National

P/C Insurers Lost $5.1B on Underwriting in First Half of 2017

The U.S. property/casualty (P/C) industry recorded a net underwriting loss of $5.1 billion for the first six months of 2017, according to preliminary results, compared with a $2.0 billion loss in the same period a year ago.

This financial review is detailed in a Best's Special Report, titled, "A.M. Best First Look—2Qtr 2017 U.S. Property/Casualty Financial Results," and the data is derived from companies' six-month 2017 interim statutory statements that were received as of Aug. 21, 2017, representing an estimated 96 percent of the total property/casualty industry's net premiums written.

The report notes that the deterioration in underwriting losses comes as pressure on operating results continues to persist, underscored by the positive underwriting income of $3.1 billion the industry recorded for the same period just two years ago. In first-half 2017, 6.1 percent increase in incurred losses and loss adjustment expenses and a 1.8 percent rise in underwriting expenses outpaced the 3.7 percent growth in net premiums earned.

The reported combined ratio deteriorated by 0.9 points to 100.9 in first-half 2017 compared to the same period in 2016, representing the worst of the last five years' first six-month periods. Excluding the $7.2 billion of favorable reserve development in the first half of 2017, the accident year combined ratio for the industry was 103.7.

Net income for the period year over year fell by 29 percent to $15.4 billion compared to $21.6 billion in 2016, in part due to the impact of a retroactive reinsurance contract entered into in Feb. 2017 by American International Group, Inc. (AIG) and National Indemnity, in which National Indemnity agreed to provide $20 billion of aggregate cover on much of AIG's commercial book, covering losses unpaid as of Jan. 1, 2016.

Despite the significant decline in net income, industry surplus reached a record $703.4 billion at the end of June 2017, driven by a $14.0 billion increase in unrealized gains (certain Berkshire Hathaway companies were responsible for more than 75 percent of the increase), an increase in other surplus gains and a reduction in stockholder dividends.