Property/Casualty Insurance Results: First-Quarter 2022

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Private U.S. property/casualty insurers' net income after taxes in first-quarter 2022 increased to $27.6 billion from $19.9 billion in first-quarter 2021. Insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus rose to 10.6% from 8.7% in first-quarter 2021, according to Verisk (Nasdaq: VRSK), and the American Property Casualty Insurance Association (APCIA).[1]

Insurers' combined ratio[2] improved to 95.9% for first-quarter 2022 from 96.1% for first-quarter 2021, while net underwriting gains[3] increased to $3.5 billion from $3.3 billion a year earlier. Net written premium increased 10.1% in first-quarter 2022 to $189.7 billion from $172.3 billion for first-quarter 2021.

Insurers' net investment income in first-quarter 2022 increased to $21.7 billion from $12.8 billion in first-quarter 2021, while insurers' realized capital gains decreased to $4.4 billion from $5.2 billion, resulting in $26.1 billion in net investment gains[4] for first-quarter 2022, an $8.1 billion increase from $18.0 billion for first-quarter 2021.

Insurers' annualized rate of return on average surplus rose to 10.6% in first-quarter 2022 from 8.7% a year earlier. The industry's surplus[5] as of March 31, 2022, was $1,038.3 billion, an increase from $1,032.5 billion as of December 31, 2021.

Catastrophe activity was subdued relative to first-quarter 2021, but noncatastrophe losses increased.

Underwriting Results

In the first quarter of 2022, earned premiums grew 9.0% to $175.7 billion, while losses and loss adjustment expenses (LLAE) increased 10.0% to $122.2 billion, other underwriting expenses grew 7.8% to $49.2 billion, and policyholders' dividends fell to $0.8 billion from $1.2 billion a year earlier. As a result, the industry reported a $3.5 billion net underwriting gain, a 6.4% increase from the $3.3 billion for first-quarter 2021.

Net written premiums increased 10.1% to $189.7 billion in first-quarter 2022 from $172.3 billion in first-quarter 2021. The net earned premiums growth accelerated to 9.0% in first-quarter 2022 from 2.3% in first-quarter 2021.

To assess the underlying direct premium growth, ISO had compiled premiums for a large cohort of insurers whose first-quarter data was available for 2020, 2021, and 2022, which represents more than 95% of the total net written premiums for the industry. Aggregated net written premiums for these insurers rose 4.9% in first-quarter 2021, and then grew 10.0% in first-quarter 2022, while direct written premiums grew approximately 6.1% in first-quarter 2021, and then grew 9.6% in first-quarter 2022.

The 10.0% increase in LLAE in first-quarter 2022 compares with the 5.4% increase a year earlier and is due to an increase in noncatastrophe losses. Private U.S. insurers' net LLAE from catastrophes in first-quarter 2022 decreased to $6.9 billion for first-quarter 2022 from $16.7 billion a year earlier. Net LLAE for losses other than catastrophes rose $20.9 billion, or 22.1%, to $115.3 billion in first-quarter 2022 from $94.4 billion in first-quarter 2021.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $6.9 billion in net LLAE from catastrophes in first-quarter 2022 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 2022 or 2021.

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Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio improved by 0.2 percentage points to 95.9% in first-quarter 2022 from 96.1% in first-quarter 2021, with the 0.6 percentage points increase in LLAE ratio offset by the reduction in expense ratio and dividend ratio.

Underwriting results benefited from $5.3 billion in favorable development of LLAE reserves in first-quarter 2022, based on new information and updated estimates for the ultimate cost of claims from prior accident years. The $5.3 billion of favorable reserve development in first-quarter 2022 compares with $6.3 billion for first-quarter 2021. Favorable development reduced the combined ratio by 3.0 percentage points in first-quarter 2022 and by 3.9 percentage points in first-quarter 2021.

Excluding development of LLAE reserves, net LLAE grew $10.1 billion, or 8.6%, to $127.5 billion in first-quarter 2022 from $117.4 billion in first-quarter 2021. Excluding both the LLAE from catastrophes and the development of LLAE reserves, net LLAE grew 17.5%, to $120.8 billion in first-quarter 2022 from $102.8 billion a year earlier. The combined ratio improved 0.2 percentage points in first-quarter 2022, but if catastrophe LLAE and LLAE reserve development in first-quarter 2022 had been at the same level as in first-quarter 2021, the combined ratio would have deteriorated 4.1 percentage points.

