Property/Casualty Insurance Results: First-Half 2015

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Private U.S. property/casualty insurers' net income after taxes grew to $31.0 billion in first-half 2015 from $26.0 billion in first-half 2014. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus grew to 9.2 percent from 7.8 percent, according to ISO, a Verisk Analytics (Nasdaq: VRSK) business, and the Property Casualty Insurers Association of America (PCI).[1]

Insurers' combined ratio[2] improved to 97.6 percent for first-half 2015 from 98.9 percent for first-half 2014, and their net underwriting gains[3] increased to $3.4 billion from $0.2 billion. Net written premium growth remained unchanged at 4.1 percent for the first half of 2014 and 2015.

Insurers' net investment income increased to $23.4 billion in the first half of 2015 from $23.0 billion a year earlier, and insurers' realized capital gains increased to $8.2 billion from $7.2 billion, resulting in $31.6 billion in net investment gains for first-half 2015. The net investment gains[4] were the highest first-half investment gains since the beginning of ISO's quarterly records in 1986, and the realized capital gains were the highest since the $8.5 billion recorded for 1998. Improvements in underwriting results and elevated investment gains pushed insurers' annualized overall rate of return for first-half 2015 to 9.2 percent from 7.8 percent for first-half 2014. However, this is just 0.2 percentage points above the 30-year average annualized rate of return for first-half results and 1.6 percentage points below the 10.8 percent annualized rate of return for first-quarter 2015.

Net income reached its highest first-half level since the $32.7 billion recorded for first-half 2007.

Despite insurers' $31.0 billion in net income after taxes in 2015, the industry's surplus[5] declined to $672.4 billion as of June 30, 2015, from $675.2 billion as of year-end 2014, mostly because of $20.1 billion in dividends to stockholders and $8.7 billion in unrealized capital losses.

Underwriting Results

The improvement in underwriting results is mainly due to the growth in earned premiums in excess of the growth in losses and loss adjustment expenses (LLAE). In first-half 2015, earned premiums grew 4.0 percent to $247.5 billion, while LLAE rose just 1.8 percent to $171.3 billion, other underwriting expenses grew 4.7 percent to $71.8 billion, and policyholders' dividends were essentially unchanged at $1.0 billion. As a result, net underwriting gains increased to $3.4 billion from $0.2 billion.

Net written premiums climbed $10.1 billion, or 4.1 percent, to $256.7 billion in first-half 2015 from $246.6 billion in first-half 2014. The net written premium growth rate of 4.1 percent is unchanged from first-half 2014 and just slightly below the 4.2 percent growth rate for full-year 2014. The growth rate in net earned premiums slowed to 4.0 percent in first-half 2015 from 4.3 percent in first-half 2014 and 4.4 percent for full-year 2014. However, the decrease in earned premium growth, as well as in the overall volume of underwriting activity in 2015, was partly the result of the sale of a large book of Canadian personal lines business that took effect on January 1, 2015.[6]

The 1.8 percent increase in LLAE in first-half 2015 compares favorably to the 6.5 percent increase a year earlier. A decline in catastrophe losses slowed down the rise in overall LLAE. Private U.S. insurers' net LLAE from catastrophes declined $2.1 billion to $10.8 billion for first-half

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 percent 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 a 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. This business is now written by Canadian insurers and no longer flows through financial reports of U.S.-domiciled insurers.

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2015 from $13.0 billion a year ago. Net LLAE for losses other than catastrophes rose $5.2 billion, or 3.4 percent, to $160.5 billion in first-half 2015 from $155.2 billion in first-half 2014.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[7] However, U.S. insurers' $10.8 billion in net LLAE from catastrophes in first-half 2015 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' net LLAE arising from such events was not large in both first-half 2015 and first-half 2014.

Direct insured property losses from catastrophes striking the United States totaled $10.3 billion in first-half 2015, down $2.3 billion from $12.6 billion in first-half 2014 and $0.6 billion below the $10.9 billion average for the past ten years.[8]

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio improved by 1.3 percentage points to 97.6 percent in first-half 2015 from 98.9 percent in first-half 2014.

Underwriting results benefited from $8.1 billion in favorable development of LLAE reserves in first-half 2015, based on new information and updated estimates for the ultimate cost of claims from prior accident years. The $8.1 billion of favorable reserve development in first-half 2015 follows $7.9 billion of favorable development in first-half 2014, and results in comparable favorable reserve development effects on underwriting gains and on loss ratios in 2015 and 2014.

