Property/Casualty Insurance Results: First-Quarter 2020

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Private U.S. property/casualty insurers' net income after taxes in first-quarter 2020 was $17.9 billion, essentially the same as in first-quarter 2019. During the first quarter of 2020, insurers' surplus fell $75.9 billion to $771.9 billion due to unstable investment markets, according to ISO, a Verisk (Nasdaq:VRSK) business, and the American Property Casualty Insurance Association (APCIA) .[1]

Insurers' combined ratio[2] improved to 94.9% for first-quarter 2020 from 95.6% for first-quarter 2019, while net underwriting gains[3] increased to $6.3 billion from $5.2 billion a year earlier. Net written premium increased 6.2% in first-quarter 2020 to $164.4 billion from $154.7 billion for first-quarter 2019.

Insurers' net investment income in first-quarter 2020 was $13.2 billion, essentially the same as in first-quarter 2019, while insurers' realized capital gains fell to $1.1 billion from $1.6 billion, resulting in $14.3 billion in net investment gains[4] for first-quarter 2020, a $0.5 billion decrease from $14.8 billion for first-quarter 2019.

Insurers' annualized rate of return on average surplus fell to 8.8% in first-quarter 2020 from 9.4% a year earlier.

The industry's surplus[5] as of March 31, 2020, was $771.9 billion, a $75.9 billion decrease from $847.8 billion as of December 31, 2019.

Underwriting Results

In the first quarter of 2020, earned premiums grew 5.4% to $157.7 billion, while losses and loss adjustment expenses (LLAE) increased 3.6% to $105.4 billion, other underwriting expenses grew 8.0% to $45.1 billion, and policyholders' dividends remained essentially unchanged at $0.8 billion. As a result, the industry reported a $6.3 billion net underwriting gain, a 19.9% increase from the $5.2 billion for first-quarter 2019.

Authors' Note

The downturn in the stock market in March drove the largest-ever quarterly decline in surplus for property/casualty insurers in March of this year. Aside from that historic drop in surplus, though, the results for the first quarter of 2020 were not visibly affected by COVID-19. Moreover, the stock market recovered most of its March losses by the end of June.

Does that mean the property/casualty insurance industry hasn't been significantly affected by the pandemic? Not at all. To provide additional insight, we're also publishing **two articles** that explore a few of the pandemic's effects on insurance: some that have occurred in recent months and others that could happen in the future. One of the articles looks at how the pandemic has affected premiums and losses in personal lines, especially personal auto, during the first half of this year. The other article forecasts how COVID-19 will affect premiums in commercial lines, highlighting which market segments are likely to suffer more and when premiums will recover.

The pandemic has also changed some of the ways that insurers and their customers operate. The highly contagious disease has led many insurance professionals to work from home and caused many companies to find new ways to conduct business. Restaurants adjusted from in-person dining to take-out and delivery, while schools and colleges expanded online learning.

In the past few months, we've worked hard to provide updates on the potential effects of COVID-19 in relation to property/casualty insurance, with information on regulatory actions and insights from Verisk staff. For the latest updates, please visit our COVID-19 resource page for insurers at **www.verisk.com/insurance/covid-19**. We've also recently launched a webpage that provides strategies for personal lines insurers in the new normal, which you can find at **www.verisk.com/newnormal**.

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Net written premiums increased to $164.4 billion in first-quarter 2020 from $154.7 billion in first-quarter 2019—a 6.2% increase after a 1.1% decrease in first-quarter 2019. The net earned premiums growth accelerated to 5.4% in first-quarter 2020 from 4.6% in first-quarter 2019.

The industry reported improved underwriting gains despite an increase in catastrophe losses.

To assess the underlying direct premium growth, ISO had compiled premiums for a large cohort of insurers whose first-quarter data was available for 2018, 2019, and 2020, which represents more than 95% of the total net written premiums for the industry. Aggregated net written premiums for these insurers dropped 1.2% in first-quarter 2019, and then grew 6.2% in first-quarter 2020, while direct written premiums grew approximately 4.4% in first-quarter 2019, and then grew 4.6% in first-quarter 2020. The changes in the direct written premiums were consistent with continued growth in the economy and relative stability in insurance markets during the relevant periods.

The 3.6% increase in LLAE in first-quarter 2020 compares favorably with the 5.9% increase a year earlier. Private U.S. insurers' net LLAE from catastrophes in first-quarter 2020 increased to $5.8 billion for first-quarter 2020 from $4.8 billion a year earlier. Net LLAE for losses other than catastrophes increased $2.6 billion, or 2.7%, to $99.7 billion in first-quarter 2020 from $97.1 billion in first-quarter 2019.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $5.8 billion in net LLAE from catastrophes in first-quarter 2020 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 2020 or 2019.

