# Property/Casualty Insurance Results: First-Half 2017

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Private U.S. property/casualty insurers' net income after taxes dropped to $15.5 billion in first-half 2017 from $21.8 billion in first-half 2016. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus declined to 4.4 percent from 6.4 percent a year earlier, according to ISO, a Verisk (Nasdaq:VRSK) business, and the Property Casualty Insurers Association of America (PCI).[1]

Insurers' combined ratio[2] deteriorated to 100.7 percent for first-half 2017 from 99.7 percent for first-half 2016, and their $4.5 billion in net underwriting losses[3] in first-half 2017 compares with $1.5 billion in net underwriting losses a year earlier. Net written premium growth accelerated to 4.1 percent for first-half 2017 from 3.1 percent for first-half 2016.

Insurers' net investment income increased to $23.4 billion in first-half 2017 from $22.2 billion a year earlier, and insurers' realized capital gains dropped to $3.6 billion from $4.4 billion, resulting in $27.1 billion in net investment gains[4] for first-half 2017, up slightly from $26.6 billion for first-half 2016.

**Policyholder surplus reached a new record level, growing steadily every quarter since the beginning of 2016.**

The 29.2 percent decrease in net income after taxes drove insurers' annualized rate of return on average surplus to 4.4 percent—2.1 percentage points below the value for first-half 2016 and approximately half of the 8.7 percent average annualized first-half rate of return for 1987–2016.

The industry's surplus[5] continued to grow, reaching a new all-time-high value of $717.0 billion as of June 30, 2017, after $700.8 billion as of December 31, 2016, and $709.0 billion as of March 31, 2017.

## Underwriting Results

In the first half of 2017, earned premiums grew 3.4 percent to $265.8 billion, while LLAE rose 5.7 percent to $194.3 billion, other underwriting expenses grew 1.6 percent to $75.0 billion, and policyholders' dividends remained essentially unchanged at $1.0 billion. As a result, the industry reported a $4.5 billion net underwriting loss, three times the $1.5 billion net underwriting loss for first-half 2016.

Net written premiums climbed $10.9 billion to $275.6 billion in first-half 2017 from $264.7 billion in first-half 2016. Net written premium growth recovered to 4.1 percent (similar to the growth rates for first-half 2014 and first-half 2015) from 3.1 percent for first-half 2016. Net earned premiums growth was 3.4 percent in first-half 2017, compared with 3.8 percent for first-half 2016.

The 5.7 percent increase in LLAE in first-half 2017 exceeds premium growth but compares favorably with the 7.2 percent increase a year earlier. LLAE growth in 2017 was accelerated by an increase in catastrophe losses. Private U.S. insurers' net LLAE from catastrophes grew $3.3 billion to $18.0 billion for first-half 2017 from $14.6 billion a year earlier. Net LLAE for losses other than catastrophes rose $7.2 billion, or 4.3 percent, to $176.3 billion in first-half 2017 from $169.1 billion in first-half 2016.

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 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.

Property Casualty Insurers Association of America

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $18.0 billion in net LLAE from catastrophes in first-half 2017 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 either first-half of 2017 or first-half of 2016.

Direct insured property losses from catastrophes striking the United States totaled $17.1 billion in first-half 2017, up from $13.9 billion in first-half 2016 and from the $13.0 billion average first-half direct catastrophe losses for the past ten years.[7]

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio deteriorated by 0.9 percentage points to 100.7 percent in first-half 2017 from 99.7 percent in first-half 2016.

Underwriting results benefited from $6.9 billion in favorable development of LLAE reserves in first-half 2017, based on new information and updated estimates for the ultimate cost of claims from prior accident years. The $6.9 billion of favorable reserve development in first-half 2017 followed $5.9 billion of favorable development in first-half 2016. Favorable development reduced the combined ratio by 2.6 percentage points in first-half 2017 and by 2.3 percentage points in first-half 2016.

Excluding development of LLAE reserves, net LLAE grew $11.6 billion, or 6.1 percent, to $201.2 billion in first-half 2017 from $189.6 billion in first-half 2016. Excluding development of LLAE reserves, net noncatastrophe LLAE grew $8.4 billion, or 4.8 percent, to $183.5 billion in first-half 2017 from $175.0 billion a year earlier. In sum, the changes in LLAE attributable to catastrophes and reserve development account for 0.7 percentage points out of the 1.6-percentage-point deterioration reported for the loss ratio in first-half 2017.

