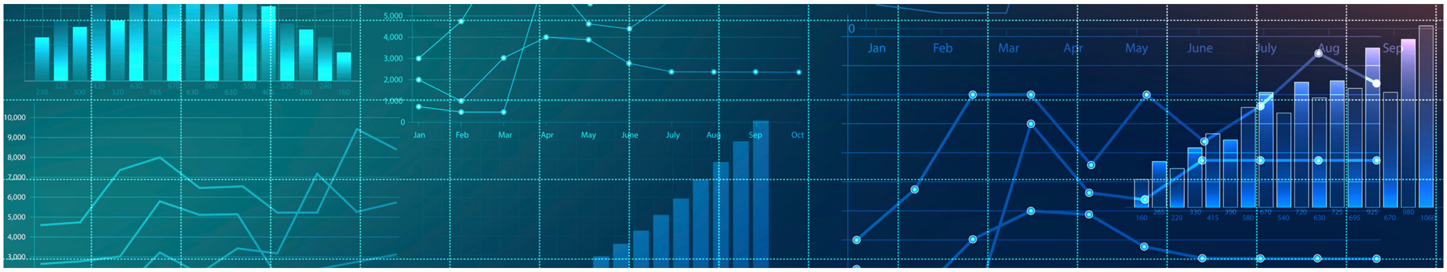

Property/Casualty Insurance Results: First-Half 2020

By Neil Spector, President, ISO, and Robert Gordon, Senior Vice President, Policy, Research and International, APCIA

Private U.S. property/casualty insurers' net income after taxes fell to $24.3 billion in first-half 2020 from $32.8 billion in first-half 2019. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus decreased to 5.8% from 8.5% a year earlier, according to ISO, a Verisk (Nasdaq:VRSK) business, and the American Property Casualty Insurance Association (APCIA).[1]

Insurers' combined ratio[2] deteriorated to 97.5% for first-half 2020 from 97.3% for first-half 2019, as their net underwriting gains[3] declined to $4.6 billion in first-half 2020 from $5.4 billion a year earlier. Net written premiums grew 2.8% in first-half 2020. That was significantly below 6.2% growth rate observed for first-quarter 2020, despite being an improvement over an unusually low 1.0% growth in first-half 2019.

Insurers' net investment income decreased to $25.5 billion in first-half 2020 from $26.9 billion a year earlier, while $1.4 billion in realized capital losses in first-half 2020 represent a $5.7 billion deterioration from $4.3 billion a year earlier, resulting in $24.1 billion in net investment gains[4] for first-half 2020, down $7.1 billion from $31.2 billion for first-half 2019.

The industry started 2020 with a record-high $847.8 billion in surplus[5] as of December 31, 2019. Industry's surplus shrank to $771.9 billion in the first quarter of the year, but mostly rebounded in the second quarter, reaching $825.8 billion as of June 30, 2020.

Insurers' annualized rate of return on average surplus dropped to 5.8% in first-half 2020 from the 8.5% for first-half 2019, as combined effects of lower net income after taxes and higher average surplus pushed the annualized first-half rate of return 2.3 percentage points below its thirty-year average.

Underwriting Results

In the first half of 2020, earned premiums grew 2.9% to $312.7 billion, while loss and loss adjustment expenses (LLAE) rose 0.8% to $214.3 billion, other underwriting expenses grew 5.2% to $89.4 billion, and policyholders' dividends quadrupled to $4.4 billion from $1.1 billion. As a result, the industry reported a $4.6 billion net underwriting gain, a decrease from the $5.4 billion net underwriting gain for first-half 2019. The $4.6 billion underwriting gain for 2020 comprises a $6.3 billion gain for the first quarter and a $1.6 billion loss for the second quarter, while the $5.4 billion underwriting gain for first-half 2019 comprises a $5.2 billion gain for the first quarter and a $0.1 billion gain for the second quarter. The first-half underwriting gains are often concentrated in the first quarter—that was the case for 24 of the last 30 years, with this tendency likely driven by seasonal factors. In 2020, yet another factor strongly contributed to the difference in results between the quarters: the COVID-19 crisis in the United States was

Authors' Note

The effects of COVID-19 began to show in insurers' financial reports. Second-quarter written premiums declined 0.4% compared to 2019, a rare reversal after 6.2% growth in the first quarter.