The $3.5 billion in net underwriting gains in first-quarter 2022 amounted to 2.0% of the $175.7 billion in net premiums earned during the period. The $3.3 billion in net gains on underwriting in first-quarter 2021 also amounted to 2.0% of the $161.2 billion in net premiums earned during that period.

While overall net written premium increased 10.1% in first-quarter 2022 after growing 4.9% a year earlier, the dynamics varied significantly across industry segments.

Net written premium growth for insurers writing mostly personal lines accelerated to 6.0% in first-quarter 2022 from 4.0% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium for insurers writing predominantly commercial lines increased 15.0% in first-quarter 2022 after growing 7.8% in first-quarter 2021. Premiums for insurers writing more balanced books of business grew 10.1% in first-quarter 2022 after growing 1.4% in first-quarter 2021.

Net investment gains grew to higher than usual levels mostly due to one-time cash transfers.

Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio improved 7.1 percentage points to 90.0% in first-quarter 2022. Personal lines insurers' combined ratio deteriorated 7.1 percentage points to 101.8% and balanced insurers' combined ratio improved 0.6 percentage points to 97.1%.

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 21.8% in first-quarter 2022, and the pure loss ratio improved to 53.2% from 71.8% 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 14.4% while the pure loss ratio rose slightly to 55.9% from 54.6% a year earlier. At the same time, Homeowners premiums grew 11.1%, but the pure loss ratio improved to 53.8% from 71.6% as direct losses fell 17.6%. Private passenger automobile liability direct written premiums increased just 1.9%, but the corresponding pure loss ratio deteriorated to 68.2% from 59.1% a year earlier, as the losses grew 18.3%. For all automobile lines combined, direct premiums written grew 5.7%, direct premiums earned grew 5.9%, and the pure loss ratio deteriorated to 71.0% from 58.8% a year earlier. The premiums for Workers' Compensation rose 9.0%, and the pure loss ratio improved to 48.4% in first-quarter 2022 from 51.0% a year earlier.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—increased to $21.7 billion in first-quarter 2022 from $12.8 billion in first-quarter 2021. However, the $21.7 billion of net investment income earned in first-quarter 2022—the highest quarterly amount on record—was augmented by historically large cash transfers from subsidiaries outside the property/casualty industry. Excluding the insurers involved, net investment income would only have been $9.9 billion. Insurers' realized capital gains on investments fell to $4.4 billion in first-quarter 2022 from $5.2 billion a year earlier. The realized capital gains in first-quarter 2022 were the net result of $4.8 billion in realized gains on asset sales and $0.4 billion in write-downs on impaired investments, while the realized capital gains in first-quarter 2021 resulted from $5.4 billion in realized gains on asset sales and $0.2 billion in write-downs on impaired investments. Combining net investment income and realized capital gains, overall net investment gains increased 45.0% to $26.1 billion in first-quarter 2022 from $18.0 billion a year earlier.

Insurers' net investment income rose 69.3%, and average cash and invested assets for first-quarter 2022 increased 10.2% compared with first-quarter

2021. As a result, the annualized yield on insurers' investments rose to 4.0% in first-quarter 2022 from 2.6% for first-quarter 2021. The significant rise in the annualized yield for first-quarter 2022 is due to the one-time cash transfers mentioned earlier. Excluding the insurers involved with the cash transfers, the annualized yield for first-quarter 2022 would have only been 2.3%. When adjusted for the impact of the cash transfers, 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 2021 yield of 2.6% was 0.6 percentage points below the average annual yield for the preceding ten years from 2011 to 2020.

Combining the $4.4 billion in realized capital gains in first-quarter 2022 with the $19.3 billion in unrealized capital losses[8] during the same period, insurers posted $14.9 billion in overall capital losses for first-quarter 2022. This amount contrasts with $15.5 billion of total capital gains in first-quarter 2021. Over the past 30 years, insurers' total capital gains have averaged $4.7 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. 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.

Net written premiums growth has recovered to a strong 10.1%.