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio improved by 0.7 percentage point to 94.9% in first-quarter 2020 from 95.6% in first-quarter 2019.

Underwriting results benefited from $3.7 billion in favorable development of LLAE reserves in first-quarter 2020, based on new information and updated estimates for the ultimate cost of claims from prior accident years. The $3.7 billion of favorable reserve development in first-quarter 2020 compares with $4.5 billion for first-quarter 2019. Favorable development reduced the combined ratio by 2.3 percentage points in first-quarter 2020 and by 3.0 percentage points in first-quarter 2019.

Excluding development of LLAE reserves, net LLAE grew $2.8 billion, or 2.6%, to $109.1 billion in first-quarter 2020 from $106.3 billion in first-quarter 2019. Excluding both the LLAE from catastrophes and the development of LLAE reserves, net LLAE grew $1.6 billion, or 1.6%, to $103.5 billion in first-quarter 2020 from $101.9 billion a year earlier. The combined ratio improved 0.7 percentage points in first-quarter 2020, but if catastrophe LLAE and LLAE reserve development in first-quarter 2020 had been at the same level as in first-quarter 2019, the combined ratio would have improved 2.0 percentage points.

The $6.3 billion in net underwriting gains in first-quarter 2020 amounted to 4.0% of the $157.7 billion in net premiums earned during the period. The $5.2 billion in net gains on underwriting in first-quarter 2019 amounted to 3.5% of the $149.6 billion in net premiums earned during that period.

While overall net written premium increased 6.2% in first-quarter 2020 after declining 1.1% a year earlier, the dynamics varied significantly across industry segments.

Net written premium growth for insurers writing mostly personal lines slowed to 3.0% in first-quarter 2020 from 4.5% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium for insurers writing predominantly commercial lines increased 12.1% in first-quarter 2020 after falling 9.3% in first-quarter 2019. Premium growth for insurers writing more balanced books of business accelerated to 3.2% in first-quarter 2020 from 2.9% in first-quarter 2019. Estimated direct premium growth was approximately 2.7% for the insurers writing predominantly personal lines, approximately 3.3% for insurers with balanced books of business, and approximately 7.6% for the insurers mostly writing commercial lines, excluding mortgage and financial guaranty insurers. Direct premium growth was estimated using a consistent set of insurers representing more than 95% of commercial insurers and close to 100% of remaining segments.

Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio deteriorated 1.3 percentage points to 97.7% in first-quarter 2020. Personal lines insurers' combined ratio improved 2.7 percentage points to 92.2%, while balanced insurers' combined ratio improved 1.1 percentage points to 95.8%.

Net and direct written premiums continued to grow.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—was $13.2 billion in first-quarter 2020, essentially unchanged from first-quarter 2019. Insurers' realized capital gains on investments decreased to $1.1 billion in first-quarter 2020 from $1.6 billion a year earlier. The realized capital gains in first-quarter 2020 were the net result of $2.8 billion in realized gains on asset sales and $1.7 billion in write-downs on impaired investments, while the realized capital gains in first-quarter 2019 resulted from $2.0 billion in realized gains on asset sales and $0.4 billion in write-downs on impaired investments. Combining net investment income and realized capital gains, overall net investment gains declined 3.3% to $14.3 billion in first-quarter 2020 from $14.8 billion a year earlier.

While insurers' net investment income remained unchanged at $13.2 billion, average cash and invested assets for first-quarter 2020 grew 5.8% compared with first-quarter 2019. As a result, the annualized yield on insurers' investments in first-quarter 2020 fell to 3.0% from 3.1% for first-quarter 2019. Both yields were significantly below the 3.3% average annualized quarterly yield for the past 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% yield for 2008. Insurers' annual investment yield steadily declined from 4.6% for 2005 to 3.2% for both 2014 and 2015 and to 3.1% in 2016, 2017, and 2019. The one-time increase to 3.4% in 2018 was mostly due to one-time money transfers from subsidiaries outside the U.S. property/casualty universe, rather than to sustainable increases in investment profitability. As a consequence of the downward trend, the 2019 yield was 0.3 percentage points below the average annual yield for the preceding ten years from 2009 to 2018.

Combining the $1.1 billion in realized capital gains in first-quarter 2020 with the $83.8 billion in unrealized capital losses[7] during the same period, insurers posted $82.8 billion in overall capital losses for first-quarter 2020. This amount compares with $27.2 billion of total capital gains in first-quarter 2019. Over the past 30 years, insurers' total capital gains have averaged $3.0 billion per quarter but have ranged from as high as $45.8 billion in fourth-quarter 2017 to as low as negative $82.8 billion in first-quarter 2020. The new record low value dwarfs prior records, negative $44.6 billion for fourth-quarter 2018 and negative $31.9 billion for fourth-quarter 2008.

