Property & Casualty Insurance Industry

PROPERTY & CASUALTY OVERVIEW

The first half of 2023 was challenging for P&C insurers due to continued inflationary pressures and natural catastrophes which led to the largest mid-year underwiting loss in over a decade and drove net income down nearly 70% compared to a year ago. A recovery in equity markets produced unrealized investment gains versus significant losses last year, resulting in a rebound in policyholders's surplus to $1.1 trillion at June 30, 2023.

While the long trend of industry profits continued into the first half of 2023, operating results in the second half of the year have the potential to be impacted by a number of factors including, natural catastrophes, economic inflation, and high reinsurance costs.

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

For the six months ended June 30,	Chg.	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Direct Premiums Written	10.3%	$478.6	$434.0	$394.8	$362.3	$355.2	$340.6	$321.3	$306.9	$295.5	$282.8
Net Premiums Written	9.2%	$424.3	$388.6	$351.2	$327.6	$315.3	$316.7	$280.4	$268.8	$261.1	$251.4
Net Premiums Earned	8.6%	$395.5	$364.1	$333.3	$316.6	$308.3	$297.4	$270.4	$261.6	$252.5	$243.0
Net Loss & LAE Incurred	16.1%	$310.8	$267.8	$231.9	$217.2	$215.8	$204.9	$197.5	$186.9	$175.0	$171.8
Underwriting Expenses	6.2%	$106.4	$100.2	$93.7	$90.2	$85.4	$85.3	$75.8	$74.5	$72.4	$69.3
Underwriting Gain (Loss)	(407.8%)	($22.2)	($4.4)	$7.3	$8.9	$6.5	$7.0	($3.2)	($0.2)	$4.7	$1.5
Net Loss Ratio	5.0 pts	78.6%	73.5%	69.6%	68.6%	70.0%	68.9%	73.0%	71.4%	69.3%	70.7%
Expense Ratio	(0.5) pts	25.2%	25.8%	26.7%	27.5%	27.1%	26.9%	27.0%	27.7%	27.7%	27.6%
Dividend Ratio	(0.1) pts	0.38%	0.47%	0.71%	1.55%	0.55%	0.53%	0.54%	0.55%	0.53%	0.57%
Combined Ratio	4.4 pts	104.2%	99.8%	96.9%	97.7%	97.6%	96.3%	100.6%	99.7%	97.6%	98.8%
Investment Inc. Earned	(12.1%)	$34.5	$39.3	$28.9	$28.3	$29.3	$28.9	$25.6	$24.2	$24.7	$25.2
Realized Gains (Losses)	(33.8%)	$2.4	$3.6	$9.7	($0.9)	$4.6	$5.5	$3.9	$4.8	$8.5	$7.6
Investment Gain (Loss)	(13.9%)	$36.9	$42.9	$38.6	$27.4	$33.9	$34.4	$29.5	$29.0	$33.2	$32.8
Investment Yield (a)	(0.56)-pts	3.19%	3.75%	2.90%	3.15%	3.47%	3.50%	3.28%	3.24%	3.32%	3.48%
Net Income (b)	(69.2%)	$10.4	$33.8	$39.8	$26.8	$34.8	$35.8	$17.7	$22.2	$32.7	$28.5
Return on Revenue	(5.9)-pts	2.4%	8.3%	10.7%	7.8%	10.2%	10.8%	5.9%	7.6%	11.4%	10.3%
		June 30,				December 31, 2014-2022					
	Chg.	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Capital & Surplus (b)	7.1%	$1,071.6	$1,000.9	$1,077.6	$955.1	$891.2	$780.0	$786.0	$734.0	$705.9	$706.7

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

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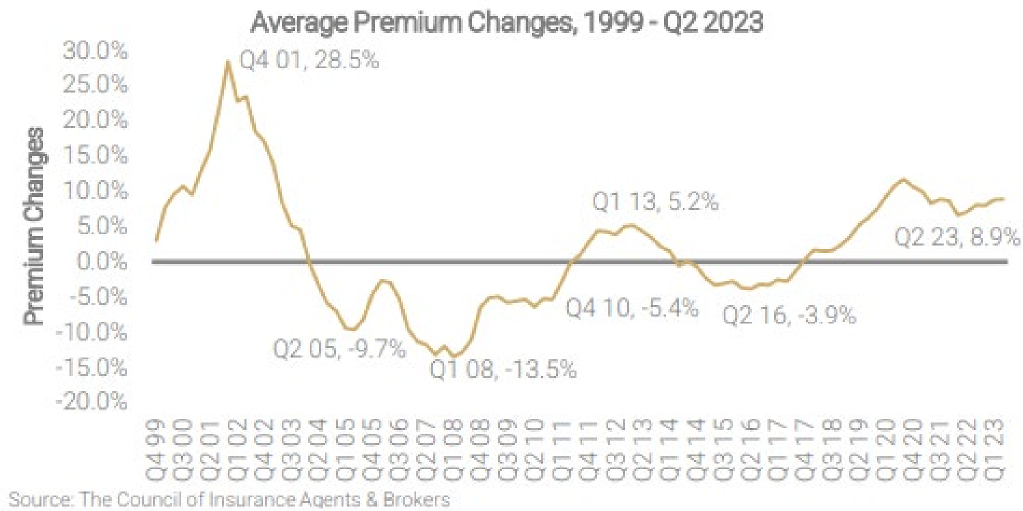
MARKET CONDITIONS