Excluding development of LLAE reserves, net LLAE grew $3.3 billion, or 1.9 percent, to $179.4 billion in first-half 2015 from $176.1 billion in first-half 2014.

The $3.4 billion in net gains on underwriting in first-half 2015 amounted to 1.4 percent of the $247.5 billion in net premiums earned during the period. The $0.2 billion in net gains on underwriting in first-half 2014 amounted to 0.1 percent of the $238.0 billion in net premiums earned during that period.

While overall net written premium growth in first-half 2015 remained unchanged from a year earlier at 4.1 percent, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines slowed 0.4 percentage points to 5.3 percent in first-half 2015 but remained more robust than for other segments. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines slowed 0.5 percentage points to 2.2 percent in first-half 2015, while premium growth for insurers writing more balanced books of business accelerated 0.7 percentage points to 5.0 percent.

Underwriting profitability as measured by the combined ratio remained unchanged for personal lines insurers and improved for other major sectors of the industry. Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio decreased 0.8 percentage points in first-half 2015 to 94.3 percent. Balanced insurers' combined ratio fell 4.6 percentage points to 99.4 percent from 104.0 percent in first-half 2014, while personal lines insurers' combined ratio remained at 100.1 percent.

Direct insured property losses from catastrophes striking the United States totaled $10.3 billion in first-half 2015, just slightly below the ten-year average.

Investment Results

Insurers' net investment income — primarily dividends from stocks and interest on bonds — grew 1.6 percent to $23.4 billion in first-half 2015 from $23.0 billion in first-half 2014. Insurers' realized capital gains on investments rose $1.0 billion to $8.2 billion in first-half 2015 from $7.2 billion a year earlier. Combining net investment income and realized capital gains, overall net investment gains grew $1.4 billion, or 4.5 percent, to $31.6 billion for first-half 2015 from $30.2 billion for first-half 2014.

Insurers' $8.2 billion in realized capital gains in first-half 2015 was the net result of $0.8 billion in realized losses on impaired investments and $9.0 billion in realized gains on other investments, with realized losses on impaired investments increasing in first-half 2015 from $0.5 billion for first-half 2014.

The 1.6 percent increase in net investment income was driven by a 2.1 percent increase in average cash and invested assets for first-half 2015 compared with first-half 2014. The annualized yield on insurers' investments in first-half 2015 was 3.1 percent — just slightly below the 3.2 percent investment yield for first-half 2014 and full-year 2014 and significantly below the 3.8 percent average annualized quarterly yield for the last ten years. Long-term annual data shows that insurers' investment yield last fell as low as 3.1 percent in 1965. From 1960 to 2014, insurers' annual investment yield averaged 5.1 percent but ranged from as low as 2.8 percent in 1961 to as high as 8.2 percent in 1984 and 1985.

Combining the $8.2 billion in realized capital gains in first-half 2015 with the $8.7 billion in unrealized capital losses during the same period, insurers posted $0.6 billion in overall capital losses for first-half 2015 — a $15.6 billion drop from the $15.0 billion in overall capital gains for first-half 2014.[9] Over the past 30 years, insurers' total capital gains have averaged $2.6 billion per quarter but have ranged from as high as $26.8 billion in fourth-quarter 1998 to as low as negative $31.9 billion in fourth-quarter 2008 during the financial crisis.

Pretax Operating Income

Pretax operating income[10] increased $3.6 billion to $27.5 billion for first-half 2015 from $23.9 billion for first-half 2014. The $3.6 billion increase in operating income was due to the $3.2 billion

7. 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.
8. Estimates are from Verisk's Property Claim Services® (PCS®) based on information available as of September 17, 2015. Direct losses are before reinsurance recoveries and exclude loss adjustment expenses. These figures are for all types of insurers, including residual market insurers, foreign insurers, and reinsurers, but exclude ocean marine losses and losses covered by the National Flood Insurance Program.
9. Unrealized capital gains or losses contribute directly to surplus change, but they do not count toward net income.
10. Pretax operating income is the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income.

increase in net gains on underwriting and the $0.4 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 $5.0 billion to $31.0 billion for first-half 2015 from $26.0 billion for first-half 2014. This is the highest first-half net income since the $32.7 billion in first-half 2007. The growth in net income was the result of the $3.6 billion increase in operating income, the $1.0 billion increase in realized capital gains, and the $0.4 billion decrease in federal and foreign income taxes.

Net income after taxes climbed to $31.0 billion, the highest first-half net income since first-half 2007.

