Property/Casualty Insurance Results: First-Quarter 2021

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Private U.S. property/casualty insurers'net income after taxes in first-quarter 2021 increased to $20.0 billion from $17.9 billion in first-quarter 2020. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus declined slightly to 8.7% from 8.8% in first-quarter 2020, according to ISO, a Verisk (Nasdaq:VRSK) business, and the American Property Casualty Insurance Association (APCIA).[1]

Net written premiums growth has recovered compared to the three preceding quarters but remained below pre-COVID-19 growth rates.

Insurers' combined ratio[2] deteriorated to 96.1% for first-quarter 2021 from 94.9% for first-quarter 2020, while net underwriting gains[3] declined to $3.3 billion from $6.2 billion a year earlier. Net written premium increased 4.9% in first-quarter 2021 to $172.3 billion from $164.3 billion for first-quarter 2020.

Insurers' net investment income fell to $12.8 billion in first-quarter 2021 from $13.2 billion in first-quarter 2020, while insurers' realized capital gains increased to $5.2 billion from $1.1 billion, resulting in $18.0 billion in net investment gains[4] for first-quarter 2021, a $3.7 billion increase from $14.3 billion for first-quarter 2020.

The industry's surplus[5] as of March 31, 2021, was $934.9 billion, an increase from $910.2 billion as of December 31, 2020, and a new record.

Underwriting Results

In the first quarter of 2021, earned premiums grew 2.3% to $161.2 billion, while losses and loss adjustment expenses (LLAE) increased 5.3% to $111.1 billion, other underwriting expenses grew 1.3% to $45.7 billion, and policyholders' dividends increased to $1.2 billion from $0.8 billion a year earlier. As a result, the industry reported a $3.3 billion net underwriting gain, a 46.7% decrease from the $6.2 billion for first-quarter 2020.

Net written premiums increased to $172.3 billion in first-quarter 2021 from $164.3 billion in first-quarter 2020. The 4.9% growth is weaker than the 6.2% written premium increase in first-quarter 2020, but still represents a recovery from just 1.4% average growth for the nine-months period from 4/1/2020 through 12/31/2020. The net earned premiums growth slowed to 2.3% in first-quarter 2021 from 5.4% in first-quarter 2020, reflecting the slow growth in written premiums in 2020.

To assess the underlying direct premium growth, ISO had compiled premiums for a large cohort of insurers whose first-quarter data was available for 2019, 2020, and 2021, which represents more than 95% of the total net written premiums for the industry. Aggregated net written premiums for these insurers rose 6.3% in first-quarter 2020, and then grew 4.9% in first-quarter 2021, while direct written premiums grew approximately 4.6% in first-quarter 2020, and then grew 6.0% in first-quarter 2021.

The 5.3% increase in LLAE in first-quarter 2021 compares with the 3.6% increase a year earlier and is due to an increase in catastrophe losses. Private U.S. insurers' net LLAE from catastrophes in first-quarter 2021 jumped to $16.3 billion for first-quarter 2021 from $6.0 billion a year earlier. Net LLAE for losses other than catastrophes actually dropped $4.7 billion, or 4.7%, to $94.8 billion in first-quarter 2021 from $99.5 billion in first-quarter 2020.

Increased catastrophe losses, partially offset by favorable reserve development, tamped down underwriting gains.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $16.3 billion in net LLAE from catastrophes in first-quarter 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' net LLAE arising from such events was not large in either 2021 or 2020.

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio deteriorated by 1.2 percentage points to 96.1% in first-quarter 2021 from 94.9% in first-quarter 2020, with the 2.0 percentage points increase in LLAE ratio and 0.2 percentage points increase in dividend ratio partially offset by the reduction in expense ratio.

Underwriting results benefited from $6.3 billion in favorable development of LLAE reserves in first-quarter 2021, based on new information and updated estimates for the ultimate cost of claims from prior accident years. The $6.3 billion of favorable reserve development in first-quarter 2021 compares with $3.7 billion for first-quarter 2020. Favorable development reduced the combined ratio by 3.9 percentage points in first-quarter 2021 and by 2.3 percentage points in first-quarter 2020.

