Property/Casualty Insurance Results: 2021

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Private U.S. property/casualty insurers' net income after taxes rose to $61.9 billion in 2021 from $60.3 billion in 2020. Insurers' overall profitability as measured by their rate of return on average policyholders' surplus declined to 6.4% from 6.9% a year earlier, according to Verisk (Nasdaq:VRSK) and the American Property Casualty Insurance Association (APCIA).[1]

Insurers' combined ratio[2] deteriorated to 99.6% for 2021 from 98.6% for 2020, and $3.8 billion of net underwriting losses[3] in 2021 contrast with $5.2 billion of net underwriting gains a year earlier. Net written premium growth accelerated to 9.2% for 2021 from 2.6% for 2020.

Insurers' net investment income rose to $54.3 billion in 2021 from $51.7 billion a year earlier and insurers' realized capital gains increased to $16.9 billion in 2021 from $10.5 billion in 2020, resulting in $71.2 billion in net investment gains[4] for 2021 from $62.2 billion in 2020.

The industry's surplus[5] reached an all-time-high $1,032.5 billion as of December 31, 2021, a $122.4 billion increase from $910.1 billion a year earlier and a $57.7 billion increase from the $974.8 billion as of September 30, 2021.

Insurers' rate of return on average surplus dropped to 6.4% for 2021 from 6.9% for 2020, as the growth rate for net income after taxes lagged the growth in average surplus.

Premium growth accelerated in 2021, as the economy recovered from COVID-19.

Underwriting Results

In 2021, earned premiums grew 7.4% to $685.0 billion. Losses and loss adjustment expenses (LLAE) rose 11.1% to $496.9 billion, other underwriting expenses grew 5.4% to $188.1 billion, and policyholders' dividends fell to $3.7 billion from the extraordinary $6.9 billion a year earlier. As a result, the industry reported a $3.8 billion net underwriting loss, a significant deterioration from the $5.2 billion net underwriting gain for 2020. The $11.3 billion underwriting loss in the third quarter more than fully offset underwriting gains in other quarters of 2021. The industry's combined ratio deteriorated to 99.6% in 2021 from 98.6% in 2020, as the 2.4 percentage points deterioration in LLAE ratio was only partially offset by improvements in the expense ratio and in the dividend ratio.

Net written premiums increased $60.1 billion to $710.6 billion in 2021 from $650.4 billion in 2020. Net written premium growth accelerated to 9.2% from 2.6% for 2020, while net earned premium growth accelerated to 7.4% after 2.6% in 2020. The premium growth rate varied considerably on a quarter-to-quarter basis. In 2021, the quarterly written premium growth rates were 4.9% for the first quarter, 10.3% for the second, 12.8% for the third, and 8.9% for the fourth. To some extent, this variability can be attributed to the effects of COVID-19 on the economy. In 2020, written premiums grew by 6.2% in the first quarter, dropped by 0.4% in the second, grew by 3.0% in the third, and grew by 1.6% in the fourth. The average annual growth rates from 2019 to 2021 were significantly more stable: 5.5% in the first quarter, 4.8% in the second, 7.8% in the third, and 5.2% in the fourth.

To assess the underlying direct premium growth, Verisk compiled premiums for a large cohort of insurers whose annual data was available for every quarter of 2019, 2020, and 2021, which represents more than 95% of total net written premium for the industry. Aggregated net written premium for these insurers grew just 2.6% in 2020 and then grew 9.1% in 2021, while their direct written premium grew 2.3% in 2020 and then grew 9.4% in 2021. In individual quarters of 2020 and 2021, the growth patterns for direct and net premiums were similar, with a decline in second quarter 2020 (net premiums declined 0.4% and direct premiums declined 0.2%), followed by renewed but weakened growth in the second half of 2020 (2.3% for net premiums and 2.5% for direct), and strong growth in second quarter 2021 (10.3% for net premiums and 11.8% for direct). The growth in the second half of 2021 was 10.7% for net premiums and 9.9% for direct. Finally, the average annual written premium growth rate from 2019 to 2021 was 5.8% both for direct and net premiums.

The LLAE growth accelerated to 11.1% in 2021 from 1.2% in 2020, driven by increases in noncatastrophe losses. Private U.S. insurers' LLAE from catastrophes declined to $56.3 billion in 2021 from $61.4 billion a year earlier. LLAE for losses other than catastrophes jumped $54.8 billion, or 14.2%, to $440.6 billion in 2021 from $385.8 billion in 2020.