Policyholders' Surplus

Policyholders' surplus declined $2.8 billion to $672.4 billion as of June 30, 2015, from a record high of $675.2 billion at year-end 2014. Still, policyholders' surplus for first-half 2015 remained above any pre-2014 values. Additions to surplus in first-half 2015 included $31.0 billion in net income after taxes and $4.8 billion in new funds. The deductions from surplus consisted of $8.7 billion in unrealized capital losses on investments (not included in net income), $20.1 billion in dividends to shareholders, and $9.7 billion in miscellaneous charges against surplus.

The $8.7 billion in unrealized capital losses in first-half 2015 represents a $16.5 billion swing from the $7.8 billion in unrealized capital gains for first-half 2014.

New funds paid in increased to $4.8 billion in first-half 2015 from $3.3 billion in first-half 2014. Dividends to shareholders grew $4.2 billion, or 26.1 percent, to $20.1 billion in first-half 2015 from $15.9 billion in first-half 2014. Miscellaneous charges against surplus grew to $9.7 billion in first-half 2015 from $2.4 billion in first-half 2014. A major portion of the increase in miscellaneous charges against surplus is attributable to a special transaction. In the second quarter of 2015, one insurer invested at least $5.0 billion in a noninsurance asset classified as "nonadmitted" per statutory accounting rules and does not count toward the insurer's surplus.

Using 12-month trailing premiums, the premium-to-surplus ratio rose to 0.75 as of June 30, 2015, from 0.72 as of June 30, 2014. At the same time, the ratio of loss and loss adjustment expense reserves to surplus was 0.86 as of both June 30 this year and a year earlier. The 0.75 premium-to-surplus ratio is only about half of the 1.44 average premium-to-surplus ratio based on annual data for the 56 years from 1959 to 2014. Similarly, the 0.86 LLAE-reserves-to-surplus ratio as of the end of first-half 2015 is far below the 1.38 average for the 56 years ending 2014.

At $672.4 billion — just off the record high of $675.2 billion — policyholders' surplus is still above any pre-2014 values.

Second-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes rose to $12.8 billion in second-quarter 2015 from $12.1 billion in second-quarter 2014. Property/casualty insurers' annualized rate of return on average surplus increased to 7.6 percent in second-quarter 2015 from 7.3 percent a year earlier.

The $12.8 billion in net income after taxes for the insurance industry in second-quarter 2015 was a result of $12.0 billion in pretax operating income, $3.5 billion in realized capital gains on investments, and $2.6 billion in federal and foreign income taxes.

The industry's $12.0 billion in pretax operating income for second-quarter 2015 was up $1.8 billion from the $10.1 billion for second-quarter 2014. The industry's second-quarter 2015 pretax operating income was the net result of $0.7 billion in net losses on underwriting, $11.7 billion in net investment income, and $0.9 billion in miscellaneous other income.

The net losses on underwriting shrank $1.4 billion to $0.7 billion in second-quarter 2015 from $2.1 billion in second-quarter 2014.

Net LLAE from catastrophes included in private U.S. insurers' financial results dropped to $7.4 billion in second-quarter 2015 from $9.8 billion a year earlier.[11] The contribution of catastrophe LLAE to the second-quarter combined ratio declined by 2.3 percentage points.

Direct insured losses from catastrophes striking the United States in second-quarter 2015 totaled $6.7 billion, down $2.9 billion from the $9.6 billion in direct insured losses caused by catastrophes that struck the United States in second-quarter 2014.[12]

Second-quarter 2015 net losses on underwriting amounted to 0.5 percent of the $125.5 billion in premiums earned during the period, an improvement compared with second-quarter 2014 net losses on underwriting, which were 1.7 percent of the $120.3 billion in premiums earned during that period. The industry's combined ratio improved to 99.4 percent in second-quarter 2015 from 100.6 percent in second-quarter 2014. That is the lowest second-quarter combined ratio since 93.7 percent in 2007. Over the last 30 years, the second-quarter combined ratio averaged 104.5 percent but reached as high as 117.5 percent in 2011 and as low as 92.8 percent in 2006.

Net written premiums rose $5.5 billion, or 4.4 percent, to $130.6 billion in second-quarter 2015 from $125.1 billion in second-quarter 2014. That was the twenty-first consecutive quarter of growth in written premiums, following 12 quarters of declines.