The pandemic has also accelerated the digitization of insurance. Many insurers are leveraging virtual technology, enabling them to conduct remote property inspections with customers using mobile devices. Insurers are also increasing their use of robust analytics and artificial intelligence to improve underwriting and customer service.

Since the emergence of the pandemic, we continue to work hard, providing updates on the potential effects of COVID-19 in relation to property/casualty insurance.

- For the latest updates and insights from Verisk, visit the **COVID-19 resource page for insurers**.
- For strategies for personal lines insurers in our changing world, visit the **Verisk New Normal web page**.

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slowly building up since early in the year, but large-scale disruptions of daily life and economic activities only started around the middle of March. Accordingly, the impacts of COVID-19 on underwriting results are concentrated in the second quarter of 2020.

Net written premiums rose $9.0 billion to $324.0 billion in first-half 2020 from $315.1 billion in first-half 2019, and net written premium growth accelerated to 2.8% from an unusually low 1.0% for first-half 2019. Net earned premium growth slowed to 2.9% in first-half 2020 from 3.8% for first-half 2019. Premium growth slowed down significantly compared to first-quarter 2020, where written premiums grew 6.2% and earned premiums grew 5.4%.

To assess the underlying direct premium growth, ISO compiled premiums for a large cohort of insurers whose data was available for the first and second quarters of 2018, 2019, and 2020, which represents more than 95% of total net written premiums for the industry. Aggregated net written premiums for these insurers grew just 1.0% in first-half 2019 and then grew 2.8% in first-half 2020, while direct written premiums grew approximately 4.5% in first-half 2019 and then grew 2.1% in first-half 2020. The first-quarter direct written premiums grew 4.4% in 2019 and 4.5% in 2020, but the second-quarter direct written premiums grew 4.5% in 2019 and declined 0.2% in 2020.

The events associated with COVID-19 slowed down or even stopped many everyday activities for a significant period of time, affecting insurance premiums in multiple ways. For those commercial policies where the premium is driven by sales or similar activity-based exposure base, and subject to audit, the premiums will eventually reflect the reduced activity, with the timing and magnitude of premium adjustments varying depending of policy dates and individual contract details. Additionally, to the extent the measures taken to fight the pandemic, combined with changes in the economy caused consumers and businesses to defer or cancel large purchases and capital investments, the insurance expenditures usually associated with such transactions were also deferred or cancelled.

Premium growth for first-half 2020 differed significantly from the first-quarter results, mostly due to COVID-19 impacts concentrated in the second quarter of the year.

Automobile insurers took steps to account for the reduced driving activity, with specific courses of action varying depending on legal, regulatory, and operational constraints. Such actions included partial returns of premiums to current policyholders as cash payments or as premium credits on renewal, prospective rate reductions, and policyholder dividends. Some insurers reported support provided to policyholders experiencing financial hardship by waiving fees and continuing to provide coverage despite non-payments of premiums. ISO analyzed the disclosures available in statutory statements and insurers' announcements of "premium relief" and other actions taken to reflect the changes in driving patterns and to provide support to policyholders experiencing financial hardship. Based on this analysis, the overall premium relief provided to automobile insureds in the second quarter as a combination of rate reduction at renewals, premium credits, and cash payments can exceed $10.0 billion. Accounting treatment of these actions varied across the insurers. ISO estimates that the insurers booked $3.2 billion in dedicated policyholder dividends and recorded $1.1 billion of premium returns as underwriting expenses, while the bulk of premium relief actions impacted written premiums. However, it's not possible to reconcile the announced premium relief actions with the reported premium amounts because the statements don't contain sufficient disclosures and the announced savings include the effect of prospective rate reductions relative to the rates that would otherwise be in force.