Premium Pricing

Hard market conditions continued in the U.S. Property & Casualty insurance industry in most lines of business. Inflationary pressures have driven up property valuations leading to higher rates. According to the Council of Insurance Agents and Brokers (CIAB) *Commercial Property/Casualty Market Report Q2 2023 (April 1 – June 30)*, Q2 2023 was the twenty-third consecutive quarter of increased commercial premiums with respondents reporting an average increase of 8.9% across all account sizes, compared to 8.8% in Q1.



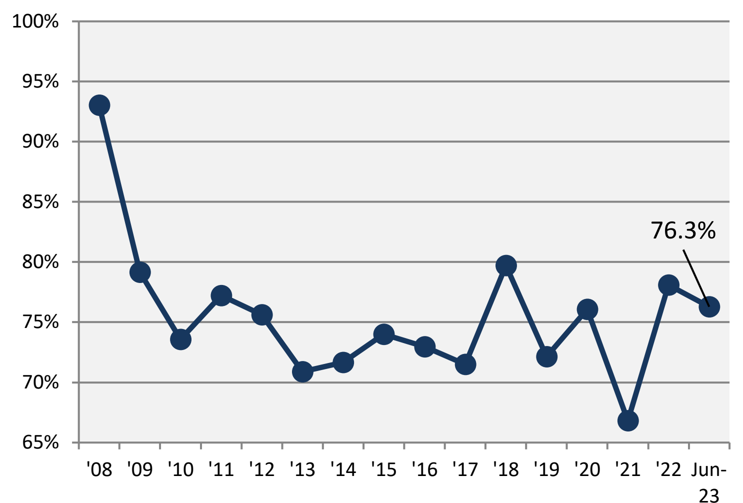
The report noted that the commercial property line was the outlier in terms of premium pricing, increasing 18.3% in the second quarter. Rising property values and increased frequency and severity of natural disasters were compounded by decreased reinsurance placement. Workers' compensation recorded its sixth consecutive quarter of rate decreases while commercial auto rates increased 10.4%, marking fifty consecutive quarters of premium increases.

Capacity

Despite hard market conditions and worsening underwriting results, the industry has recorded a long trend of profits, boosting capital levels and keeping the net writings leverage ratio under 80% since 2009.

Headwinds created by increased natural disasters and inflationary pressures impacting personal lines results, rising interest rates weighing on investment returns, and higher reinsurance costs will challenge insurers bottom lines in the second half of the year. Despite these challenges capital remains strong.

