# Property & Casualty Insurance Industry

## PROPERTY & CASUALTY OVERVIEW

The U.S. P&C insurance industry recorded a net profit of $27 billion for the first half of 2020, a 23% decline compared to the prior year period due to lower investment returns resulting from the impact Covid-19 had on the financial markets. This was particularly evident by sizeable unrealized capital losses recorded, which ultimately drove the 2.6% decline in policyholders' surplus. Conversely, underwriting results were better than any mid-year period over the last ten years. These results were primarily driven by reduced business activity and less driving in connection with the Covid-19 shutdowns, resulting in improvement in the calendar year loss ratio. Looking ahead to the second half of the year, we could see a complete turnaround in operating results, as the financial markets have rebounded since the first quarter and is expected to stabilize investment returns if this continues through the remainder of the year, while devastating hurricanes, severe storms, and wildfires will challenge the industry's ability to record an underwriting profit for the year.

**Inside the Report**



**U.S. Property/Casualty Insurance Industry Results** (in billions, except for percent)

| For the six months ended June 30, | Chg. | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Direct Premiums Written | 2.0% | $362.3 | $355.2 | $340.6 | $321.3 | $306.9 | $295.5 | $282.8 | $269.1 | $259.9 | $249.0 |
| Net Premiums Written | 3.9% | $327.6 | $315.3 | $316.7 | $280.4 | $268.8 | $261.1 | $251.4 | $241.4 | $231.6 | $223.0 |
| Net Premiums Earned | 2.7% | $316.6 | $308.3 | $297.4 | $270.4 | $261.6 | $252.5 | $243.0 | $243.0 | $223.4 | $216.8 |
| Net Loss & LAE Incurred | 0.7% | $217.2 | $215.8 | $204.9 | $197.5 | $186.9 | $175.0 | $171.8 | $159.5 | $163.8 | $177.7 |
| Underwriting Expenses | 5.6% | $90.2 | $85.4 | $85.3 | $75.8 | $74.5 | $72.4 | $69.3 | $67.6 | $65.6 | $62.6 |
| Underwriting Gain (Loss) | 37.7% | $8.9 | $6.5 | $7.0 | ($3.2) | ($0.2) | $4.7 | $1.5 | $5.8 | ($5.9) | ($23.7) |
| Net Loss Ratio | (1.4) pts | 68.6% | 70.0% | 68.9% | 73.0% | 71.4% | 69.3% | 70.7% | 70.7% | 73.3% | 82.0% |
| Expense Ratio | 0.4 pts | 27.5% | 27.1% | 26.9% | 27.0% | 27.7% | 27.7% | 27.6% | 26.9% | 28.3% | 28.1% |
| Dividend Ratio | 1.0 pts | 1.55% | 0.55% | 0.53% | 0.54% | 0.55% | 0.53% | 0.57% | 0.52% | 0.48% | 0.53% |
| Combined Ratio | 0.0 pts | 97.7% | 97.6% | 96.3% | 100.6% | 99.7% | 97.6% | 98.8% | 98.1% | 102.2% | 110.6% |
| Investment Inc. Earned | (3.4%) | $28.3 | $29.3 | $28.9 | $25.6 | $24.2 | $24.7 | $25.2 | $27.0 | $25.4 | $27.1 |
| Realized Gains (Losses) | NM | ($0.9) | $4.6 | $5.5 | $3.9 | $4.8 | $8.5 | $7.6 | $11.1 | $4.1 | $3.9 |
| Investment Gain (Loss) | (19.1%) | $27.4 | $33.9 | $34.4 | $29.5 | $29.0 | $33.2 | $32.8 | $38.1 | $29.5 | $31.0 |
| Investment Yield (a) | (0.32)-pts | 3.15% | 3.47% | 3.50% | 3.28% | 3.24% | 3.32% | 3.48% | 3.96% | 3.85% | 4.09% |
| Net Income (b) | (22.8%) | $26.8 | $34.8 | $35.8 | $17.7 | $22.2 | $32.7 | $28.5 | $35.7 | $20.1 | $6.6 |
| Return on Revenue | (2.4)-pts | 7.8% | 10.2% | 10.8% | 5.9% | 7.6% | 11.4% | 10.3% | 12.7% | 8.0% | 2.6% |
| | | June 30, | December 31, 2011-2019 | | | | | | | | |
| | Chg. | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
| Capital & Surplus (b) | (2.6%) | $866.2 | $889.6 | $780.0 | $786.0 | $734.0 | $705.9 | $706.7 | $686.1 | $615.8 | $578.3 |