The 0.8% increase in LLAE in first-half 2020 is outpaced by earned premium growth and compares with the 5.7% increase a year earlier. Private U.S. insurers' net LLAE from catastrophes increased $10.9 billion to $24.7 billion for first-half 2020 from $13.8 billion a year earlier.

Net LLAE for losses other than catastrophes fell $9.2 billion, or 4.6%, to $189.6 billion in first-half 2020 from $198.7 billion in first-half 2019.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $24.7 billion in net LLAE from catastrophes in first-half 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 the first half of 2020 or the first half of 2019.

Reflecting the differences between premium growth and the growth in LLAE, the loss ratio improved by 1.4 percentage points. At the same time, the suppressed premium growth and premium relief actions recorded as expenses and policyholder dividends drove deterioration in the expense ratio by 0.6 percentage points and an increase in the dividend ratio by 1.1 percentage points. As a result, the combined ratio deteriorated by 0.3 percentage points to 97.5% in first-half 2020 from 97.3% in first-half 2019.

Underwriting results benefited from $4.5 billion in favorable development of LLAE reserves in first-half 2020, based on new information and updated estimates for the ultimate cost of claims from prior accident years, including catastrophe losses. The $4.5 billion of favorable reserve development in first-half 2020 compares with $5.7 billion of favorable development in first-half 2019. Favorable development reduced the combined ratio by 1.4 percentage points in first-half 2020 and by 1.9 percentage points in first-half 2019.

Excluding development of LLAE reserves, net LLAE grew $0.5 billion, or 0.2%, to $218.7 billion in first-half 2020 from $218.3 billion in first-half 2019. Excluding catastrophes and the development of LLAE reserves, net LLAE dropped $11.1 billion, or 5.4%, to $194.0 billion in first-half 2020 from $205.1 billion a year earlier. The combined ratio deteriorated 0.3 percentage points in first-half 2020; but if catastrophe LLAE and LLAE reserve development in first-half 2020 had been at the same level as in first-half 2019, the combined ratio would have improved by 3.8 percentage points.

The $4.6 billion net gain on underwriting in first-half 2020 amounted to 1.5% of the $312.7 billion in net premiums earned during the period. The $5.4 billion net gain on underwriting in first-half 2019 amounted to 1.8% of the $304.0 billion in net premiums earned during that period.

While overall net written premium growth in first-half 2020 accelerated to 2.8% from 1.0% a year earlier and the combined ratio deteriorated to 97.5% from 97.3%, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines dropped to 1.1% in first-half 2020 from 4.1% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines increased to 6.1% in first-half 2020 after falling 3.2% in first-half 2019. Premium growth for insurers writing more balanced books of business slowed from 2.5% in first-half 2019 to 1.0% in first-half 2020. Premium growth in 2019 was suppressed, especially in commercial lines, by significant changes in reinsurance arrangements in 2018.

Underwriting profitability as measured by the combined ratio deteriorated for commercial lines insurers and improved for other segments. Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio increased 4.4 percentage points to 100.6% in first-half 2020. Personal lines insurers' combined ratio declined 3.6 percentage points to 93.6%, and balanced insurers' combined ratio improved 0.5 percentage points to 99.7% in first-half 2020 from 100.2% in first-half 2019.

