Property/Casualty Insurance Results: First-Half 2021

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Private U.S. property/casualty insurers' net income after taxes rose to $37.5 billion in first-half 2021 from $24.3 billion in first-half 2020. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus increased to 7.9% from 5.8% a year earlier, according to ISO, a Verisk (Nasdaq:VRSK) business, and the American Property Casualty Insurance Association (APCIA).[1]

Insurers' combined ratio[2] improved to 96.7% for first-half 2021 from 97.5% for first-half 2020, as their net underwriting gains[3] grew to $5.7 billion in first-half 2021 from $4.7 billion a year earlier. Net written premiums grew 7.5% in first-half 2021.

Insurers' net investment income increased to $26.2 billion in first-half 2021 from $25.5 billion a year earlier, and their $9.2 billion in realized capital gains in first-half 2021 represent a $10.6 billion improvement from $1.4 billion in losses a year earlier, resulting in $35.5 billion in net investment gains[4] for first-half 2021, up $11.3 billion from $24.1 billion for first-half 2020.

The industry started the year with $910.1 billion in surplus.[5] The $24.2-billion increase in the first quarter of 2021 followed by the $40.6-billion increase in the second quarter brought the industry surplus to a new all-time-high value of $974.9 billion as of June 30, 2021.

Insurers' annualized rate of return on average surplus increased to 7.9% in first-half 2021 from 5.8% for first-half 2020, as the growth rate for the net income after taxes significantly outpaced the growth in average surplus.

Underwriting Results

In the first half of 2021, earned premiums grew 5.3% to $329.1 billion, while loss and loss adjustment expenses (LLAE) rose 6.9% to $229.0 billion, other underwriting expenses grew 3.9% to $92.9 billion, and policyholders' dividends receded to $1.6 billion from the extraordinary $4.4 billion in 2020. As a result, the industry reported a $5.7 billion net underwriting gain, an increase from the $4.7 billion for first-half 2020.

> COVID-19 has visibly impacted the underwriting results, especially for the second quarter of 2020, suppressing premiums and losses and prompting extraordinary policyholder dividends.

Net written premiums rose $24.4 billion to $348.4 billion in first-half 2021 from $324.0 billion in first-half 2020, and net written premium growth accelerated to 7.5% from 2.8% for first-half 2020. Net earned premium growth accelerated to 5.3% in first-half 2021 from 2.8% for first-half 2020.

To assess the underlying direct premium growth and to provide a consistent quarterly pattern, ISO compiled premiums for a large cohort of insurers whose data was available for first and second quarters of 2019, 2020, and 2021, which represents more than 95% of total net written premiums for the industry. Aggregated net written premiums for these insurers grew 2.9% in first-half 2020 and then grew 7.5% in first-half 2021, while direct written premiums grew approximately 2.2% in first-half 2020 and then grew 8.9% in first-half 2021. This growth pattern can be traced to the COVID-19 impact. The reduction in the insured exposures caused a decline in the associated direct written premiums, with effects strongly concentrated in the second-quarter 2020. The first-quarter direct written premiums grew 4.6% in 2020 and 6.0% in 2021, but the second-quarter direct written premiums declined 0.2% in 2020 and grew 11.8% in 2021.

Similarly, the first-quarter net written premiums grew 6.3% in 2020 and 4.9% in 2021, but the second-quarter net written premiums declined 0.4% in 2020 and grew 10.3% in 2021.

The 6.9% increase in LLAE in first-half 2021 outpaces earned premium growth and significantly exceeds the 0.8% increase a year earlier. Private U.S. insurers' net LLAE from catastrophes increased $4.2 billion to $28.9 billion for first-half 2021 from $24.7 billion a year earlier. Net LLAE for losses other than catastrophes increased $10.6 billion, or 5.6%, to $200.1 billion in first-half 2021 from $189.5 billion in first-half 2020.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6]

However, U.S. insurers' $28.9 billion in net LLAE from catastrophes in first-half 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 the first half of 2021 or the first half of 2020.

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio improved by 0.8 percentage points to 96.7% in first-half 2021 from 97.5% in first-half 2020.