(a) annualized, (b) adjusted to removed stacked entities
NM = Not Meaningful

## MARKET CONDITIONS

### Premium Pricing

Market conditions continue to shift towards hard market territory following recent years of volatile underwriting results primarily driven by an increase in the frequency and severity of large-scale loss events. Uncertainty over the underwriting impact from Covid-19, along with what may become a record-breaking year of catastrophe losses resulting from above-average hurricane activity and wildfires, will lead to more underwriting discipline and potentially result in further hardening of the market. Signs of market hardening were provided in The Council of Insurance Agents & Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2020 (April 1 – June 30)*, wherein it was indicated that commercial premium pricing increased by an average of 10.8%, marking the 11$^{th}$ consecutive quarter of increased premiums. The CIAB also reported that all commercial lines, including Workers' Compensation, experienced slight-to-significant premium increases as shown in the table below:

**BY-LINE SECOND QUARTER 2020 RATE CHANGES RANGED FROM 0.7% TO 20.0%**

| | COMM'L AUTO | WORKERS' COMP | COMM'L PROPERTY | GEN'L LIABILITY | UMBRELLA | AVERAGE |
|---|---|---|---|---|---|---|
| Second Quarter 2020 | 9.6% | 0.7% | 13.3% | 6.8% | 20.0% | 10.1% |
| First Quarter 2020 | 9.6% | -1.2% | 12.0% | 5.7% | 17.3% | 8.7% |
| Fourth Quarter 2019 | 10.5% | -1.9% | 9.7% | 5.8% | 13.6% | 7.6% |
| Third Quarter 2019 | 9.1% | -2.7% | 8.8% | 4.6% | 9.8% | 5.9% |
| Second Quarter 2019 | 8.4% | -2.5% | 8.5% | 3.2% | 5.7% | 4.6% |
| High | 28.6% | 24.9% | 45.4% | 26.0% | 51.9% | 35.3% |
| Low | -11.6% | -12.3% | -15.0% | -13.6% | -13.5% | -13.2% |

Source:
The Council of Insurance Agents & Brokers.

Other takeaways from the recent CIAB report include:

- 55% of survey respondents said they saw a decrease in Commercial Auto claims
- 94% of survey respondents said they saw an increase in Business Interruption claims due to Covid-19 and premium pricing for this coverage increased by 9.7%

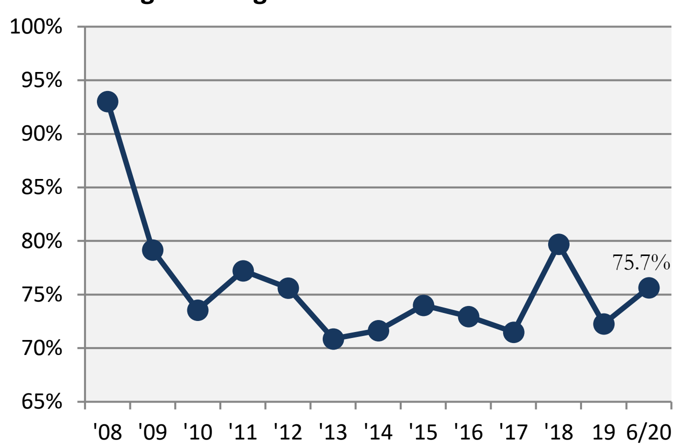
Other factors steering the industry closer to a hard market are stable moderate price increases in personal insurance products and firming prices in the professional reinsurance market, particularly catastrophe reinsurance coverage where reported rate increases have ranged from 5% to over 20% in the past year.

### Capacity

Overall, it's far too early to determine the impact 2020 events will have on market conditions or insurers' bottom line, but we do know that capital strength of the industry remains very strong and capacity is abundant.