Private U.S. insurers' LLAE includes both their domestic and foreign catastrophe losses. However, U.S. insurers' $56.3 billion in LLAE from catastrophes in 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' LLAE arising from such events was not large compared with domestic catastrophe losses.[6]

Underwriting results benefited from $14.5 billion in favorable development of LLAE reserves in 2021, based on new information and updated estimates for the ultimate cost of claims from prior accident years. In recent years, the industry has consistently reported favorable reserve development. In addition to the better-than-expected claims experience on long- and medium-tail lines, significant favorable reserve development is also reported on short-tail lines due to salvage and subrogation not reflected in the original LLAE estimates. The $14.5 billion of favorable reserve development in 2021 is above the $7.9 billion of favorable development in 2020. Favorable development reduced the combined ratio by 2.1 percentage points in 2021 and by 1.2 percentage points in 2020.

Excluding development of LLAE reserves, net LLAE grew $56.4 billion, or 12.4%, to $511.4 billion in 2021 from $455.0 billion in 2020. Excluding development of LLAE reserves, net noncatastrophe LLAE increased $67.2 billion, or 17.1%, to $458.8 billion in 2021 from $391.7 billion a year earlier. The decline in LLAE attributable to catastrophes subtracted 1.4 percentage points from the change in the loss ratio, while the combined impact of catastrophes and changes in reserve development subtracted 3.1 percentage points from the change in the loss ratio in 2021.

The $3.8 billion net loss on underwriting in 2021 was 0.6% of the $685.0 billion in net premiums earned during the period and is a $9.0 billion deterioration from the 2020 result. The $5.2 billion net gain on underwriting in 2020 was 0.8% of the $637.7 billion in net premiums earned during that period.

While the overall net written premium growth rate in 2021 accelerated to 9.2% from 2.6% a year earlier and the combined ratio deteriorated to 99.6% from 98.6%, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines recovered to 5.6% in 2021 from 0.4% a year earlier, which had been suppressed by reductions in personal automobile premiums as a result of COVID-19. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines accelerated to 15.9% in 2021 from 5.8% in 2020. Premium growth for insurers writing more balanced books of business accelerated to 5.4% in 2021 from 1.6% in 2020.

Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio improved 4.5 percentage points to 96.3% in 2021. Personal lines insurers' combined ratio deteriorated 6.9 percentage points to 102.7%, and balanced insurers' combined ratio improved 0.1 percentage points to 100.7% in 2021.

Direct premiums and losses show significant variation of underwriting results across lines of business. For the available consistent company sample, private passenger automobile direct written premiums grew only 4.5% (growth was 3.1% for the liability portion and 6.5% for the physical damage portion) while the direct pure loss ratio deteriorated to 68.1% from the unusually low 56.1% a year earlier, as the earned premiums grew 3.0% and direct losses grew 25.1%. For commercial automobile insurance, direct written premiums increased 17.1% and the pure loss ratio remained unchanged at 64.2%, as both earned premiums and direct incurred losses grew 12.9% in 2021. Direct written premiums for Homeowners grew 8.6%, as the direct pure loss ratio deteriorated to 68.7% from 66.2%. Direct written premiums for General Liability (Other Liability and Products Liability combined) grew 21.1%, while the direct pure loss ratio improved to 59.2% from 62.7% a year earlier. Direct written premiums for Workers' Compensation grew only 1.2%, and the direct pure loss ratio deteriorated to 48.2% in 2021 from 45.8% a year earlier. Direct written premiums for Fire and Allied lines (excluding Multiple Peril Crop and Federal Flood) increased 13.2% in 2021, as the direct pure loss ratio improved to 70.6% from 73.4% a year earlier. It is also notable that federally reinsured Multiple Peril Crop, while having no effect on net underwriting results, experienced 37.5% growth in direct written premiums, mostly due to commodity price changes, and contributed 0.4 percentage points to the overall industry growth in direct written premiums.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—increased 5.0% to $54.3 billion in 2021 from $51.7 billion in 2020. Insurers' realized capital gains on investments increased to $16.9 billion in 2021 from $10.5 billion in 2020. Combining net investment income and realized capital gains, overall net investment gains increased by $9.0 billion, or 14.4%, to $71.2 billion in 2021 from $62.2 billion a year earlier.

In 2021, insurers' average cash and invested assets grew 9.5%. This increase in cash and invested assets outpaced the increase in net investment income, pushing the 2021 yield on insurers' investments further down to a record-low 2.6% from 2.7% a year earlier. 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 yields have not exceeded 4.0% since 4.2% for 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.

Investment yields fell to 2.6%—the lowest annual yield in 60 years, but total capital gains reached a new record high of $109.2 billion.

