net investment income and realized capital gains (or losses) on investments.
5. Policyholders' surplus is insurers' net worth measured according to Statutory Accounting Principles.
6. Net LLAE from catastrophes also includes revisions to LLAE from catastrophes that occurred during prior periods but excludes LLAE covered by the National Flood Insurance Program, residual market insurers, and foreign insurers and reinsurers.
7. In their quarterly statutory statements, insurers report direct written premiums, direct earned premiums, and direct losses incurred by line of business. Premium growth and pure loss ratios (ratios of losses to earned premiums) can be calculated by line based on this information, but not combined ratios. These exhibits do not separate automobile physical damage into private passenger and commercial, commercial multiple peril into non-liability and liability, and allied lines into five components available on the annual statements.
8. Unrealized capital gains or losses contribute directly to surplus change, but they do not affect net income.
9. Pretax operating income is the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income.

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