The slight uptick in the net writings leverage ratio shown in the accompanying chart may simply be a temporary bump due to the dip in policyholders' surplus driven by unrealized capital losses. Further, the year-end writings leverage metric will also depend on the severity of hurricanes and wildfires in the second half.

**Net Writings Leverage**



## PREMIUM

Direct premium written (DPW) in the property & casualty insurance industry increased 2.1% to $362.3 billion in the first half of 2020 compared to $354.9 billion for the same period in 2019. Prior to the second quarter of 2020, direct writings grew for 40 consecutive quarters over the same prior year quarters, but that trend stalled largely due to lower premiums in the Personal Auto Liability line mainly due to the effects from Covid-19. For example, many companies implemented temporary changes including relaxed due dates for premium payments, extended grace periods for cancellations, waived late fees, and made other accommodations to prevent lapses in coverage.

DPW in the Personal Lines Market totaled $184.9 billion for the first half of 2020, a slight increase compared to $183.3 billion for the same period last year despite the lower premium volume in second quarter. Private Passenger Auto Liability premiums were slightly lower due to the factors mentioned above while Private Passenger Auto Physical Damage premiums were flat compared to last year. The trend of growth in Homeowners premiums continued with a 5.2% increase as several years of attritional losses and higher-than-expected development related to 2017 and 2018 catastrophes prompted higher pricing.

DPW in the Commercial Lines Market totaled $131.1 billion, up 2.3% over the prior year, as commercial pricing continued to trend upward in most lines. Commercial products that drove the overall growth in DPW include a 9.9% increase in the Other Liability line of business to $40.9 billion, while Commercial Multiple Peril DPW increased 5.5% to $23.4 billion. Despite steady increases in commercial auto premium pricing, Commercial Auto Liability direct premiums written decreased 1.6% compared to the prior year period. Workers' Compensation premiums continued a downward trend as DPW decreased 8.6% to $27.0 billion for the first six months of 2020 compared to $29.6 billion for the same period last year.

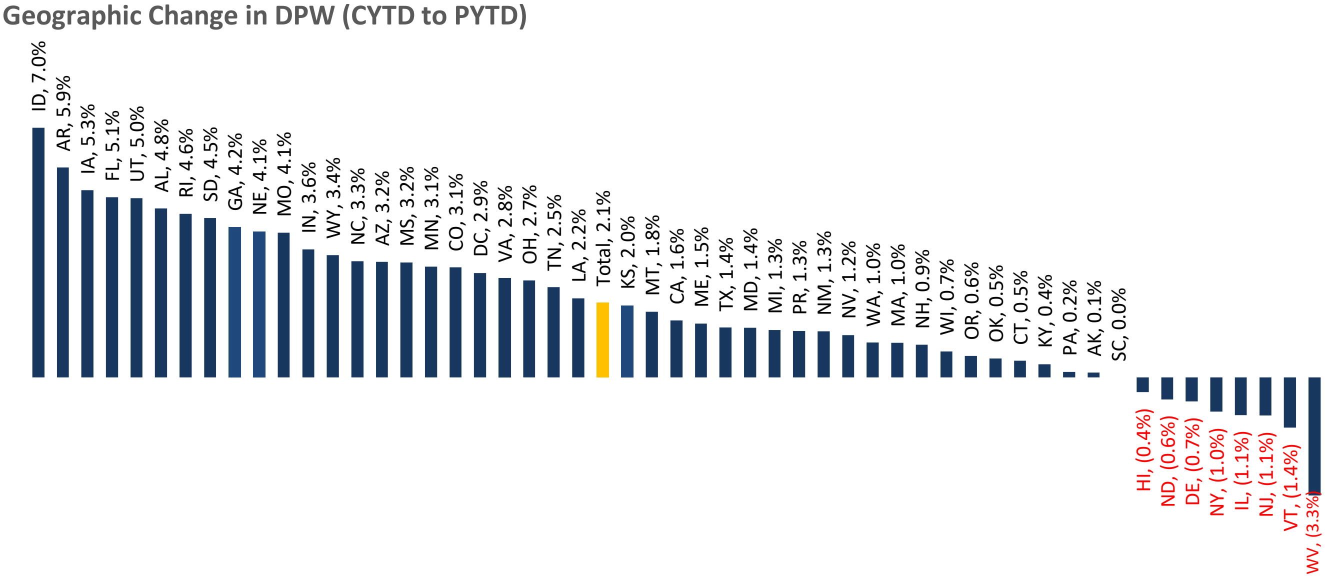
The Combined lines market saw a 5.1% increase in DPW to $24.6 billion. The top three lines of business in this market, Allied Lines, Inland Marine, and Fire saw increases of 11.7%, 0.1%, and 14.6%, respectively.