Unrealized capital losses drove the largest-ever quarterly surplus decline for property/casualty insurers.

Pretax Operating Income

Pretax operating income[8] increased to $19.4 billion for first-quarter 2020 from $19.0 billion for first-quarter 2019. The increase in operating income was the net result of the $1.0 billion increase in net gains on underwriting and the $0.6 billion decrease in total other income. Net investment income did not meaningfully change and therefore did not substantially affect the change in pretax operating 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 was $17.9 billion for first-quarter 2020, the same as for first-quarter 2019. This amount is well above the $11.9 billion average quarterly income for the past ten years and is the highest quarterly income since $18.2 billion for first-quarter 2015.

Policyholders' Surplus

Policyholders' surplus fell $75.9 billion to $771.9 billion as of March 31, 2020, from $847.8 billion as of December 31, 2019. Additions to surplus in first-quarter 2020 included $17.9 billion in net income after taxes and $0.3 billion in net capital inflow. The deductions from surplus consisted of $83.8 billion in unrealized capital losses on investments (not included in net income), $6.8 billion in dividends to shareholders, and $3.4 billion in miscellaneous net charges against surplus.

The $75.9 billion decrease in surplus for first-quarter 2020 is the greatest fall in surplus on record, even when adjusted for inflation. It followed immediately after a $35.6 billion rise in surplus in fourth-quarter 2019. Both developments were mostly driven by stock market movements, including the dramatic downturn in March 2020 associated with the COVID-19 pandemic. With the bulk of insurers' investments in publicly traded common stocks valued according to their market price, the stock market's ups and downs usually generate unrealized capital gains and losses for the industry, respectively.

Insurers' $83.8 billion in unrealized capital losses in first-quarter 2020 represent a $109.5 billion swing from $25.6 billion in unrealized capital gains a year earlier. The net $0.3 billion of capital inflow in first-quarter 2020 compares with $0.3 billion of outflow a year earlier. Dividends to shareholders increased to $6.8 billion in first-quarter 2020 from $5.5 billion in first-quarter 2019. The net result of aggregated miscellaneous credits to surplus and charges against surplus was a $3.4 billion charge in first-quarter 2020 and a $0.2 billion charge in first-quarter 2019.

Using 12-month trailing premiums, the premium-to-surplus ratio increased to 0.83 as of March 31, 2020, from 0.78 as of March 31, 2019. Similarly, the ratio of loss and loss adjustment expense reserves to surplus increased to 0.85 as of March 31, 2020 from 0.81 a year earlier. The increases in ratios are mostly due to the first-quarter 2020 fall in surplus. Despite the increases, these ratios remain low compared with their historical levels, suggesting the industry as a whole remains well capitalized. For example, over the 20 years ending 2019, the average premium-to-surplus ratio was 0.89 and the LLAE-reserves-to-surplus ratio was 1.03.

The key operating results for the industry are summarized in the table on page 4.

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Operating Results for 2020 and 2019 ($ Millions)

First Quarter	2020	2019
Net Written Premiums	$164,356	$154,719
Percent Change (%)	6.2	-1.1
Net Earned Premiums	157,663	149,593
Percent Change (%)	5.4	4.6
Incurred Losses & Loss Adjustment Expenses	105,445	101,825
Percent Change (%)	3.6	5.9
Statutory Underwriting Gains (Losses)	7,092	5,999
Policyholders' Dividends	832	776
Net Underwriting Gains (Losses)	6,260	5,223
Pretax Operating Income	19,448	18,955
Net Investment Income Earned	13,177	13,155
Net Realized Capital Gains (Losses)	1,092	1,596
Net Investment Gains	14,269	14,750
Net Income (Loss) after Taxes	17,887	17,864
Percent Change (%)	0.1	4.8
Surplus (Consolidated)	771,893	779,566
Loss & Loss Adjustment Expense Reserves	655,034	633,424
Combined Ratio, Post-Dividends (%)	94.9	95.6

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. Unrealized capital gains or losses contribute directly to surplus change, but they do not affect net income.
8. Pretax operating income is the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income.

First-Quarter 2020: BY THE NUMBERS

$771.9 billion
Industry surplus, down from $847.8 billion at year-end 2019

$17.9 billion
Net income after taxes, essentially unchanged from first-quarter 2019

$164.4 billion
Net written premium, up from $154.7 billion in first-quarter 2019

94.9%
Combined ratio, after 95.6% in first-quarter 2019

$6.3 billion
Net underwriting gain, up from $5.2 billion in first-quarter 2019

3.0%
Annualized quarterly investment yield, down slightly from 3.1% in first-quarter 2019

$82.8 billion
Total capital losses for the quarter, after $27.2 billion of total capital gains in first-quarter 2019 and the worst ever value for quarterly total capital gains/losses.

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