**Net written premium growth recovered in first-half 2017 to 4.1 percent from 3.1 percent a year earlier.**

The $4.5 billion net loss on underwriting in first-half 2017 amounted to 1.7 percent of the $265.8 billion in net premiums earned during the period. The $1.5 billion net loss on underwriting in first-half 2016 amounted to 0.6 percent of the $257.1 billion in net premiums earned during that period.

While overall net written premium growth in first-half 2017 increased to 4.1 percent from 3.1 percent a year earlier and the combined ratio deteriorated to 100.7 percent from 99.7 percent, the dynamics varied across industry segments.

For insurers writing mostly personal lines, net written premium increased 6.0 percent in first-half 2017. That is similar to the 6.2 percent growth rate in first-half 2016 and significantly exceeds premium growth for other segments. The segment's combined ratio improved, albeit just by 0.3 percentage points, but remained the highest across segments at 103.0 percent.

Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines was 2.4 percent, recovering from the negative 0.7 percent for first-half 2016. Two special transactions of U.S. commercial lines insurers with their foreign affiliates in first-quarter 2016 suppressed the segment's premiums for that period, decreasing the growth reported for first-half 2016 and increasing the growth reported for first-half 2017. Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio worsened 0.6 percentage points to 96.5 percent in first-half 2017 but remained the lowest across segments.

Net premium growth for insurers writing more balanced books of business slowed to 2.9 percent from 3.4 percent a year earlier. Their combined ratio deteriorated 2.6 percentage points to 102.1 percent in first-half 2017 from 99.5 percent a year earlier.

### Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—increased 5.7 percent to $23.4 billion in first-half 2017 from $22.2 billion in first-half 2016. Insurers' realized capital gains on investments fell 18.5 percent to $3.6 billion in first-half 2017 from $4.4 billion a year earlier. Combining net investment income and realized capital gains, overall net investment gains increased 1.6 percent to $27.1 billion in first-half 2017 from $26.6 billion a year earlier.

Insurers' $3.6 billion in realized capital gains in first-half 2017 resulted from $4.2 billion in net realized gains on asset sales partially offset by $0.5 billion in realized losses on asset impairments. Realized losses on impairments in 2017 decreased $0.7 billion from $1.2 billion for first-half 2016, while net realized gains on asset sales decreased $1.5 billion.

Insurers' net investment income increased 5.7 percent, while average cash and invested assets for first-half 2017 grew 4.5 percent compared with first-half 2016. The annualized yield on insurers' investments in first-half 2017 was 3.0 percent, essentially unchanged from a year earlier and significantly below the 3.6 percent average annualized quarterly yield for the last ten years. In recent years, investment yields have trended downward, and annualized quarterly yields have not exceeded 4 percent since first-quarter 2009. From 1960 to 2016, insurers' annual investment yield averaged 5.0 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 $3.6 billion in realized capital gains in first-half 2017 with the $13.0 billion in unrealized capital gains[8] during the same period, insurers posted $16.6 billion in overall capital gains for first-half 2017—a $13.6 billion improvement from first-half 2016. Over the

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. Estimates are from Verisk's Property Claim Services® (PCS®) based on information available as of September 29, 2017. 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.
8. Unrealized capital gains or losses contribute directly to surplus change, but they do not affect net income.

past 30 years, insurers' total capital gains have averaged $2.7 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[9] declined $7.6 billion to $14.0 billion for first-half 2017 from $21.6 billion for first-half 2016. The decline in operating income was the net result of the $3.0 billion decrease in net gains on underwriting, the $5.9 billion decrease in miscellaneous other income, and the $1.3 billion increase in net investment income. The decrease in total other income is driven by the $6.3 billion accounting loss recorded by a major insurer on a retroactive reinsurance transaction that closed in first-quarter 2017.

### 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 fell $6.4 billion to $15.5 billion for first-half 2017 from $21.8 billion for first-half 2016. First-half 2017 net income after taxes is below the $17.8 billion average first-half income for the last ten years and the lowest first-half income since $5.0 billion in 2011.

**Realized capital gains declined, largely offsetting the asset-driven increase in investment income.**

### Policyholders' Surplus

Policyholders' surplus increased $16.1 billion to a new record-high $717.0 billion as of June 30, 2017, from $700.8 billion as of December 31, 2016. Additions to surplus in first-half 2017 included $15.5 billion in net income after taxes and $13.0 billion in unrealized capital gains on investments (not included in net income).