Excluding development of LLAE reserves, net LLAE grew $8.3 billion, or 7.6%, to $117.3 billion in first-quarter 2021 from $109.1 billion in first-quarter 2020. Excluding both the LLAE from catastrophes and the development of LLAE reserves, net LLAE fell to $103.1 billion in first-quarter 2021 from $103.3 billion a year earlier. The combined ratio deteriorated 1.2 percentage points in first-quarter 2021, but if catastrophe LLAE and LLAE reserve development in first-quarter 2021 had been at the same level as in first-quarter 2020, the combined ratio would have improved 2.4 percentage points.

The $3.3 billion in net underwriting gains in first-quarter 2021 amounted to 2.1% of the $161.2 billion in net premiums earned during the period. The $6.2 billion in net underwriting gains in first-quarter 2020 amounted to 4.0% of the $157.6 billion in net premiums earned during that period.

While overall net written premium increased 4.9% in first-quarter 2021 after growing 6.2% a year earlier, the dynamics varied significantly across industry segments.

Net written premium growth for insurers writing mostly personal lines accelerated to 3.9% in first-quarter 2021 from 2.9% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium for insurers writing predominantly commercial lines increased 7.8% in first-quarter 2021 after growing 12.1% in first-quarter 2020. Premiums for insurers writing more balanced books of business grew 1.7% in first-quarter 2021 after growing 3.2% in first-quarter 2020.

Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio improved 0.9 percentage points to 96.9% in first-quarter 2021. Personal lines insurers' combined ratio deteriorated 2.4 percentage points to 94.6% and balanced insurers' combined ratio also deteriorated 2.4 percentage points, to 97.9%.

Net investment gains grew due to high realized capital gains and despite a decline in investment income.

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 26.4% in first-quarter 2021, but the pure loss ratio deteriorated to 72.0% from 64.4% a year earlier. A significant portion of the sharp premium increase is attributable to dedicated crop insurers with the crop premiums following the value of insured crops. General Liability (Other Liability and Products Liability combined) premiums grew 15.2% while the pure loss ratio declined slightly to 54.6% from 58.8% a year earlier. At the same time, Homeowners premiums grew 7.3%, but the pure loss ratio deteriorated to 71.6% from 47.2% as direct losses grew 59.7%. Private passenger automobile liability direct written premiums increased just 0.6% and direct earned premiums dropped 1.8%, but the corresponding pure loss ratio improved to 59.1% from 63.8% a year earlier, as the losses dropped 9.1%. For all automobile lines combined, direct premiums written grew 3.7%, direct premiums earned dropped 0.3%, and the pure loss ratio improved to 58.8% from 61.1% a year earlier. The premiums for Workers' Compensation dropped 6.7%, and the pure loss ratio improved to 51.1% in first-quarter 2021 from 54.2% a year earlier.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—decreased to $12.8 billion in first-quarter 2021 from $13.2 billion in first-quarter 2020. Insurers' realized capital gains on investments increased to $5.2 billion in first-quarter 2021 from $1.1 billion a year earlier. The realized capital gains in first-quarter 2021 were the net result of $5.4 billion in realized gains on asset sales and $0.2 billion in write-downs on impaired investments, while the realized capital gains in first-quarter 2020 resulted from $2.8 billion in realized gains on asset sales and $1.7 billion in write-downs on impaired investments. Combining net investment income and realized capital gains, overall net investment gains increased 26.2% to $18.0 billion in first-quarter 2021 from $14.3 billion a year earlier.

Insurers' net investment income declined, while average cash and invested assets for first-quarter 2021 increased 11.6% compared with first-quarter 2020. As a result, the annualized yield on insurers' investments fell to 2.6% in first-quarter 2021 from 3.0% for first-quarter 2020. Both yields were significantly below the 3.2% 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% recorded in 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 yield for the first quarter 2021 remained close to this historically low level.

Combining the $5.2 billion in realized capital gains in first-quarter 2021 with the $10.4 billion in unrealized capital gains[8] during the same period, insurers posted $15.5 billion in overall capital gains for first-quarter 2021. This amount contrasts with $83.1 billion of total capital losses in first-quarter 2020, driven by the stock market reaction to COVID-19. Over the past 30 years, insurers' total capital gains have averaged $4.1 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. Prior to 2020, the highest total gains value was $45.7 billion in fourth-quarter 2017 and the lowest value was negative $44.6 billion in fourth-quarter 2018.