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 increased 13.0% in first-half 2020, while the pure loss ratio deteriorated to 68.2% from 59.1% a year earlier. General Liability (Other Liability and Products Liability combined) premiums grew 9.7% while the pure loss ratio deteriorated to 60.3% from 56.4% a year earlier. At the same time, Homeowners premiums grew 5.3% and the corresponding pure loss ratio improved to 61.0% from 61.5%. Private passenger automobile liability premiums dropped 1.4% and the corresponding pure loss ratio improved to 56.3% from 66.0% a year earlier. However, the pure loss ratio does not reflect the premium refunds recorded as underwriting expenses, nor the dedicated policyholder dividends. For all automobile lines combined, the premiums dropped 0.8% and the pure loss ratio improved to 55.3% from 64.3%. The premiums for Workers' Compensation dropped 7.9%, while the pure loss ratio improved to 49.3% in first-half 2020 from 49.4% a year earlier.

> Insurers reported large overall capital losses in first-half 2020, as the massive first-quarter losses were partially offset by second-quarter gains.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—decreased to $25.5 billion in first-half 2020 from $26.9 billion in first-half 2019. Insurers reported $1.4 billion of realized capital losses on investments in first-half 2020, a $5.7 billion swing from $4.3 billion of realized capital gains a year earlier. Combining net investment income and realized capital gains, overall net investment gains decreased 22.6% to $24.1 billion in first-half 2020 from $31.2 billion a year earlier.

Insurers' net investment income declined 5.1%, while average cash and invested assets for first-half 2020 grew 7.4% compared with first-half 2019. This brought the annualized yield on insurers' investments in first-half 2020 to 2.8%, significantly below the 3.2% of first-half 2019, and also below the 3.3% 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% yield for 2008. On a full-year basis, 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 $1.4 billion in realized capital losses in first-half 2020 with the $38.2 billion in unrealized capital losses[8] during the same period, insurers posted $39.5 billion in overall capital losses for first-half 2020—an $85.4 billion deterioration from first-half 2019. Over the past 30 years, insurers' total capital gains have averaged $3.3 billion per quarter but have ranged from as high as $45.7 billion in fourth-quarter 2017 to as low as negative $82.8 billion in first-quarter 2020.

Pretax Operating Income

Pretax operating income[9] decreased $3.0 billion to $30.2 billion for first-half 2020 from $33.1 billion for first-half 2019. The decrease in operating income was the combined result of the $0.7 billion decline in net gains on underwriting, the $1.4 billion fall in net investment income and the $0.9 billion decline in miscellaneous other 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 fell $8.5 billion to $24.3 billion for first-half 2020 from $32.8 billion for first-half 2019. Despite falling 26.0% from the previous year, first-half 2020 net income after taxes is still above the $23.2 billion average first-half income for the last ten years.

Policyholders' Surplus

Policyholders' surplus fell $22.1 billion to $825.8 billion as of June 30, 2020, from the record-high $847.8 billion as of December 31, 2019. Additions to surplus in first-half 2020 included $24.3 billion in net income after taxes, $2.5 billion in net capital inflow, and $2.4 billion in miscellaneous credits to surplus. Deductions from surplus consisted of $13.0 billion in dividends to shareholders and $38.2 billion in unrealized capital losses on investments (not included in net income).

The $22.1 billion drop in surplus for first-half 2020 is the net result of a $75.9 billion decline in surplus in first-quarter 2020 and a $53.9 billion recovery in second-quarter 2020. Both events were driven by moves in the stock market: A significant downturn in first-quarter 2020 at the peak of the investors' concerns associated with the COVID-19 pandemic and the subsequent rally in second-quarter 2020. With insurers' investments in publicly traded common stocks mostly valued according to their market price, stock market ups and downs usually generate unrealized capital gains and losses for the industry, respectively. The $45.7 billion in unrealized capital gains in second-quarter 2020 offset more than a half of the $83.5 billion in unrealized capital losses in first-quarter 2020.

Insurers had $38.2 billion in unrealized capital losses in first-half 2020, a $79.7 billion swing from $41.6 billion in unrealized capital gains a year earlier. The net $2.5 billion of capital inflow in first-half 2020 compares with $0.5 billion of capital outflow a year earlier. Dividends to shareholders rose to $13.0 billion in first-half 2020 from $12.3 billion in first-half 2019. There were $2.4 billion in miscellaneous credits to surplus in first-half 2020, a $3.9 billion improvement from $1.5 billion in miscellaneous charges against surplus in first-half 2019.

