Property/Casualty Insurance Results: 2015

By Beth Fitzgerald, President, ISO Solutions,
and Robert Gordon, Senior Vice President, Policy Development and Research, PCI

Private U.S. property/casualty insurers' net income after taxes grew to $56.6 billion in 2015 from $55.9 billion in 2014. Insurers' overall profitability as measured by their rate of return on average policyholders' surplus remained virtually unchanged at 8.4 percent, according to ISO, a Verisk Analytics (Nasdaq: VRSK) business, and the Property Casualty Insurers Association of America (PCI).[1]

Insurers' combined ratio[2] deteriorated to 97.8 percent for 2015 from 97.0 percent for 2014, and their net underwriting gains[3] decreased to $8.7 billion from $12.2 billion. Net written premium growth slowed to 3.4 percent from 4.2 percent for 2014.

Insurers' net investment income increased to $47.2 billion in 2015 from $46.4 billion a year earlier, while insurers' realized capital gains decreased to $9.4 billion from $10.3 billion, resulting in $56.6 billion in net investment gains[4] for 2015, essentially unchanged from 2014.

The 1.3 percent increase in net income after taxes kept insurers' rate of return on average surplus at the 8.4 percent level, equal to the 30-year average.

Net written and earned premium growth slowed compared with 2014 and 2013.

Despite insurers' $56.6 billion in net income after taxes in 2015, the industry's surplus[5] declined slightly to $673.7 billion as of December 31, 2015, from $675.2 billion as of year-end 2014, mostly because of $38.1 billion in dividends to stockholders and $19.7 billion in unrealized capital losses.

Underwriting Results

In 2015, earned premiums grew 3.7 percent to $505.8 billion, while LLAE rose 4.6 percent to $350.2 billion, other underwriting expenses grew 4.4 percent to $144.3 billion, and policyholders' dividends rose 3.7 percent to $2.5 billion. As a result, net underwriting gains decreased to $8.7 billion from $12.2 billion. A $3.6 billion reserve charge taken by a major insurer in the fourth quarter of 2015 significantly contributed to LLAE growth and to deterioration of underwriting results as measured by combined ratio and by net underwriting gains. Still, even without this reserve charge, the combined ratio for 2015 would have deteriorated, albeit slightly, to 97.1 from 97.0 for 2014 and 96.2 for 2013.

Net written premiums climbed $16.9 billion to $514.0 billion in 2015 from $497.0 billion in 2014. Net written premiums growth slowed to 3.4 percent from 4.2 percent for 2014 and 4.4 percent for 2013. The growth rate in net earned premiums similarly slowed to 3.7 percent in 2015 from 4.4 percent in 2014 and 4.1 percent in 2013.

The 4.6 percent increase in LLAE in 2015 exceeds premium growth but still compares favorably with the 6.3 percent increase a year earlier. LLAE growth in 2015 would be higher if not for a slight decline in catastrophe losses. Private U.S. insurers' net LLAE from catastrophes declined $0.1 billion to $16.7 billion for 2015 from $16.8 billion a year earlier. Net LLAE for losses other than catastrophes rose $15.4 billion, or 4.8 percent, to $333.5 billion in 2015 from $318.1 billion in 2014.

Private U.S. insurers' net LLAE includes both their domestic and foreign catastrophic losses.[6] However, U.S. insurers' $16.7 billion in net

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 percent 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 a 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.

Property Casualty Insurers
Association of America

LLAE from catastrophes in 2015 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 2015 or 2014.

Net investment gains held steady in 2015.

Direct insured property losses from catastrophes striking the United States totaled $15.2 billion in 2015, down $0.3 billion from $15.5 billion in 2014 and $2.8 billion below the $18.0 billion average for the past ten years.[7]

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio deteriorated by 0.8 percentage points to 97.8 percent in 2015 from 97.0 percent in 2014.

Underwriting results benefited from $8.0 billion in favorable development of LLAE reserves in 2015, based on new information and updated estimates for the ultimate cost of claims from prior accident years. The $8.0 billion of favorable reserve development in 2015 followed $11.2 billion of favorable development in 2014. Favorable development reduced the combined ratio by 1.6 percentage points in 2015 and by 2.3 percentage points in 2014. If not for the $3.6 billion reserve charge taken by a major insurer in the last quarter of 2015, the LLAE reserve development would also have reduced the 2015 combined ratio by 2.3 percentage points.

Excluding development of LLAE reserves, net LLAE grew $12.0 billion, or 3.5 percent, to $358.2 billion in 2015 from $346.2 billion in 2014.