Overall, net premiums written increased 3.9% compared to the prior year period to $327.6 billion.

### Premium by States/Territories

While most states and territories experienced DPW growth compared to the prior year-to-date, there were more than the usual number of states and territories experiencing premium declines, most notably New York, where 7.0% of total direct premiums were written. On a percentage basis, Idaho and Arkansas experienced the largest growth, at 7.0% and 5.9%, respectively. The chart below, shows the percent change in DPW by state and territory for the current period compared to the prior year period. The Northern Mariana Islands, Virgin Islands, and Guam, which collectively represented 0.06% of total DPW, reported premium declines of 6.6%, 10.0%, and 17.4%, respectively.

**Geographic Change in DPW (CYTD to PYTD)**

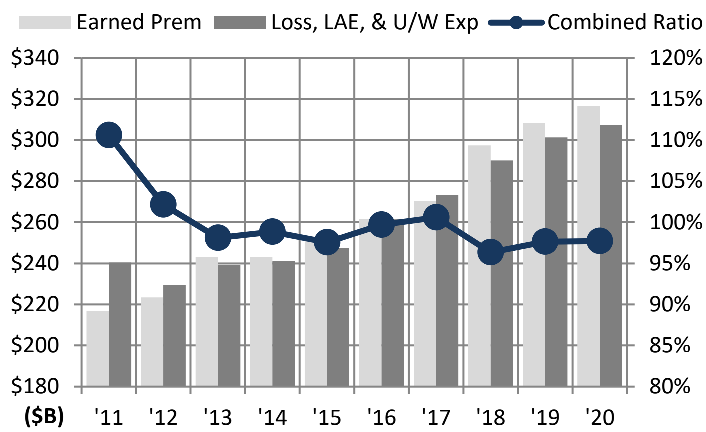


## UNDERWRITING OPERATIONS

The P&C Industry reported a net underwriting gain for the third consecutive mid-year period, with an $8.9 billion gain for the current period, 37.7% higher than the $6.5 billion gain reported for the same period last year. Although an active thunderstorm season resulted in elevated catastrophe losses, sharp improvement in the personal lines auto segment more than offset these losses and drove the overall positive operating results. The improvement in personal auto is attributed to the impact of the pandemic that resulted in non-essential business closures and a large segment of the workforce working from home. As a result there were fewer vehicles on the road, fewer accidents, and increased profits for auto insurers.

For the current period, net premiums earned increased 2.7% to $316.6 billion while net losses and LAE incurred increased 0.7% to $217.2 billion resulting in a 1.4-point improvement in the net loss ratio to 68.6%. Underwriting expenses increased 5.6% resulting in a small deterioration in the expense ratio to 27.5%. As a result of decreased loss exposure during the pandemic, a number of large auto insurers paid dividends to their customers resulting in a 1.0-point increase in the dividend ratio to 1.55%. Overall, the improvement in the net loss ratio was offset by a deterioration in the expense ratio and dividend ratio resulting in a combined ratio that was flat compared to the prior year period at 97.6%.

**Underwriting Income (Six months ended June 30)**




**Pure Direct Loss Ratio**

The industry's overall pure direct loss ratio (PDLR) improved 3.2-points compared to a year ago to 55.9%. Direct premiums earned increased 2.9% while direct losses incurred decreased 2.7%. The Personal Lines market PDLR improved 7.3-points, all related to improvements in the Private Passenger Auto Liability and Auto Physical Damage lines due to the factors mentioned above. The Homeowners Multiple Peril PDLR was unchanged compared to last year as the 5.6% growth in direct premiums earned was offset by a 5.6% increase in direct losses incurred. The U.S. endured a severe thunderstorm season in the spring that produced several tornadoes, flash flooding, and hail. Overall, there were eight events that cost insureds over $1.0 billion each.

