

Insurance Executive Review

Market Commentary on Current Developments within the P&C Insurance Industry

Property Casualty Insurance First Half Results ...

... as expected it is not good and may get worse

On September 28 the Insurance Services Office released consolidated first half year earnings for the private U.S. property casualty industry. While the headlines suggest an earnings free-fall, the continuing overhang of the disastrous results of the mortgage and financial guaranty still weighs heavily on these earnings reports. Putting this market segment aside, there are still broader earnings issues with the state of the economy fueling competition for a shrinking commercial insurance market share. Coupled with poor investment gains the outlook heading into the "catastrophe season" is not favorable.

UNDERWRITING PERFORMANCE

The underwriting results must be considered before and after removing the negative impact of the mortgage and financial guaranty markets as they skew the results significantly. The chart below looks at the underwriting performance where ISO has provided some indication of the outlier data.

PROPERTY CASUALTY INDUSTRY RESULTS						
2008 - 2009 NET INCOME						
(Millions of Dollars)						
FIRST HALF	2009			2008		
	Industry	Outliers*	Core P&C	Industry	Outliers*	Core P&C
PREMIUM REVENUE						
Net Written Premium(NWP)	\$212,825	\$3,400	\$209,425	\$222,206	\$4,533	\$217,673
Net Earned Premium(NEP)	\$211,447			\$217,793		
UNDERWRITING OPERATIONS						
Underwriting Expense	\$58,885	N/A		\$60,584	N/A	
Incurred Claims and Loss Adj. Exp.	\$154,069	\$6,200	\$147,869	\$162,064	\$9,642	\$152,422
Policyholder Dividends	\$677			\$730		
Total Underwriting Expense	\$213,631			\$223,378		
Net Underwriting Gain (Loss)	(\$2,184)	(\$5,831)	\$3,647	(\$5,585)	(\$10,758)	\$5,173
Consolidated Industry Surplus	\$462,995			\$507,556		
Loss and LAE Reserves	\$553,396			\$546,856		
Combined Ratio	100.9%	171.5%	99.5%	102.0%	237.3%	99.2%
Net Industry Catastrophe Losses	\$8,100			\$10,700		

Source: Insurance Services Office (ISO)

Note: "Outliers" represent Mortgage and Financial Guaranty Insurer's financial results as estimated by ISO

This shows that excluding these specialty markets the balance of the industry had a profitable underwriting period at \$3.6 billion although down from the same period last year when core profits were \$5.1 billion. The industry core NWP declined 3.8% from the same period last year while incurred claims declined only by 3% with the second half of the year more likely to be more prone to catastrophe events than the first half. We have seen evidence from some individual carrier earnings reports of releasing prior year claim reserves that will in effect reduce current incurred claims expense. We hope that any reduction in incurred claims is not the result of being overly optimistic in this regard. We expect NWP for the full year to decline 4% from 2008 levels so any reversal of incurred claims cost could easily lead to core underwriting losses for the year.

INVESTMENT PERFORMANCE

The investment income from dividends and interest was down \$2.4 billion or 9.3% from a year earlier as average invested assets dropped 5.6% and their annual yield fell from 4.1% to 4%. The investment returns were further impacted by \$11.1 billion of Realized Capital Losses that were mostly the result of write-downs on impaired investments.

PROPERTY CASUALTY INDUSTRY RESULTS
2006- 2009 NET INCOME

FIRST HALF	(Millions of Dollars)			
	2009	2008	2007	2006
INVESTMENT OPERATIONS				
Net Investment Income	\$23,564	\$25,969	\$26,198	\$24,513
Other Income	\$849	\$249	-\$1,462	\$152
Pre-Tax Operating Income	\$22,229	\$20,633	\$39,274	\$39,686
Net Realized Capital Gains	-\$11,171	-\$1,068	\$4,150	\$881
Pre-Tax Income	\$11,058	\$19,565	\$43,424	\$40,567
Federal Tax	-\$5,301	-\$5,435	-\$10,692	-\$11,132
Net After Tax Income	\$5,757	\$14,130	\$32,732	\$29,435
Consolidated Industry Surplus	\$462,995	\$507,556	\$512,770	\$444,694
Loss and LAE Reserves	\$553,396	\$546,856	\$519,177	\$505,497
Combined Ratio	100.9% **	102.0% *	92.7%	92.0%
Net Industry Catastrophe Losses(estimate)	\$8.1	\$10.7	\$3.6	\$6.5

Source: Insurance Services Office (ISO)

* 99.2% excluding mortgage and financial guaranty insurers

** 99.5% excluding mortgage and financial guaranty insurers

Note: Underwriting Operations data included in Operating Income

The investment capital gains usually follows the financial markets as the S&P in the first half of 2009 rose 1.8%, the NYSE composite rose 2.6% and the NASDAQ was up 16.4%. But in 2009 insurers had to realize impaired securities of \$12.8 billion (offset by gains of \$1.7 billion) whereas in the same period last year impairments were \$4.8 billion offset by gains of \$3.8 billion. Financial markets have improved in the third quarter but expect investment income yields to decline further.



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