The $8.7 billion in net gains on underwriting in 2015 amounted to 1.7 percent of the $505.8 billion in net premiums earned during the period. The $12.2 billion in net gains on underwriting in 2014 amounted to 2.5 percent of the $487.9 billion in net premiums earned during that period.

While overall net written premium growth in 2015 declined to 3.4 percent from 4.2 percent a year earlier, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines slowed 0.6 percentage points to 5.2 percent in 2015 but remained more robust than for other segments. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines slowed 1.5 percentage points to 1.4 percent in 2015, while premium growth for insurers writing more balanced books of business accelerated 0.3 percentage points to 3.6 percent.

Underwriting profitability as measured by the combined ratio improved for balanced insurers and deteriorated for other major segments. Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio increased 1.2 percentage points to 96.0 percent in 2015. Personal lines insurers' combined ratio deteriorated 1.8 percentage points to 100.1 percent, while balanced insurers' combined ratio improved 1.3 percentage points to 98.3 percent in 2015 from 99.7 percent in 2014.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—grew 1.9 percent to $47.2 billion in 2015 from $46.4 billion in 2014. Offsetting this increase, insurers' realized capital gains on investments fell 8.4 percent to $9.4 billion in 2015 from $10.3 billion a year earlier. Combining net investment income and realized capital gains, overall net investment gains remained essentially unchanged at $56.6 billion.

Insurers' $9.4 billion in realized capital gains in 2015 was the net result of $3.5 billion in realized losses on asset impairments and $12.9 billion in net realized gains on asset sales. The realized losses on impairments in 2015 increased $1.1 billion from $2.4 billion for 2014, more than offsetting the $0.2 billion increase in realized capital gains on asset sales.

The 1.9 percent increase in net investment income was associated with a 1.6 percent increase in average cash and invested assets for 2015 compared with 2014. The yield on insurers' investments in 2015 was 3.2 percent, virtually unchanged from 2014 and significantly below the 3.8 percent average annual yield for the last ten years. Before 2014, insurers' annual investment yield last fell below 3.2 percent in 1965, when it was 3.1 percent. From 1960 to 2015, insurers' annual investment yield averaged 5.1 percent but ranged from as low as 2.8 percent in 1961 to as high as 8.2 percent in 1984 and 1985.

Policyholder surplus remained near record levels in 2015.

Combining the $9.4 billion in realized capital gains in 2015 with the $19.7 billion in unrealized capital losses during the same period, insurers posted $10.3 billion in overall capital losses for 2015—a $32.0 billion drop from the $21.7 billion in overall capital gains for 2014.[8] Over the past 30 years, insurers' total capital gains have averaged $10.1 billion per year but have ranged from as high as $47.6 billion in 2013 to as low as negative $72.7 billion in 2008 during the financial crisis.

7. Estimates are from Verisk's Property Claim Services® (PCS®) based on information available as of April 11, 2016. Direct losses are before reinsurance recoveries and exclude loss adjustment expenses. These figures are for all types of insurers, including residual market insurers, foreign insurers, and reinsurers, but exclude ocean marine losses and losses covered by the National Flood Insurance Program.
8. Unrealized capital gains or losses contribute directly to surplus change, but they do not affect net income.

Pretax Operating Income

Pretax operating income[9] increased $1.4 billion to $57.3 billion for 2015 from $55.9 billion for 2014. The $1.4 billion increase in operating income was the net result of the $3.5 billion decrease in net gains on underwriting, the $4.0 billion increase in total other income, and the $0.9 billion increase in net investment income. The increase in total other income reflects a special transaction in the third quarter of 2014, when a loss portfolio transfer resulted in an accounting loss of about $3.0 billion.

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 increased $0.8 billion to $56.6 billion for 2015 from $55.9 billion for 2014. The growth in net income was primarily the result of the $1.4 billion increase in operating income. The 2015 net income after taxes is above the $42.6 billion average for the last ten years, but it only ranks fourth after $65.8 billion for 2006, $63.4 billion for 2013, and $62.5 billion for 2007.

Policyholders' Surplus

Policyholders' surplus declined $1.5 billion to $673.7 billion as of December 31, 2015, from a record high of $675.2 billion at year-end 2014. Still, policyholders' surplus remained above any pre-2014 values. Additions to surplus in 2015 included $56.6 billion in net income after taxes and $8.7 billion in new funds. The deductions from surplus consisted of $19.7 billion in unrealized capital losses on investments (not included in net income), $38.1 billion in dividends to shareholders, and $9.1 billion in miscellaneous charges against surplus.

The $19.7 billion in unrealized capital losses in 2015 represents a $31.1 billion swing from the $11.4 billion in unrealized capital gains for 2014.