The deductions from surplus consisted of $11.2 billion in dividends to shareholders, $0.4 billion in net capital returned to parent companies, and $0.8 billion in miscellaneous charges against surplus.

Unrealized capital gains increased to $13.0 billion in first-half 2017 from $1.4 billion in unrealized capital losses a year earlier. The net $0.4 billion of capital returned to insurers' parents in first-half 2017 compares with $0.8 billion of capital inflow a year earlier. The outflow in 2017 is predominantly due to a special transaction in the first quarter, with a major insurer returning to its parent a non-insurance subsidiary with a net worth of $1.3 billion. Dividends to shareholders dropped $1.7 billion, or 13.5 percent, to $11.2 billion in first-half 2017 from $13.0 billion in first-half 2016. Miscellaneous charges against surplus decreased to $0.8 billion in first-half 2017 from $1.9 billion in first-half 2016.

Using 12-month trailing premiums, the premium-to-surplus ratio declined to 0.75 as of June 30, 2017, from 0.77 as of June 30, 2016. At the same time, the ratio of loss and loss adjustment expense reserves to surplus declined to 0.83 as of June 30, 2017, from 0.87 a year earlier. These ratios remain low compared with their historical levels due to surplus growing more rapidly than premiums or reserves. For example, over the 20 years ending 2016, the average premium-to-surplus ratio was 0.90 and the LLAE-reserves-to-surplus ratio was 1.08.

### Second-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes fell to $7.6 billion in second-quarter 2017 from $8.4 billion in second-quarter 2016. Property/casualty insurers' annualized rate of return on average surplus dropped to 4.3 percent in second-quarter 2017 from 4.9 percent a year earlier.

The $7.6 billion in net income after taxes for the insurance industry in second-quarter 2017 was a result of $8.4 billion in pretax operating income, $1.1 billion in realized capital gains on investments, and $1.9 billion in federal and foreign income taxes.

The industry's $8.4 billion in pretax operating income for second-quarter 2017 was up $0.5 billion from the $7.9 billion for second-quarter 2016. The industry's second-quarter 2017 pretax operating income was the net result of $3.9 billion in net losses on underwriting, $11.6 billion in net investment income, and $0.7 billion in miscellaneous other income.

Net losses on underwriting worsened $0.2 billion to $3.9 billion in second-quarter 2017 from $3.7 billion in second-quarter 2016.

**Underwriting results for second-quarter 2017 are marginally worse than the results for second-quarter 2016.**

Net LLAE from catastrophes included in private U.S. insurers' financial results in second-quarter 2017 increased to $10.3 billion from $9.7 billion in second-quarter 2016.[10] The contribution of catastrophe LLAE to the second-quarter combined ratio increased to 7.6 percentage points in 2017 from 7.4 percentage points in 2016.

Direct insured losses from catastrophes striking the United States in second-quarter 2017 totaled $9.5 billion, up from the $8.8 billion in direct insured losses caused by catastrophes that struck the United States in second-quarter 2016.[11]

Second-quarter 2017 net losses on underwriting amounted to 2.9 percent of the $135.0 billion in premiums earned during the period, the same ratio as for second-quarter 2016. The industry's combined ratio declined slightly to 101.9 percent in second-quarter 2017 from the 102.0 percent in second-quarter 2016.

9. Pretax operating income is the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income.
10. 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.
11. Estimates are from Verisk's Property Claim Services (PCS) based on information available as of September 29, 2017. 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.

Over the last 30 years, the second-quarter combined ratio averaged 104.3 percent but reached as high as 117.5 percent in 2011 and as low as 92.8 percent in 2006.

Net written premiums rose $5.7 billion, or 4.2 percent, to $140.2 billion in second-quarter 2017 from $134.5 billion in second-quarter 2016. That was the 29th consecutive quarter of growth in written premiums, beginning in the second quarter of 2010 and following 12 quarters of declines.

Net earned premiums grew 3.3 percent to $135.0 billion in second-quarter 2017 from $130.7 billion in second-quarter 2016. LLAE grew 4.4 percent to $101.0 billion in second-quarter 2017 from $96.7 billion in second-quarter 2016. Noncatastrophe LLAE rose 4.3 percent to $90.7 billion from $87.0 billion in second-quarter 2016.