Pretax Operating Income

Pretax operating income[9] fell to $17.0 billion for first-quarter 2021 from $19.4 billion for first-quarter 2020. The decrease in operating income was the net result of the $2.9 billion decrease in net gains on underwriting, the $0.3 billion decrease in net investment income, and $0.8 billion increase in total other income.

> The first-quarter 2021 net income after taxes was the highest-ever first-quarter income and one of the highest quarterly incomes overall.

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 $20.0 billion for first-quarter 2021, an increase of $2.2 billion over the $17.9 billion recorded for first-quarter 2020. This amount is well above the $12.6 billion average quarterly income for the past ten years and is actually the third-highest quarterly income ever.

Policyholders' Surplus

Policyholders' surplus rose $24.6 billion to $934.9 billion as of March 31, 2021, from $910.2 billion as of December 31, 2020. Additions to surplus in first-quarter 2021 included $20.0 billion in net income after taxes, $10.4 billion in unrealized capital gains on investments (not included in net income), $2.5 billion in net capital inflow, and under $0.1 billion of miscellaneous credits to surplus. The deductions from surplus consisted solely of $8.3 billion in dividends to shareholders.

The $24.6 billion increase in surplus during first-quarter 2021 is not directly comparable to the $75.9 billion drop in first-quarter 2020. The COVID-19 pandemic caused extraordinary movements in the stock market in 2020, driving the unprecedented drop in the first quarter and a strong recovery throughout the remainder of the year. 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' $10.4 billion in unrealized capital gains in first-quarter 2021 represent a $94.6 billion swing from $84.2 billion in unrealized capital losses a year earlier. The net $2.5 billion of capital inflow in first-quarter 2021 compares with $0.3 billion of inflow a year earlier. Dividends to shareholders increased to $8.3 billion in first-quarter 2021 from $6.8 billion in first-quarter 2020. The net result of aggregated miscellaneous credits to surplus and charges against surplus was under $0.1 billion in credits in first-quarter 2021, an improvement from $3.1 billion in charges in first-quarter 2020.

Using 12-month trailing premiums, the premium-to-surplus ratio decreased to 0.70 as of March 31, 2021, from 0.83 as of March 31, 2020. Similarly, the ratio of loss and loss adjustment expense reserves to surplus decreased to 0.76 as of March 31, 2021 from 0.85 a year earlier. The first-quarter 2020 ratios were elevated due to a sharp decline in surplus attributable to COVID-19 effects, but even these values were low compared with their historical levels, suggesting the industry as a whole is well capitalized. 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.

The key operating results for the industry are summarized in the table at left.

Operating Results for 2021 and 2020 ($ Millions)

First Quarter	2021	2020
Net Written Premiums	$172,341	$164,313
Percent Change (%)	4.9	6.2
Net Earned Premiums	161,246	157,605
Percent Change (%)	2.3	5.4
Incurred Losses & Loss Adjustment Expenses	111,072	105,433
Percent Change (%)	5.3	3.6
Statutory Underwriting Gains (Losses)	4,480	7,057
Policyholders' Dividends	1,159	830
Net Underwriting Gains (Losses)	3,321	6,227
Pretax Operating Income	16,997	19,424
Net Investment Income Earned	12,839	13,186
Net Realized Capital Gains (Losses)	5,173	1,092
Net Investment Gains	18,013	14,278
Net Income (Loss) after Taxes	20,021	17,866
Percent Change (%)	12.1	-0.5
Surplus (Consolidated)	934,873	771,329
Loss & Loss Adjustment Expense Reserves	708,360	654,752
Combined Ratio, Post-Dividends (%)	96.1	94.9

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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-Quarter 2021: BY THE NUMBERS

$934.9 billion
Industry surplus, up from $910.2 billion at year-end 2020

$20.0 billion
Net income after taxes, up from $17.9 billion in first-quarter 2020

$172.3 billion
Net written premium, up from $164.3 billion in first-quarter 2020

96.1%
Combined ratio, a deterioration from 94.9% in first-quarter 2020

$3.3 billion
Net underwriting gain, down from $6.2 billion in first-quarter 2020

2.6%
Annualized quarterly investment yield, down from 3.0% in first-quarter 2020

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