Underwriting results benefited from $9.2 billion in favorable development of LLAE reserves in first-half 2021, based on new information and updated estimates for the ultimate cost of claims from prior accident years, including catastrophe losses. The $9.2 billion of favorable reserve development in first-half 2021 compares with $4.5 billion of favorable development in first-half 2020. Favorable development reduced the combined ratio by 2.8 percentage points in first-half 2021 and by 1.4 percentage points in first-half 2020.

Excluding development of LLAE reserves, net LLAE grew $19.6 billion to $238.2 billion in first-half 2021 from $218.6 billion in first-half 2020. Excluding catastrophes and the development of LLAE reserves, net LLAE grew $18.6 billion, or 9.6%, to $212.5 billion in first-half 2021 from $193.9 billion a year earlier. The combined ratio improved 0.8 percentage points in first-half 2021; but if catastrophe LLAE and LLAE reserve development in first-half 2021 had been at the same level as in first-half 2020, the combined ratio would have deteriorated by 0.7 percentage points.

The $5.7 billion net gain on underwriting in first-half 2021 amounted to 1.7% of the $329.1 billion in net premiums earned during the period. The $4.7 billion net gain on underwriting in first-half 2020 amounted to 1.5% of the $312.6 billion in net premiums earned during that period.

While overall net written premium growth in first-half 2021 accelerated to 7.5% from 2.8% a year earlier and the combined ratio improved to 96.7% from 97.5%, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines accelerated to 4.1% in first-half 2021 from 1.0% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines increased to 13.2% in first-half 2021 from 6.2% in first-half 2020. Premium growth for insurers writing more balanced books of business accelerated to 4.7% in first-half 2021 from 1.1% in first-half 2020.

Underwriting profitability as measured by the combined ratio deteriorated for personal lines insurers and improved for other segments. Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio fell 5.9 percentage points to 94.8% in first-half 2021. Balanced insurers' combined ratio improved 1.7 percentage points to 98.0% in first-half 2021 from 99.7% in first-half 2020, while personal lines insurers' combined ratio deteriorated 4.4 percentage points to 98.0%.

> Insurers reported significant capital gains in first-half 2021 after heavy capital losses in first-half 2020, both closely associated with the movement in the stock markets.

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 24.7% in first-half 2021, while the pure loss ratio improved to 60.7% from 68.8% a year earlier. General Liability (Other Liability and Products Liability combined) premiums grew 20.0% while the pure loss ratio improved to 55.5% from 60.3% a year earlier. At the same time, Homeowners premiums grew 7.0% and the corresponding pure loss ratio deteriorated to 68.8% from 61.1%. Private passenger automobile liability premiums grew 2.8% and the corresponding pure loss ratio deteriorated to 62.3% from 56.3% a year earlier. However, the pure loss ratio for 2020 does not reflect the premium refunds recorded as underwriting expenses, nor the dedicated policyholder dividends. Commercial automobile liability premiums grew 22.8% and the pure loss ratio improved to 64.6% from 68.1%. For all automobile lines combined, the premiums grew 6.6% and the pure loss ratio deteriorated to 62.5% from 55.3%. The premiums for Workers' Compensation dropped 0.9%, while the pure loss ratio remained unchanged, at 49.3%.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—increased to $26.2 billion in first-half 2021 from $25.5 billion in first-half 2020. Insurers reported $9.2 billion of realized capital gains on investments in first-half 2021, a $10.6 billion swing from $1.4 billion of realized capital losses a year earlier. Combining net investment income and realized capital gains, overall net investment gains increased 47.0% to $35.5 billion in first-half 2021 from $24.1 billion a year earlier.

Insurers' net investment income increased 2.8%, while average cash and invested assets for first-half 2021 grew 10.6% compared with first-half 2020. As a result, the annualized yield on insurers' investments fell to 2.6% in first-half 2021 from 2.8% for first-half 2020. Both yields were significantly below the 3.2% 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% 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 annualized yield for first-half 2021 remained close to this historically low level.

Combining the $9.2 billion in realized capital gains in first-half 2021 with the $43.2 billion in unrealized capital gains[8] during the same period, insurers posted $52.4 billion in overall capital gains for first-half 2021—a $92.0 billion swing from $39.6 billion in overall capital losses for first-half 2020. Over the past 30 years, insurers' total capital gains have averaged $4.5 billion per quarter but have ranged from as high as $50.6 billion in fourth-quarter 2020 to as low as negative $83.2 billion in first-quarter 2020.