Net new funds paid in increased by $10.0 billion to $8.7 billion in 2015 from negative $1.3 billion in 2014. Dividends to shareholders grew $5.0 billion, or 15.2 percent, to $38.1 billion in 2015 from $33.1 billion in 2014. Miscellaneous charges against surplus decreased to $9.1 billion in 2015 from $11.1 billion in 2014.

The premium-to-surplus ratio rose to 0.76 as of December 31, 2015, from 0.74 as of December 31, 2014. At the same time, the ratio of loss and loss adjustment expense reserves to surplus rose to 0.87 as of December 31, 2015, from 0.85 a year earlier. The 0.76 premium-to-surplus ratio is only about half of the 1.42 average premium-to-surplus ratio based on annual data for the 57 years from 1959 to 2015. Similarly, the 0.87 LLAE-reserves-to-surplus ratio as of the end of 2015 is far below the 1.38 average for the 57 years ending 2015.

Fourth-quarter 2015 recorded the slowest growth in net written premiums since 2011.

Fourth-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes fell to $12.6 billion in fourth-quarter 2015 from $18.1 billion in fourth-quarter 2014. Property/casualty insurers' annualized rate of return on average surplus dropped to 7.5 percent in fourth-quarter 2015 from 10.7 percent a year earlier.

The $12.6 billion in net income after taxes for the insurance industry in fourth-quarter 2015 was a result of $14.2 billion in pretax operating income, $0.5 billion in realized capital gains on investments, and $2.2 billion in federal and foreign income taxes.

The industry's $14.2 billion in pretax operating income for fourth-quarter 2015 was down $4.9 billion from $19.1 billion for fourth-quarter 2014. The industry's fourth-quarter 2015 pretax operating income was the net result of $1.6 billion in net gains on underwriting, $12.4 billion in net investment income, and $0.2 billion in miscellaneous other income.

Net gains on underwriting shrank $6.4 billion to $1.6 billion in fourth-quarter 2015 from $8.0 billion in fourth-quarter 2014, partially due to a $3.6 billion reserve charge taken by a major insurer.

Net LLAE from catastrophes included in private U.S. insurers' financial results in fourth-quarter 2015 increased to $2.5 billion from $1.0 billion in fourth-quarter 2014.[10] The contribution of catastrophe LLAE to the fourth-quarter combined ratio increased to 1.9 percentage points in 2015 from 0.8 percentage points in 2014.

Direct insured losses from catastrophes striking the United States in fourth-quarter 2015 totaled $2.1 billion, up $1.4 billion from the $0.7 billion in direct insured losses caused by catastrophes that struck the United States in fourth-quarter 2014.[11]

Fourth-quarter 2015 net gains on underwriting amounted to 1.2 percent of the $129.0 billion in premiums earned during the period, a deterioration compared with fourth-quarter 2014 net gains on underwriting, which were 6.4 percent of the $125.4 billion in premiums earned during that period. The industry's combined ratio rose to 100.5 percent in fourth-quarter 2015 from 94.9 percent in fourth-quarter 2014. Over the last 30 years, the fourth-quarter combined ratio averaged 106.3 percent but reached as high as 123.3 percent in 1992 and as low as 94.9 percent in 2014.

Net written premiums rose $1.6 billion, or 1.3 percent, to $121.3 billion in fourth-quarter 2015 from $119.7 billion in fourth-quarter 2014. That was the twenty-third consecutive quarter of growth in written premiums, beginning in the second quarter of 2010 and following 12 quarters of declines. Nevertheless,

9. Pretax operating income is the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income.
10. Net LLAE from catastrophes also includes revisions to LLAE from catastrophes that occurred during prior periods but excludes LLAE covered by the federal flood insurance program, residual market insurers, and foreign insurers and reinsurers.
11. Estimates are from Verisk's Property Claim Services (PCS) based on information available as of April 11, 2016. Direct losses are before reinsurance recoveries and exclude loss adjustment expenses. These figures are for all types of insurers, including residual market insurers, foreign insurers, and reinsurers, but exclude ocean marine losses and losses covered by the National Flood Insurance Program.

the growth in fourth-quarter 2015 was the slowest of the 23 quarters. Moreover, the last time quarterly written premium growth fell below 3.0 percent was in the second quarter of 2011, when it was 1.7 percent.

Net earned premiums grew $3.6 billion, or 2.9 percent, to $129.0 billion in fourth-quarter 2015 from $125.4 billion in fourth-quarter 2014. LLAE grew 10.4 percent to $90.2 billion in fourth-quarter 2015 from $81.7 billion in fourth-quarter 2014. Noncatastrophe LLAE rose 8.7 percent to $87.7 billion from $80.7 billion in fourth-quarter 2014.