The PDLR for the Commercial Lines segment improved 3.0-points to 52.7% due to a 14.9-point improvement in the Other Liability as direct losses incurred were 17.7% lower due to low claims activity during the second quarter as many businesses were required to limit business activity or completely shut down due to Covid-19. Despite the shut-down, Other Liability direct premiums earned increased 11.2%.

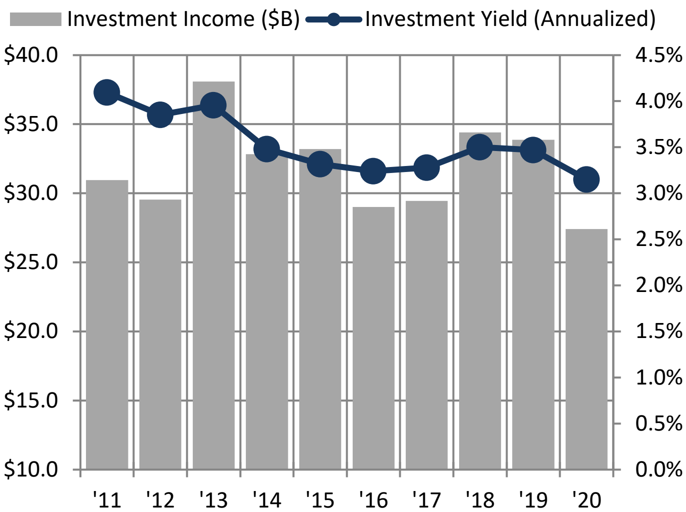
## INVESTMENT OPERATIONS

Industry investment gains were 19.1% lower compared to mid-year 2019, totaling $27.4 billion for the six months ended June 30, 2020. Net investment income earned decreased 3.4% to $28.3 billion while the industry reported realized losses of roughly $1.0 billion compared to gains of $4.6 billion a year ago. The Investment yield (annualized) was 3.15% versus 3.47% for the prior year period.

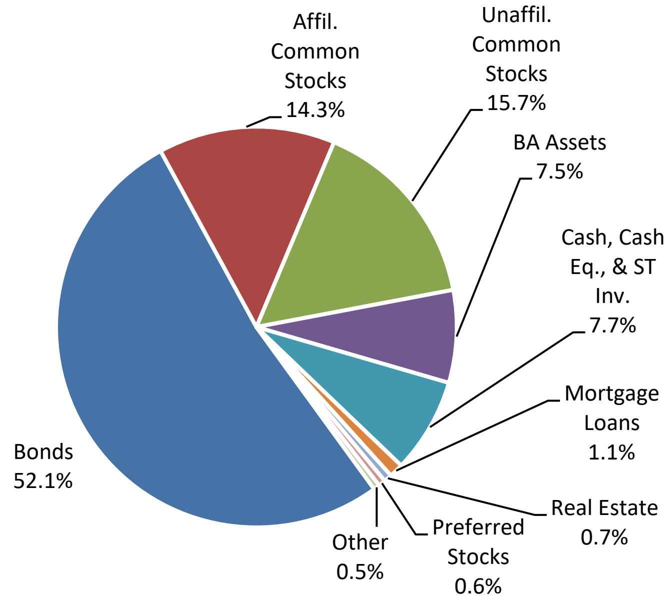
One of the key drivers of the investment yield is changes to the Federal Funds Rate. The Federal Reserve (Fed) cut the Federal Funds Rate to 0.25% on March 16, 2020 and has kept the target range at 0-0.25% due to ongoing uncertainty regarding the economic outlook and the path of economic recovery being highly dependent on the course of the virus. The Fed noted that the federal funds rate will likely remain unchanged until labor market conditions reach levels consistent with maximum employment and inflation reaches 2%.

The chart on the right shows the industry's cash and invested assets allocation. Bonds comprised the majority of cash and invested assets totaling $1.1 trillion, which equated to 52.1% of total cash and invested assets, followed by unaffiliated common stocks of $332.1 billion (15.7% of total cash and invested assets), and $301.8 billion in affiliated common stocks (14.3% of total cash and invested assets).