Net earned premiums grew $5.2 billion, or 4.3 percent, to $125.5 billion in second-quarter 2015 from $120.3 billion in second-quarter

11. 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.
12. Estimates are from Verisk's Property Claim Services (PCS) based on information available as of September 17, 2015. Direct losses are before reinsurance recoveries and exclude loss adjustment expenses. These figures are for all types of insurers, including residual market insurers, foreign insurers, and reinsurers, but exclude ocean marine losses and losses covered by the National Flood Insurance Program.

2014. LLAE grew 2.0 percent to $89.4 billion in second-quarter 2015 from $87.7 billion in second-quarter 2014. Noncatastrophe LLAE rose 5.3 percent to $82.0 billion from $77.8 billion in second-quarter 2014.

The $11.7 billion in net investment income for the industry overall in second-quarter 2015 was $0.1 billion below $11.8 billion for second-quarter 2014. Miscellaneous other income jumped to $0.9 billion in second-quarter 2015 from $0.4 billion in second-quarter 2014.

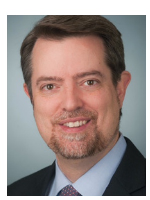
Realized capital gains on investments declined to $3.5 billion in second-quarter 2015 from $4.3 billion in second-quarter 2014. Combining net investment income and realized capital gains, net investment gains declined $0.8 billion, or 5.2 percent, to $15.2 billion in second-quarter 2015 from $16.1 billion a year earlier.

Insurers posted $2.5 billion in unrealized capital losses on investments in second-quarter 2015 — a $9.0 billion drop from the $6.5 billion in unrealized capital gains on investments in second-quarter 2014. Combining realized and unrealized amounts, the insurance industry posted $1.0 billion in overall capital gains in second-quarter 2015 — a $9.8 billion drop from the $10.8 billion in overall capital gains on investments in second-quarter 2014.

Insurers' $3.5 billion in realized capital gains in second-quarter 2015 was the net result of $0.5 billion in realized losses on impaired investments and $4.0 billion in realized gains on other investments, with realized losses on impaired investments increasing from $0.2 billion in second-quarter 2014.

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

Beth Fitzgerald is the president of ISO Solutions. The unit develops ISO's core products and services, such as advisory prospective loss costs (projections of future claims), policy forms, underwriting rules, and related information products that most insurers use to write one or more lines of commercial or personal business. Ms. Fitzgerald's area is instrumental in the development of ISO's various predictive analytical products for underwriting personal and commercial insurance. Under her direction, ISO also collects and compiles data from insurers, acts as statistical agent for all U.S. insurance regulators, supplies actuarial and data management consulting services, and conducts cutting-edge research on various issues in property/casualty insurance.



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Operating Results for 2015 and 2014 ($ Millions)

Six Months	2015	2014
Net Written Premiums	$256,687	$246,631
Percent Change (%)	4.1	4.1
Net Earned Premiums	247,502	237,976
Percent Change (%)	4.0	4.3
Incurred Losses & Loss Adjustment Expenses	171,327	168,229
Percent Change (%)	1.8	6.5
Statutory Underwriting Gains (Losses)	4,372	1,157
Policyholders' Dividends	981	919
Net Underwriting Gains (Losses)	3,391	237
Pretax Operating Income	27,525	23,938
Net Investment Income Earned	23,392	23,015
Net Realized Capital Gains (Losses)	8,187	7,208
Net Investment Gains	31,579	30,223
Net Income (Loss) after Taxes	30,972	25,989
Percent Change (%)	19.2	6.4
Surplus (Consolidated)	672,439	672,092
Loss & Loss Adjustment Expense Reserves	579,099	578,561
Combined Ratio, Post-Dividends (%)	97.6	98.9

Second Quarter	2015	2014
Net Written Premiums	$130,586	$125,095
Percent Change (%)	4.4	4.3
Net Earned Premiums	125,454	120,303
Percent Change (%)	4.3	4.3
Incurred Losses & Loss Adjustment Expenses	89,399	87,667
Percent Change (%)	2.0	4.9
Statutory Underwriting Gains (Losses)	(415)	(1,835)
Policyholders' Dividends	258	265
Net Underwriting Gains (Losses)	(673)	(2,100)
Pretax Operating Income	11,965	10,146
Net Investment Income Earned	11,734	11,821
Net Realized Capital Gains (Losses)	3,500	4,254
Net Investment Gains	15,234	16,075
Net Income (Loss) after Taxes	12,834	12,131
Percent Change (%)	5.8	19.6
Surplus (Consolidated)	672,439	672,092
Loss & Loss Adjustment Expense Reserves	579,099	578,561
Combined Ratio, Post-Dividends (%)	99.4	100.6

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