Net investment income for the industry increased $0.5 billion to $12.4 billion in fourth-quarter 2015 from $11.9 billion in fourth-quarter 2014. Miscellaneous other income recovered to $0.2 billion in fourth-quarter 2015 from negative $0.8 billion in fourth-quarter 2014.

Realized capital gains on investments declined to $0.5 billion in fourth-quarter 2015 from $1.5 billion in fourth-quarter 2014. Combining net investment income and realized capital gains, net investment gains declined $0.4 billion, or 3.4 percent, to $12.9 billion in fourth-quarter 2015 from $13.4 billion a year earlier.

Insurers posted $3.0 billion in unrealized capital gains on investments in fourth-quarter 2015, $1.4 billion less than the $4.4 billion a year earlier. Combining realized and unrealized amounts, the insurance industry posted $3.5 billion in overall capital gains in fourth-quarter 2015—a $2.3 billion drop from the $5.8 billion in overall capital gains on investments in fourth-quarter 2014.

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

2015: BY THE NUMBERS

$673.7 billion

Industry surplus, compared with $675.2 at year-end 2014

$56.6 billion

Net income after taxes

3.4%

Net written premium growth, after 4.2% in 2014 and 4.4% in 2013

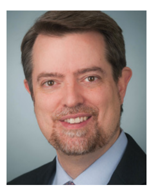
97.8

Combined ratio, after 97.0 in 2014 and 96.2 in 2013

1971–1973

Last time before the 2013–2015 period when the combined ratio was under 100 three years in a row

Beth Fitzgerald is president of ISO Solutions. The unit develops ISO's core products and services, such as advisory prospective loss costs (projections of future claims), policy forms, underwriting rules, and related information products that most insurers use to write one or more lines of commercial or personal business. Ms. Fitzgerald's area is instrumental in the development of ISO's various predictive analytical products for underwriting personal and commercial insurance. Under her direction, ISO also collects and compiles data from insurers, acts as statistical agent for all U.S. insurance regulators, supplies actuarial and data management consulting services, and conducts cutting-edge research on various issues in property/casualty insurance.



Robert Gordon is senior vice president of policy development and research for PCI. He is responsible for working with PCI members to develop and frame public policy positions on the opportunities and challenges facing the property/casualty insurance industry at the state, federal, and international levels. Mr. Gordon also coordinates policy support for PCI's extensive state and federal advocacy efforts, media outreach, and information products.

Operating Results for 2015 and 2014 ($ Millions)

Full Year	2015	2014
Net Written Premiums	$513,963	$497,025
Percent Change (%)	3.4	4.2
Net Earned Premiums	505,796	487,857
Percent Change (%)	3.7	4.4
Incurred Losses & Loss Adjustment Expenses	350,232	334,955
Percent Change (%)	4.6	6.3
Statutory Underwriting Gains (Losses)	11,225	14,626
Policyholders' Dividends	2,503	2,415
Net Underwriting Gains (Losses)	8,722	12,212
Pretax Operating Income	57,313	55,910
Net Investment Income Earned	47,228	46,361
Net Realized Capital Gains (Losses)	9,411	10,280
Net Investment Gains	56,640	56,641
Net Income (Loss) after Taxes	56,622	55,870
Percent Change (%)	1.3	-11.9
Surplus (Consolidated)	673,686	675,234
Loss & Loss Adjustment Expense Reserves	583,069	575,824
Combined Ratio, Post-Dividends (%)	97.8	97.0

Fourth Quarter	2015	2014
Net Written Premiums	$121,282	$119,710
Percent Change (%)	1.3	4.9
Net Earned Premiums	128,992	125,359
Percent Change (%)	2.9	4.9
Incurred Losses & Loss Adjustment Expenses	90,204	81,685
Percent Change (%)	10.4	2.8
Statutory Underwriting Gains (Losses)	2,832	9,267
Policyholders' Dividends	1,252	1,239
Net Underwriting Gains (Losses)	1,580	8,028
Pretax Operating Income	14,196	19,090
Net Investment Income Earned	12,379	11,908
Net Realized Capital Gains (Losses)	545	1,465
Net Investment Gains	12,924	13,373
Net Income (Loss) after Taxes	12,588	18,058
Percent Change (%)	-30.3	-12.8
Surplus (Consolidated)	673,686	675,234
Loss & Loss Adjustment Expense Reserves	583,069	575,824
Combined Ratio, Post-Dividends (%)	100.5	94.9

is16016 (4/16)

Property Casualty Insurers
Association of America

ISO
545 Washington Boulevard
Jersey City, NJ 07310-1686
1-800-888-4476 • www.iso.com