Combining the $16.9 billion in realized capital gains in 2021 with the $92.3 billion in unrealized capital gains[7] during the same period, insurers posted $109.2 billion in overall capital gains for 2021—a $59.4 billion improvement from 2020 and $12.4 billion above the prior record set in 2019. Over the past 30 years, insurers' total capital gains have averaged $4.8 billion per quarter, but the quarterly total capital gains 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. In fourth-quarter 2021, capital gains were the second-highest on record, at $49.9 billion. 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[8] fell $4.4 billion to $54.0 billion for 2021 from $58.5 billion for 2020. The decline in operating income was due to the $9.0 billion deterioration in net underwriting results, partially offset by the $2.0 billion improvement in miscellaneous other income and the $2.6 billion increase in net investment 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 rose $1.6 billion to $61.9 billion for 2021 from $60.3 billion for 2020. The net income after taxes for 2021 is well above the $53.4 billion average annual income for the last ten years. However, industry surplus has grown significantly over the last ten years and just reached a new record-high level as of 12/31/2021. While the income was 15.9% above the ten-year average, the surplus as of 12/31/2021 exceeds the ten-year average year-end surplus by 49.2%, resulting in below-average return on average surplus.

Policyholders' Surplus

Policyholders' surplus increased $122.5 billion to $1,032.5 billion as of December 31, 2021, from $910.1 billion as of December 31, 2020. The highest-ever yearly increase in surplus pushed the year-end surplus over one trillion dollars for the first time in history. Additions to surplus in 2021 included $61.9 billion in net income after taxes, $92.3 billion in unrealized capital gains on investments (not included in net income), and $5.7 billion in net additional capital provided to insurers. Deductions from surplus consisted of $33.4 billion in dividends to shareholders and $4.0 billion in miscellaneous charges against surplus.

Unrealized capital gains increased to a record-high $92.3 billion in 2021 from $39.3 billion a year earlier. The net $5.7 billion of additional capital provided to insurers in 2021 compares with $8.5 billion provided in 2020. Dividends to shareholders decreased $11.9 billion, or 26.2%, to $33.4 billion in 2021 from $45.3 billion in 2020. The $4.0 billion in miscellaneous charges against surplus in 2021 compare to essentially zero for 2020.

As of December 31, 2021, the premium-to-surplus ratio (using 12-month trailing premiums) decreased to 0.69 from 0.71 as of December 31, 2020. At the same time, the ratio of loss and loss adjustment expense reserves to surplus decreased to 0.73 as of December 31, 2021, 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 2020, the average premium-to-surplus ratio was 0.88, and the LLAE-reserves-to-surplus ratio was 1.02.

Unrealized capital gains drove the surplus to a new record.

Fourth-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes fell to $19.7 billion in fourth-quarter 2021 from $25.1 billion in fourth-quarter 2020. The annualized rate of return on average surplus fell to 7.9% in fourth-quarter 2021 from 11.3% a year earlier. While the dollar amount of the net income is among the highest for fourth quarters, exceeded only by the amounts recorded in 2020 and 2013 ($25.1 billion and $20.7 billion respectively), the annualized return is close to the 30-year average of 7.8%. The $19.7 billion in net income after taxes for the insurance industry in fourth-quarter 2021 was the net result of $18.2 billion in pretax operating income, $4.4 billion in realized capital gains on investments, and $2.8 billion in federal and foreign income taxes. The $25.1 billion in net income after taxes a year earlier was the net result of $20.6 billion in pretax operating income, $7.1 billion in realized capital gains on investments, and $2.7 billion in federal and foreign income taxes.

The industry's fourth-quarter 2021 pretax operating income was the net result of $1.8 billion in net gains on underwriting, $14.7 billion in net investment income, and $1.7 billion in miscellaneous other income.

The $1.8 billion in net underwriting gains in fourth-quarter 2021 represent a $3.1 billion drop from the $4.9 billion in net underwriting gains in fourth-quarter 2020.

Net LLAE from catastrophes included in private U.S. insurers' financial results dropped to $8.1 billion in fourth-quarter

2021 from $12.8 billion in fourth-quarter 2020. The contribution of catastrophe LLAE to the fourth-quarter combined ratio declined to 4.6 percentage points in 2021 from 7.9 percentage points in 2020.

Fourth-quarter 2021 net underwriting gains amounted to 1.0% of the $175.3 billion in premiums earned during the period, while net underwriting gains in fourth-quarter 2020 represented 3.0% of earned premiums. The industry's combined ratio deteriorated to 100.0% in fourth-quarter 2021 from 98.2% in fourth-quarter 2020, as its main component, the loss ratio, deteriorated 2.4 percentage points. Over the last 30 years, the fourth-quarter combined ratio averaged 105.0% but reached as high as 123.3% in 1992 and as low as 94.9% in 2014.

Net written premiums rose $13.8 billion, or 8.9%, to $168.9 billion in fourth-quarter 2021 from $155.2 billion in fourth-quarter 2020. All four quarters of 2021 have exhibited strong growth, ranging from 4.9% in the first quarter to 12.8% in the third quarter. The overall trend has been for quarterly written premiums to rise, and indeed there have been increases in 45 of the past 47 quarters. The only decline after the Great Recession and before the pandemic-affected second quarter of 2020 occurred in the first quarter of 2019. That decline in written premiums was due to an unusually high comparison base, triggered by changes in reinsurance utilization in 2018.

