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P/C Insurers' Underwriting Loss Worsened in First Half

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Catastrophes, lower favorable loss reserve development and challenging market conditions continued to pressure U.S. property/casualty insurers through the first half of the year, leading to an underwriting loss of approximately $2.3 billion and a 3.5 percent decline year-over-year in net investment, according to a new A.M. Best special report.

The industry's combined ratio through first-half 2016 deteriorated to 100.0 from 97.8 for the same period in 2015.

The *Best's Special Report*, titled, "Property/Casualty Industry Performance Declines in Second Quarter of 2016 as Pressure Continues on Underwriting and Investment Results," states that realized capital gains declined 43.3 percent from their level for the first two quarters of 2015, to $4.6 billion from $8.1 billion. Taxes were down by 14.6 percent, which provided a modest benefit to net income. Overall, however, the industry's net income fell 29.0 percent, to $21.5 billion through June 30, 2016, from $30.2 billion last year.

Pre-tax operating income fell 22.2 percent for the six-month period to $20.7 billion. Pre-tax return on revenue (ROR) of 8.2 percent marks a sharp drop from 10.9 percent through the first half of 2015, and represents the lowest level of ROR at this point in a year since 9.3 percent in 2012.

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Despite the decline in net income, policyholders' surplus grew modestly, up 1.3 percent year-to-date in 2016 and up 1.5 percent from its level at June 30, 2015. While the industry's accumulated unrealized gain position declined again, the drop was 81.1 percent less than in the prior year, at -$1.6 billion.

Net premiums written growth remained positive for the industry, up 3.3 percent year-to-date, down from 4.0 percent through the first two quarters of 2015. Premium growth remained stronger than expected through this period, driven by continuing solid growth in personal lines. While commercial lines continue to show signs of pricing pressure, with premiums down in key property lines, other liability and commercial auto liability premiums are growing faster than the industry average rate.

The industry's direct premiums written (DPW) grew 3.8 percent from its prior-year level through June 30, 2016. Among the major lines of insurance, auto physical damage and private passenger auto liability saw the largest increases in DPW year-over-year, of 7.6 percent and 6.4 percent, respectively.

According to an August report by Fitch Ratings based on the results reported by 44 insurers and reinsurers, property/casualty insurers in North America saw their aggregate group combined ratio hit 95.7 in the first half, 1.5 points higher than the same period last year. Fitch Ratings found investment income for its aggregate group declined by 6.8 percent while aggregate operating earnings dropped by 10.8 percent over the period, landing at $21.6 billion.