**Investment Income (Six months ended June 30)**




**Cash & Invested Assets**




## NET INCOME

Net Income totaled $26.8 billion for the first half of 2020, 22.8% lower compared to the prior year period. An underwriting gain of $8.9 billion and investment gain of $27.4 billion were partially offset by federal and foreign income taxes incurred and higher policyholder dividends, which combined were $4.0 billion higher compared to the prior year period. Return on revenue was 2.4-points lower compared to the prior year period at 7.8%.

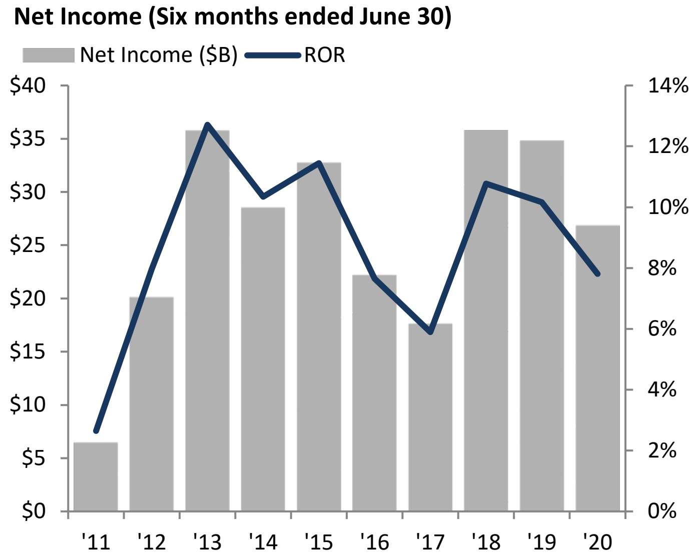
## CASH & LIQUIDITY

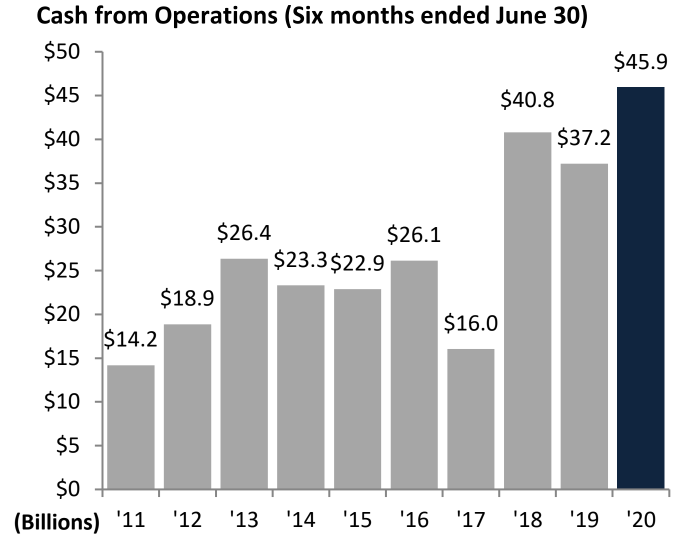
Net cash provided by operating activities totaled $45.9 billion for the first six months of 2020 compared to $37.2 billion for the same period in 2019. The increase stemmed primarily from a 2.0% increase in premiums collected net of reinsurance to $315.7 billion which was aided by a 5.4% decrease in benefit and loss related payments to $170.2 billion and partially offset by higher commissions and expenses and dividends paid to policyholders.

The industry liquidity ratio was slightly higher compared to the prior year end but remained solid at 78.9%. An increase in liquid assets of 4.3% was outpaced by the 5.9% increase in adjusted liabilities.