Pretax Operating Income

Pretax operating income[9] rose to $25.6 billion for first-quarter 2022 from $16.9 billion for first-quarter 2021. The increase in operating income was the net result of the $0.2 billion increase in net gains on underwriting, the $8.9 billion increase in net investment income, and $0.4 billion decrease in total other income. Pretax operating income was also impacted by the one-time cash transfers mentioned earlier.

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 $27.6 billion for first-quarter 2022, an increase of $7.6 billion over the $19.9 billion recorded for first-quarter 2021. This amount is well above the $16.8 billion average quarterly income for the past ten years and is actually the highest quarterly net income on record. However, this is primarily due to the one-time cash transfers mentioned earlier. If the impacted insurers would be excluded, the industry net income after taxes would only have been $12.2 billion.

Policyholders' Surplus

Policyholders' surplus rose $5.7 billion to $1,038.3 billion as of March 31, 2022, from $1,032.5 billion as of December 31, 2021. Additions to surplus in first-quarter 2022 included $27.6 billion in net income after taxes and $5.3 billion in miscellaneous credits to surplus. Deductions from surplus consisted of $19.3 billion in unrealized capital losses on investments (not included in net income), $0.1 billion in net capital outflow, and $7.7 billion in dividends to shareholders.

Insurers' $19.3 billion in unrealized capital losses in first-quarter 2022 represent a $29.7 billion swing from $10.4 billion in unrealized capital gains a year earlier. The net $0.1 billion of capital outflow in first-quarter 2022 compares with $2.5 billion of inflow a year earlier. Dividends to shareholders decreased to $7.7 billion in first-quarter 2022 from $8.3 billion in first-quarter 2021. The net result of aggregated miscellaneous credits to surplus and charges against surplus was $5.3 billion in credits in first-quarter 2022, an improvement from $0.3 billion in charges in first-quarter 2021.

The first-quarter 2022 net income after taxes was elevated, also mostly due to one-time cash transfers from outside the industry.

Excluding the insurers impacted by the cash transfers, industry surplus would have actually fallen by $5.0 billion.

Using 12-month trailing premiums, the premium-to-surplus ratio remained 0.70 as of March 31, 2022, after the same a year earlier. The ratio of loss and loss adjustment expense reserves to surplus decreased to 0.74 as of March 31, 2022 from 0.76 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 2021, the average premium-to-surplus ratio was 0.85 and the LLAE-reserves-to-surplus ratio was 0.99.

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

Operating Results for 2022 and 2021 ($ Millions)

First-Quarter	2022	2021
Net Written Premiums	$189,714	$172,321
Percent Change (%)	10.1	4.9
Net Earned Premiums	175,725	161,232
Percent Change (%)	9.0	2.3
Incurred Losses & Loss Adjustment Expenses	122,213	111,109
Percent Change (%)	10.0	5.4
Statutory Underwriting Gains (Losses)	4,273	4,431
Policyholders' Dividends	783	1,152
Net Underwriting Gains (Losses)	3,490	3,278
Pretax Operating Income	25,590	16,916
Net Investment Income Earned	21,666	12,801
Net Realized Capital Gains (Losses)	4,385	5,171
Net Investment Gains	26,051	17,971
Net Income (Loss) after Taxes	27,555	19,947
Percent Change (%)	38.1	11.6
Surplus (Consolidated)	1,038,260	934,282
Loss & Loss Adjustment Expense Reserves	765,756	708,152
Combined Ratio, Post-Dividends (%)	95.9	96.1

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. Premium growth and pure loss ratios (ratios of losses to earned premiums) can be calculated by line based on this information, but not combined ratios. These exhibits do not separate commercial multiple peril into non-liability and liability.
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 2022: BY THE NUMBERS

$ 1,038.3 billion

Industry surplus, up from $1,032.5 billion at year-end 2021

$ 27.6 billion

Net income after taxes, up from $19.9 billion in first-quarter 2021

$ 189.7 billion

Net written premium, up from $172.3 billion in first-quarter 2021

95.9%

Combined ratio, an improvement from 96.1% in first-quarter 2021

$3.5 billion

net underwriting gain, up from $3.3 billion in first-quarter 2021

4.0%

Annualized investment yield, up from 2.6% in first-quarter 2021.

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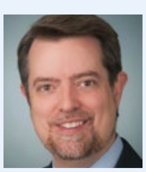

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