Pretax Operating Income

Pretax operating income[9] increased to $33.3 billion for first-half 2021 from $30.2 billion for first-half 2020. The increase in operating income was the combined result of the $1.0 billion increase in net gains on underwriting, the $0.7 billion increase in net investment income and the $1.4 billion increase 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 was $37.5 billion for first-half 2021, the largest first-half amount on the record. The $13.2 billion increase from $24.3 billion recorded for first-half 2020 is largely attributable to the $10.6 billion swing in realized capital gains.

Policyholders' Surplus

Policyholders' surplus rose $64.8 billion to $974.9 billion as of June 30, 2021, from $910.1 billion as of December 31, 2020. Additions to surplus in first-half 2021 included $37.5 billion in net income after taxes, $43.2 billion in unrealized capital gains on investments (not included in net income), and $2.3 billion in net capital inflow. Deductions from surplus consisted of $14.1 billion in dividends to shareholders and $4.0 billion in miscellaneous charges against surplus.

Insurers' $43.2 billion in unrealized capital gains in first-half 2021 constitute an $81.4 billion swing from $38.2 billion in unrealized capital losses a year earlier. The net $2.3 billion of capital inflow in first-half 2021 compares with $2.6 billion of capital inflow a year earlier. Dividends to shareholders rose to $14.1 billion in first-half 2021 from $13.0 billion in first-half 2020. The $4.0 billion in miscellaneous charges against surplus in first-half 2021 is a $5.9 billion deterioration compared with $1.9 billion in miscellaneous credits to surplus in first-half 2020.

Using 12-month trailing premiums, the premium-to-surplus ratio fell to 0.69 as of June 30, 2021 from 0.78 as of June 30, 2020. Similarly, the ratio of loss and loss adjustment expense reserves to surplus fell to 0.74 as of June 30, 2021, from 0.81 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 2020, the average premium-to-surplus ratio was 0.88 and the LLAE-reserves-to-surplus ratio was 1.02.

Second-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes rose to $17.5 billion in second-quarter 2021 from $6.4 billion in second-quarter 2020. Property/casualty insurers' annualized rate of return on average surplus recovered to 7.3% in second-quarter 2021 from 3.2% a year earlier, but remained below 7.6% for second-quarter 2019 and 9.0% for second-quarter 2018.

> The written premium volume, underwriting gain, and 7.3% annualized return on average surplus in second-quarter 2021 show a recovery from the COVID-19-dominated second-quarter 2020.

The $17.5 billion in net income after taxes for the insurance industry in second-quarter 2021 was the net result of $16.4 billion in pretax operating income, $4.1 billion in realized capital gains on investments, and $3.0 billion in federal and foreign income taxes.

The industry's $16.4 billion in pretax operating income for second-quarter 2021 was up $5.7 billion from $10.7 billion for second-quarter 2020. The industry's second-quarter 2021 pretax operating income was the sum of $2.4 billion in net underwriting gains, $13.4 billion in net investment income, and $0.6 billion in miscellaneous other income.

The second-quarter underwriting results improved $4.0 billion to $2.4 billion of net underwriting gains in 2021 from $1.6 billion of net underwriting losses a year earlier.

Net LLAE from catastrophes included in private U.S. insurers' financial results in second-quarter 2021 declined to $12.2 billion from $18.7 billion in second-quarter 2020. The contribution of catastrophe LLAE to the second-quarter combined ratio dropped to 7.3 percentage points in 2021 from 12.1 percentage points in 2020.

Second-quarter 2021 net gains on underwriting amounted to 1.4% of the $167.9 billion in premiums earned during the period, whereas in second-quarter 2020 the industry reported net losses on underwriting amounting to 1.0% of the $155.0 billion in premiums earned during the period. The industry's combined ratio improved to 97.2% in second-quarter 2021 from 100.2% in second-quarter 2020. 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 rose $16.4 billion, or 10.3%, to $176.1 billion in second-quarter 2021 from $159.7 billion in second-quarter 2020 and from $160.4 billion in second-quarter 2019. The average annual written premium growth rate over the two-year period was 4.8%.