*Cash & Liquidity Continued…*



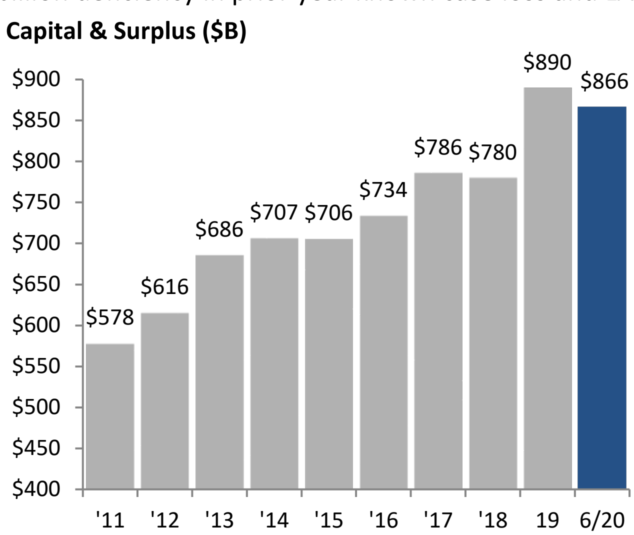

## CAPITAL & SURPLUS

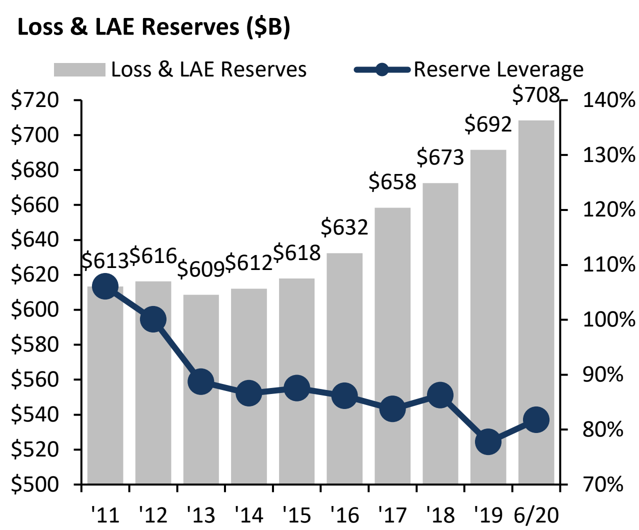
Industry Aggregated Policyholders' surplus (adjusted for affiliated investments) totaled $866.2 billion at June 30, 2020, a decrease of 2.6% compared to $889.6 billion at December 31, 2019. As previously mentioned, the decrease was primarily driven by unrealized losses of $43.2 billion which offset industry net income.

## LOSS & LAE RESERVES

Loss and LAE reserves increased 4.2% since the prior year-end to $708.3 billion at June 30, 2020 and was comprised of $586.0 billion unpaid losses and $122.4 billion unpaid LAE. Reserve leverage increased 4.1-points to 81.8% compared to 77.7% at the prior year-end.

The trend in net favorable loss reserve development continued with an overall redundancy of $4.7 billion through mid-year, which consisted of a $51.4 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $46.8 billion deficiency in prior year known case loss and LAE reserves.



## LOOKING AHEAD

**COVID-19 -** Many insurers experienced investment losses as a result of the impact of the financial markets due to the pandemic. While equity markets have rebounded since the first quarter, there remains a significant degree of uncertainty over what lies ahead. Specifically, the timing of a vaccination, effectively administering it, and subsequent eradication of the virus. Until that occurs, the extent of losses reported within various P&C coverages (e.g., trade credit, workers' compensation, business interruption, medical professional liability) is unknown.

**Catastrophes -** The southeastern U.S. has endured an active hurricane season in 2020. While the hurricane season in the U.S. ends November 30th, Hurricanes Hanna, Isaias, Laura, Sally, and Delta have made landfall in the U.S. and will likely result in steep underwriting losses for some insurers.

A powerful derecho hit the Midwest in August causing widespread damage from high winds, torrential rainfall, and hail. The greatest damage occurred in eastern Iowa and northern Illinois where multiple tornadoes touched down.

The western U.S. is experiencing an active wildfire season where nearly 6 million acres have burned destroying over 7,000 structures.