Using 12-month trailing premiums, the premium-to-surplus ratio rose to 0.78 as of June 30, 2020, from 0.77 as of June 30, 2019. The ratio of loss and loss adjustment expense reserves to surplus rose to 0.81 as of June 30, 2020, 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 2019, the average premium-to-surplus ratio was 0.89 and the LLAE-reserves-to-surplus ratio was 1.03.

Second-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes fell to $6.4 billion in second-quarter 2020 from $14.9 billion in second-quarter 2019. Property/casualty insurers' annualized rate of return on average surplus fell to 3.2% in second-quarter 2020 from 7.5% a year earlier.

The $6.4 billion in net income after taxes for the insurance industry in second-quarter 2020 was the net result of $10.7 billion in pretax operating income, $2.5 billion in realized capital losses on investments, and $1.8 billion in federal and foreign income taxes.

The industry's $10.7 billion in pretax operating income for second-quarter 2020 was down $3.5 billion from $14.2 billion for second-quarter 2019. The industry's second-quarter 2020 pretax operating income was the sum of $1.6 billion in net underwriting losses, $12.3 billion in net investment income, and less than $0.1 billion in miscellaneous other income.

> Second-quarter results were in many ways affected by the COVID-19, but the industry surplus recovered a large portion of its first-quarter losses.

The second-quarter underwriting results deteriorated $1.8 billion to $1.6 billion of net underwriting losses in 2020 from $0.1 billion of net underwriting gains a year earlier.

Net LLAE from catastrophes included in private U.S. insurers' financial results in second-quarter 2020 more than doubled to $18.7 billion from $9.0 billion in second-quarter 2019. The contribution of catastrophe LLAE to the second-quarter combined ratio increased to 12.1 percentage points in 2020 from 5.9 percentage points in 2019.

Second-quarter 2020 net losses on underwriting amounted to 1.0% of the $155.1 billion in premiums earned during the period. In second-quarter 2019, net gains on underwriting amounted to 0.1% of the $154.4 billion in premiums earned during the period. The industry's combined ratio deteriorated to 100.2% in second-quarter 2020 from 98.9% in second-quarter 2019. Over the last 30 years, the second-quarter combined ratio averaged 103.4% but reached as high as 117.5% in 2011 and as low as 92.8% in 2006.

Net written premiums fell $0.7 billion, or 0.4%, to $159.7 billion in second-quarter 2020 from $160.3 billion in second-quarter 2019. The overall trend has been for quarterly written premiums to rise, and there have been increases in 39 of the 41 most recent 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 in the prior year triggered by changes in reinsurance utilization.

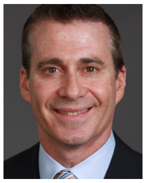
Net earned premiums grew just 0.4% to $155.1 billion in second-quarter 2020 from $154.4 billion in second-quarter 2019. LLAE dropped 1.7% to $108.8 billion in second-quarter 2020 from $110.7 billion in second-quarter 2019. Noncatastrophe LLAE dropped 11.4% to $90.1 billion from $101.7 billion in second-quarter 2019.

Net investment income for the industry declined to $12.3 billion in second-quarter 2020 from $13.7 billion in second-quarter 2019. Miscellaneous other income dropped to less than $0.1 billion in second-quarter 2020 from $0.3 billion in second-quarter 2019.

In second-quarter 2020, insurers sustained $2.5 billion in realized capital losses on investments, in contrast to $2.7 billion of realized capital gains in second-quarter 2019. Combining net investment income and realized capital gains/losses, net investment gains fell $6.6 billion, or 40.0%, to $9.9 billion in second-quarter 2020 from $16.4 billion a year earlier.