Net investment income for the industry increased $0.4 billion to $11.6 billion in second-quarter 2017 from $11.2 billion in second-quarter 2016. Miscellaneous other income increased to $0.7 billion in second-quarter 2017 from $0.4 billion in second-quarter 2016.

Realized capital gains on investments declined to $1.1 billion in second-quarter 2017 from $2.2 billion in second-quarter 2016. Combining net investment income and realized capital gains, net investment gains declined $0.7 billion, or 5.4 percent, to $12.7 billion in second-quarter 2017 from $13.4 billion a year earlier.

Insurers posted $6.5 billion in unrealized capital gains on investments in second-quarter 2017, a $5.7 billion improvement from $0.7 billion of unrealized capital gains a year earlier. Combining realized and unrealized amounts, the insurance industry posted $7.5 billion in overall capital gains in second-quarter 2017—a $4.6 billion improvement from the $2.9 billion in overall capital gains on investments in second-quarter 2016.

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

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## First-Half 2017: BY THE NUMBERS

**$717.0 billion**
Industry surplus, compared with $709.0 billion last quarter and $700.8 billion at year-end 2016

**$15.5 billion**
Net income after taxes, a 29.2% drop from $21.8 billion for first-half 2016

**4.1%**
Net written premium growth, after 3.1% in first-half 2016

**100.7%**
Combined ratio, after 99.7% for first-half 2016

**$4.5 billion**
Net underwriting loss, after $1.5 billion for first-half 2016

**3.0%**
Annualized investment yield, compares to the 3.5% average annualized yield for the last ten first-halves

**$17.1 billion**
Direct catastrophe losses—a $3.2 billion increase from first-half 2016 and $4.0 billion above the ten-year average

## Operating Results for 2017 and 2016 ($ Millions)

| First Half | 2017 | 2016 |
|---|---|---|
| Net Written Premiums | $275,578 | $264,719 |
| Percent Change (%) | 4.1 | 3.1 |
| Net Earned Premiums | 265,817 | 257,089 |
| Percent Change (%) | 3.4 | 3.8 |
| Incurred Losses & Loss Adjustment Expenses | 194,297 | 183,735 |
| Percent Change (%) | 5.7 | 7.2 |
| Statutory Underwriting Gains (Losses) | (3,483) | (455) |
| Policyholders' Dividends | 1,014 | 1,022 |
| Net Underwriting Gains (Losses) | (4,497) | (1,477) |
| Pretax Operating Income | 13,956 | 21,577 |
| Net Investment Income Earned | 23,447 | 22,191 |
| Net Realized Capital Gains (Losses) | 3,619 | 4,438 |
| Net Investment Gains | 27,065 | 26,629 |
| Net Income (Loss) after Taxes | 15,467 | 21,844 |
| Percent Change (%) | -29.2 | -29.6 |
| Surplus (Consolidated) | 716,969 | 680,543 |
| Loss & Loss Adjustment Expense Reserves | 598,666 | 589,492 |
| Combined Ratio, Post-Dividends (%) | 100.7 | 99.7 |

| Second Quarter | 2017 | 2016 |
|---|---|---|
| Net Written Premiums | $140,215 | $134,530 |
| Percent Change (%) | 4.2 | 3.0 |
| Net Earned Premiums | 135,037 | 130,683 |
| Percent Change (%) | 3.3 | 4.1 |
| Incurred Losses & Loss Adjustment Expenses | 100,979 | 96,683 |
| Percent Change (%) | 4.4 | 8.1 |
| Statutory Underwriting Gains (Losses) | (3,602) | (3,475) |
| Policyholders' Dividends | 288 | 265 |
| Net Underwriting Gains (Losses) | (3,891) | (3,740) |
| Pretax Operating Income | 8,393 | 7,909 |
| Net Investment Income Earned | 11,610 | 11,241 |
| Net Realized Capital Gains (Losses) | 1,062 | 2,156 |
| Net Investment Gains | 12,672 | 13,397 |
| Net Income (Loss) after Taxes | 7,588 | 8,389 |
| Percent Change (%) | -9.5 | -34.9 |
| Surplus (Consolidated) | 716,969 | 680,543 |
| Loss & Loss Adjustment Expense Reserves | 598,666 | 589,492 |
| Combined Ratio, Post-Dividends (%) | 101.9 | 102.0 |

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