P/C insurance profits plunge $1.5B in first loss in 3 years

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Sharp increases in incurred losses and loss adjustment expenses dogged US property/casualty insurers in the first half of 2016, leading to a reported $1.5 billion net underwriting loss – the first such loss in more than three years, an industry analysis reveals.

The results, which were released Wednesday by ISO and the Property Casualty Insurers Association of America (PCI), also show a drop in net income after taxes to $21.7 billion in the first half of 2016 from $31 billion a year earlier.

Insurers' combined ratio deteriorated to 99.8% in the same time period compared to 97.6% in first-half 2015, and net written premium growth slowed to 3.0% as compared to 4.1% a year earlier.

The prime culprit of the performance dip appears to be a spike in incurred claims, particularly those stemming from catastrophe events. In the first half of 2016, the industry's experience with cat-related losses rose from $11 billion in 2015 to $14.5 billion this year – a significant spike of 31.8%.

"Catastrophe losses remained higher than in previous years," explained Beth Fitzgerald, president of ISO Solutions. "Texas was hit by a hailstorm that has been described as the costliest in the state's history, and several states in the central United States experienced severe thunderstorms."

Non-cat losses also rose, though to a lesser extent, from $169.2 billion in first-half 2015 from $160.4 billion in first-half 2016.

There was a sharp divide in carriers who bore the brunt of these losses. While the combined ratio for insurers writing mainly personal lines deteriorated to 103.1, the combined ratio for insurers writing mainly commercial lines (apart from mortgage and financial guaranty insurers) actually improved to 96.0.

Auto in particular dragged down personal lines – and some commercial lines – performance, noted Robert Gordon, senior vice president for policy development and research with PCI.

"Industry statistics we're monitoring indicate that direct personal and commercial auto liability losses each spiked over 11% from the first half of 2015, significantly outstripping premium growth," Gordon said. "As a result, while overall industry surplus rose slightly to a record high, once adjusted for inflation, real surplus actually declined and insurers' return on average surplus dropped below the long-term average."

While noting the comparatively weaker performance of first-half 2016, Dr. Steven Weisbart, chief economist for the Insurance Information Institute, stressed that the comparison with the same period in 2015 is "in a sense not fair."

"That is because the first half of 2015 was an unusually strong period for the property/casualty industry, presenting a high hurdle for any subsequent period's performance," said Weisbart, who was not involved in the report.

He stressed that the industry "remains quite strong financially," with policyholders' surplus at a new all-time high and premium growth experiencing its longest sustained period of gains in a decade.

"The bottom line is that the industry is, and will remain, extremely well capitalized and financially prepared to pay very large scale losses in 2016 and beyond," Weisbart said.