Insurers posted $45.7 billion in unrealized capital gains on investments in second-quarter 2020, a $29.7 billion increase from $16.0 billion a year earlier. Combining realized and unrealized amounts, the insurance industry posted $43.2 billion in overall capital gains in second-quarter 2020—a $24.5 billion increase from the $18.7 billion in overall capital gains on investments in second-quarter 2019. However, it might be more appropriate to compare the second-quarter 2020 capital gains with the first-quarter losses the same year. Second-quarter unrealized capital gains recovered 54.5% of unrealized capital losses recorded in the first quarter. Similarly, second-quarter total capital gains recovered 52.2% of total capital losses recorded in the first quarter.

The key operating results for the industry are summarized in the table on page 6.



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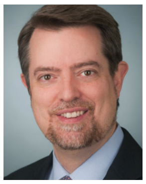

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1. This study defines the U.S. property/casualty insurance industry as all private property/casualty insurers domiciled in the United States, including excess and surplus insurers and domestic insurers owned by foreign parents but excluding state funds 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. That permits to assess premium growth and pure loss ratios (ratios of losses to earned premiums), but not the 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.

First-Half 2020: BY THE NUMBERS

$825.8 billion

Industry surplus, up from $771.9 billion on March 31, 2020, and down from $847.8 billion at year-end 2019

$24.3 billion

Net income after taxes, down $8.5 billion from $32.8 billion in first-half 2019

$324.0 billion

Net written premiums, up from $315.1 billion in first-half 2019

97.5%

Combined ratio, after 97.3% for first-half 2019

$4.6 billion

Net underwriting gain (after dividends), down from $5.4 billion underwriting gain in first-half 2019

2.8%

Annualized investment yield, down from 3.2% in first-half 2019

$39.5 billion

Total capital losses, compared with $45.9 billion of total capital gains in first-half 2019

Operating Results for 2020 and 2019 ($ Millions)

First Half	2020	2019
Net Written Premiums	$324,047	$315,068
Percent Change (%)	2.8	1.0
Net Earned Premiums	312,726	304,006
Percent Change (%)	2.9	3.8
Incurred Losses & Loss Adjustment Expenses	214,252	212,554
Percent Change (%)	0.8	5.7
Statutory Underwriting Gains (Losses)	9,037	6,447
Policyholders' Dividends	4,404	1,086
Net Underwriting Gains (Losses)	4,632	5,362
Pretax Operating Income	30,150	33,147
Net Investment Income Earned	25,519	26,890
Net Realized Capital Gains (Losses)	(1,387)	4,304
Net Investment Gains	24,133	31,194
Net Income (Loss) after Taxes	24,277	32,787
Percent Change (%)	-26.0	-3.5
Surplus (Consolidated)	825,751	802,192
Loss & Loss Adjustment Expense Reserves	669,798	642,096
Combined Ratio, Post-Dividends (%)	97.5	97.3

Second Quarter	2020	2019
Net Written Premiums	$159,690	$160,349
Percent Change (%)	-0.4	3.1
Net Earned Premiums	155,063	154,413
Percent Change (%)	0.4	3.1
Incurred Losses & Loss Adjustment Expenses	108,807	110,729
Percent Change (%)	-1.7	5.4
Statutory Underwriting Gains (Losses)	1,945	449
Policyholders' Dividends	3,572	310
Net Underwriting Gains (Losses)	(1,627)	139
Pretax Operating Income	10,703	14,192
Net Investment Income Earned	12,343	13,736
Net Realized Capital Gains (Losses)	(2,478)	2,708
Net Investment Gains	9,864	16,444
Net Income (Loss) after Taxes	6,390	14,923
Percent Change (%)	-57.2	-11.8
Surplus (Consolidated)	825,751	802,192
Loss & Loss Adjustment Expense Reserves	669,798	642,096
Combined Ratio, Post-Dividends (%)	100.2	98.9

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