Annualized return on surplus for fourth-quarter 2021 was close to the 30-year average, despite the relatively high after-tax income.

Net earned premiums grew 8.1% to $175.3 billion in fourth-quarter 2021 from $162.2 billion in fourth-quarter 2020. LLAE grew 11.9% to $124.9 billion in fourth-quarter 2021 from $111.6 billion in fourth-quarter 2020. Noncatastrophe LLAE grew 18.3% to $116.8 billion in fourth-quarter 2021 from $98.7 billion in fourth-quarter 2020. The reported results for fourth-quarter 2021 were also affected by $3.2 billion in favorable LLAE reserve development, up from $0.5 billion in fourth-quarter 2020. Excluding catastrophes and reserve development, fourth-quarter LLAE increased 20.9%. The fourth-quarter loss ratio, adjusted to remove catastrophes and reported reserve development, worsened to 68.5% in 2021 from 61.2% in 2020.

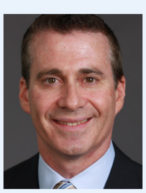
Net investment income for the industry increased to $14.7 billion in fourth-quarter 2021 from $14.5 billion in fourth-quarter 2020. Miscellaneous other income rose to $1.7 billion in fourth-quarter 2021 from $1.3 billion in fourth-quarter 2020. Realized capital gains on investments fell to $4.4 billion in fourth-quarter 2021 from $7.1 billion in fourth-quarter 2020.

Combining net investment income and realized capital gains, net investment gains dropped to $19.1 billion in fourth-quarter 2021 from $21.6 billion a year earlier.

Insurers posted $45.5 billion in unrealized capital gains on investments in fourth-quarter 2021, a $2.0 billion increase from fourth-quarter 2020. Combining realized and unrealized amounts, the insurance industry posted $49.9 billion in overall capital gains in fourth-quarter 2021, after $50.6 billion in fourth-quarter 2020.

The key operating results for the industry are summarized in the table on page 5.

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.



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Operating Results for 2021 and 2020 ($ Millions)

	2021	2020
Net Written Premiums	$710,553	$650,437
Percent Change (%)	9.2	2.6
Net Earned Premiums	684,950	637,669
Percent Change (%)	7.4	2.6
Incurred Losses & Loss Adjustment Expenses	496,939	447,148
Percent Change (%)	11.1	1.2
Statutory Underwriting Gains (Losses)	(52)	12,143
Policyholders' Dividends	3,733	6,911
Net Underwriting Gains (Losses)	(3,785)	5,232
Pretax Operating Income	54,019	58,463
Net Investment Income Earned	54,275	51,684
Net Realized Capital Gains (Losses)	16,904	10,523
Net Investment Gains	71,179	62,207
Net Income (Loss) after Taxes	61,886	60,251
Percent Change (%)	2.7	-2.7
Surplus (Consolidated)	1,032,544	910,066
Loss & Loss Adjustment Expense Reserves	758,699	695,207
Combined Ratio, Post-Dividends (%)	99.6	98.6

Fourth Quarter	2021	2020
Net Written Premiums	$168,925	$155,175
Percent Change (%)	8.9	1.6
Net Earned Premiums	175,313	162,178
Percent Change (%)	8.1	2.2
Incurred Losses & Loss Adjustment Expenses	124,886	111,564
Percent Change (%)	11.9	-3.0
Statutory Underwriting Gains (Losses)	3,577	6,756
Policyholders' Dividends	1,786	1,891
Net Underwriting Gains (Losses)	1,791	4,865
Pretax Operating Income	18,178	20,634
Net Investment Income Earned	14,711	14,490
Net Realized Capital Gains (Losses)	4,399	7,134
Net Investment Gains	19,110	21,623
Net Income (Loss) after Taxes	19,746	25,062
Percent Change (%)	-21.2	85.7
Surplus (Consolidated)	1,032,544	910,066
Loss & Loss Adjustment Expense Reserves	758,699	695,207
Combined Ratio, Post-Dividends (%)	100.0	98.2

2021: BY THE NUMBERS

$1,032.5 billion

Industry surplus, up from $910.1 billion at year-end 2020, and from $974.8 billion as of September 30, 2021

$61.9 billion

Net income after taxes, up from $60.3 billion for 2020

9.2%

Net written premium growth, after 2.6% in 2020

99.6%

Combined ratio, after 98.6% for 2020

$3.8 billion

Net underwriting loss, after a $5.2 billion gain in 2020

2.6%

Investment yield, down from 2.7% in 2020 and the lowest annual investment yield since at least 1960

$109.2 billion

Total capital gains, up from $49.8 billion in total capital gains for 2020

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