# Title Insurance Industry

**Title Industry Results** (in millions, except for percent data)

| For the six months ended June 30, | YoY Chg. | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| **Direct Premiums Written** | 17.4% | $8,136 | $6,931 | $7,019 | $6,957 | $6,428 |
| **Direct Ops.** | 1.1% | $863 | $854 | $832 | $832 | $694 |
| **Non-Aff. Agency Ops.** | 22.1% | $5,211 | $4,266 | $4,354 | $4,354 | $4,020 |
| **Aff. Agency Ops.** | 13.9% | $2,063 | $1,811 | $1,833 | $1,833 | $1,714 |
| **Premiums Earned** | 16.6% | $8,034 | $6,888 | $6,982 | $6,867 | $6,357 |
| **Loss & LAE Incurred** | (9.9)% | $255 | $283 | $306 | $291 | $304 |
| **Operating Exp Incurred** | 16.4% | $7,828 | $6,727 | $6,739 | $6,541 | $6,098 |
| **Net Operating Gain/(Loss)** | 36.2% | $633 | $465 | $499 | $450 | $384 |
| **Net Inv. Income Earned** | 0.4% | $203 | $203 | $160 | $182 | $119 |
| **Net Realized Gain/(Loss)** | NM | $(26) | $44 | $13 | $14 | $159 |
| **Net Inv. Gain (Loss)** | (28.0)% | $178 | $247 | $174 | $196 | $277 |
| **Net Income** | 15.4% | $675 | $585 | $676 | $468 | $496 |
| **Loss Ratio** | (0.9)-pts | 3.2% | 4.1% | 4.4% | 4.3% | 4.8% |
| **Expense Ratio** | (0.2)-pts | 97.5% | 97.7% | 96.6% | 97.5% | 96.0% |
| **Combined Ratio** | (1.2)-pts | 100.6% | 101.8% | 100.9% | 101.8% | 100.7% |
| **Net Unrealized Gain/(Loss)** | NM | $(187) | $215 | $(75) | $35 | $46 |
| **Net Cash from Operations** | 97.4% | $689 | $349 | $462 | $508 | $282 |

NM=Not Meaningful

## PREMIUM

Business in the U.S. title insurance industry reflected the continued strength in the housing market as direct premiums written (DPW) increased 17.4% to $8.1 billion for the first half of 2020 and were produced primarily through non-affiliated agency operations representing (64.0% of total DPW). The big four title insurance groups, First American Title insurance Company, Old Republic National Title Insurance Company, Chicago Title Insurance Company, and Fidelity National Title Insurance Company continue to dominate the market share, comprising 62.9% collectively, with First American ranked at the top with 21.0% of total DPW.

Regarding the strength in the housing market, as of September 2020, the U.S. Census Bureau and the Department of Housing and Urban Development reported new housing starts were up 4.1% on a monthly basis with mixed results across the regions. Increases in housing starts were seen in the West and Midwest and decreases were reported in the South and Northeast regions. The Report indicated that lower mortgage interest rates were the driving factor in the overall increase.

## PROFITABILITY

A net operating gain of $632.9 million was reported for the first half of 2020, representing a 36.2% YoY improvement compared to $465 million for the first half of 2019. The improvement was due to a 16.6% increase in total operating income to $8.7 billion, driven by higher title insurance premiums earned, which exceeded the 15.3% rise in total operating expenses to $8.1 billion. A combined ratio of 100.6%, was the lowest it has been in the last five mid-years and reflected modest improvements in both the net loss ratio and expense ratio.

Net investment gains totaled $177.8 million down 28.0% compared to the prior year period. The decline was due to the impact Covid-19 had on the financial markets, which led to a ($25.7) million net realized loss. Net investment income earned of $203.4 million was flat compared to the prior year period.

Overall, the solid operating results boosted net income by 15.4% to $674.8 million for the first half of 2020.

## CAPITAL & SURPLUS

The Title industry's aggregated policyholders' surplus decreased 3.8% to $5.5 billion at June 30, 2020 primarily due to stockholder dividends of $683.9 million and $187.1 million in net unrealized capital losses, while net income of $674.8 million was the primary offsetting factor.

## CASH & LIQUIDITY

Net cash from operations for the first half of 2020 totaled $688.8 million, a 97.4% increase compared to the same period in 2019. The increase was mainly due to a 17.4% increase in cash inflows to $9.0 billion driven by increases in net premiums collected and miscellaneous income. Cash outflows increased at a lesser rate of 13.6% to $8.3 billion mostly attributable to commissions and expenses paid.

The Title industry's liquidity remained strong at 65.9% at June 30, 2020.

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