Net earned premiums grew 8.3% to $167.9 billion in second-quarter 2021 from $155.0 billion in second-quarter 2020. LLAE grew 8.4% to $117.9 billion in second-quarter 2021 from $108.7 billion in second-quarter 2020. Noncatastrophe LLAE jumped 17.4% to $105.7 billion from $90.0 billion in second-quarter 2020.

Net investment income for the industry increased to $13.4 billion in second-quarter 2021 from $12.3 billion in second-quarter 2020. Miscellaneous other income increased to $0.6 billion in second-quarter 2021 from essentially zero a year earlier.

In second-quarter 2021, insurers reported $4.1 billion in realized capital gains on investments, in contrast to $2.5 billion of realized capital losses in second-quarter 2020. Combining net investment income and realized capital gains/losses, net investment gains rose $7.6 billion, or 77.4%, to $17.5 billion in second-quarter 2021 from $9.9 billion a year earlier.

Insurers posted $32.8 billion in unrealized capital gains on investments in second-quarter 2021, a $13.3 billion decrease from $46.1 billion a year earlier. Combining realized and unrealized amounts, the insurance industry posted $36.9 billion in overall capital gains in second-quarter 2021—a $6.7 billion decrease from the $43.6 billion for second-quarter 2020. However, second-quarter 2020 had unusually high levels of capital gains as the stock markets recovered after the COVID-19 panic in first-quarter 2020.

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

Operating Results for 2021 and 2020 ($ Millions)

First Half	2021	2020
Net Written Premiums	$348,440	$323,996
Percent Change (%)	7.5	2.8
Net Earned Premiums	329,100	312,604
Percent Change (%)	5.3	2.8
Incurred Losses & Loss Adjustment Expenses	228,965	214,151
Percent Change (%)	6.9	0.8
Statutory Underwriting Gains (Losses)	7,261	9,036
Policyholders' Dividends	1,558	4,378
Net Underwriting Gains (Losses)	5,703	4,658
Pretax Operating Income	33,340	30,173
Net Investment Income Earned	26,241	25,516
Net Realized Capital Gains (Losses)	9,230	(1,381)
Net Investment Gains	35,471	24,135
Net Income (Loss) after Taxes	37,454	24,290
Percent Change (%)	54.2	-26.4
Surplus (Consolidated)	974,904	824,848
Loss & Loss Adjustment Expense Reserves	722,715	669,581
Combined Ratio, Post-Dividends (%)	96.7	97.5

Second Quarter	2021	2020
Net Written Premiums	$176,119	$159,682
Percent Change (%)	10.3	-0.4
Net Earned Premiums	167,868	154,998
Percent Change (%)	8.3	0.4
Incurred Losses & Loss Adjustment Expenses	117,856	108,745
Percent Change (%)	8.4	-1.8
Statutory Underwriting Gains (Losses)	2,830	1,950
Policyholders' Dividends	405	3,552
Net Underwriting Gains (Losses)	2,425	(1,602)
Pretax Operating Income	16,424	10,724
Net Investment Income Earned	13,440	12,338
Net Realized Capital Gains (Losses)	4,060	(2,475)
Net Investment Gains	17,500	9,864
Net Income (Loss) after Taxes	17,507	6,410
Percent Change (%)	173.1	-57.4
Surplus (Consolidated)	974,904	824,848
Loss & Loss Adjustment Expense Reserves	722,715	669,581
Combined Ratio, Post-Dividends (%)	97.2	100.2

First-Half 2021: BY THE NUMBERS

$974.9 billion

Industry surplus, up from $934.3 billion on March 31, 2021, and from $910.1 billion at year-end 2020

$37.5 billion

Net income after taxes, up $13.2 billion from $24.3 billion in first-half 2020

$348.4 billion

Net written premiums, up from $324.0 billion in first-half 2020

96.7%

Combined ratio, an improvement from 97.5% for first-half 2020

$5.7 billion

Net underwriting gain (after dividends), up from $4.7 billion in first-half 2020

2.6%

Annualized investment yield, down from 2.8% in first-half 2020

$52.4 billion

Total capital gains, compared with $39.6 billion of total capital losses in first-half 2020

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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.

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