Net Writings Leverage



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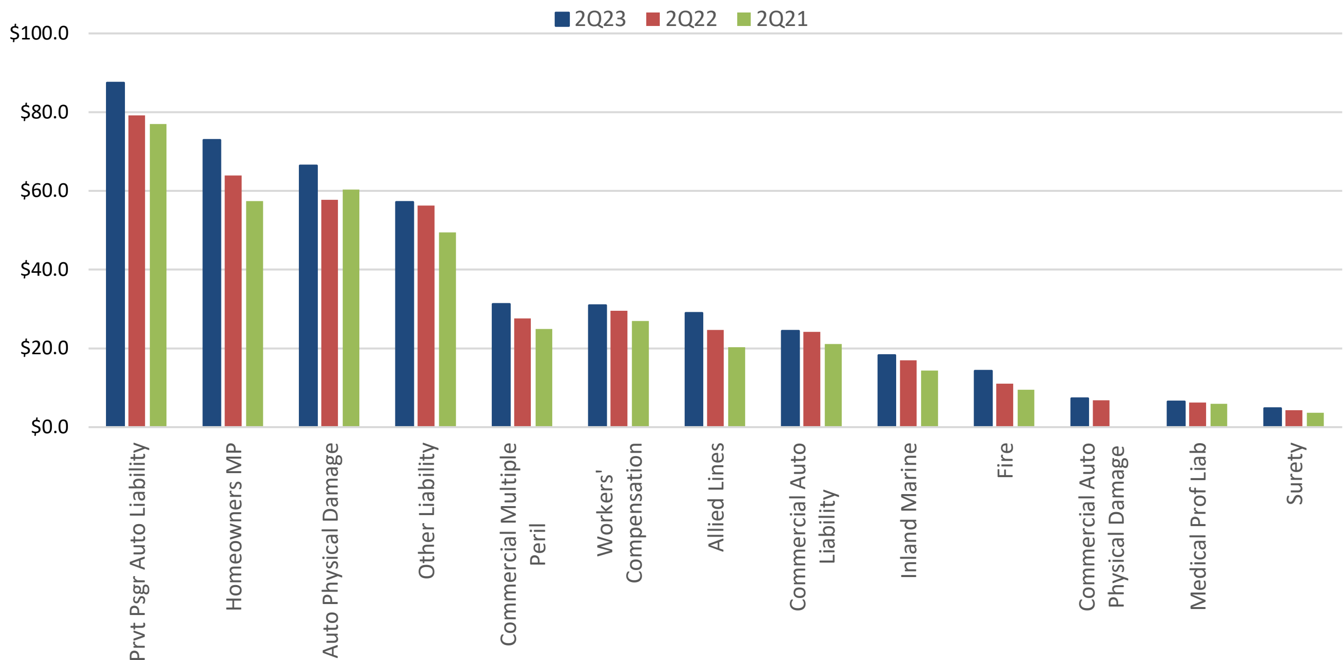
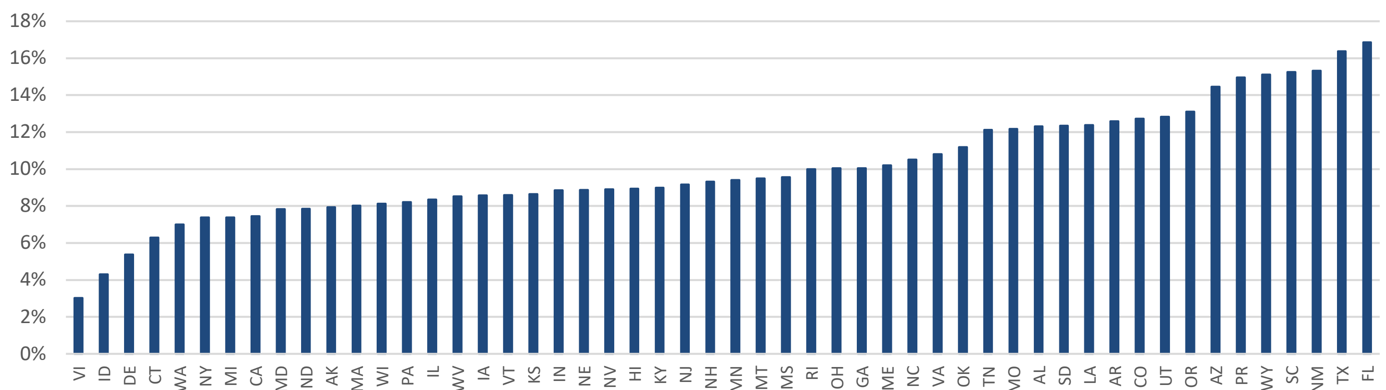
WRITINGS

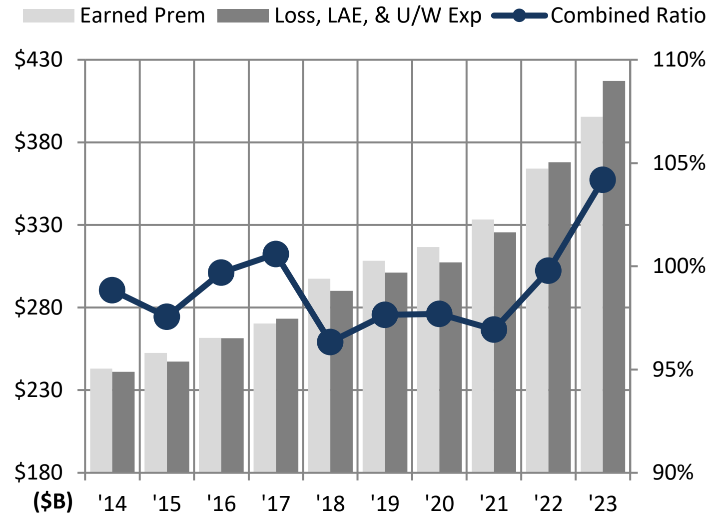
Direct premiums written (DPW) increased 10.3% to $478.6 billion in the first half of 2023 compared to $434.0 billion for the same period in 2022. Construction material and labor cost increases resulted in higher claim payouts for property lines. Additionally, auto repair costs have increased due to the higher cost of parts and labor, leading to higher claims payouts. Insurers have responded by increasing premiums in nearly all major lines. The most notable change was in the homeowners line, where premiums increased 14.1% YoY and 27.0% compared to mid-year 2021. The auto liability and physical damage lines experienced YoY increases of 10.5% and 15.1%, respectively. The chart below shows the DPW for the industry's top lines of business for the last three mid-year periods.



Geographically, nearly all states and territories experienced DPW growth. California recorded the greatest market share at 11.4% and DPW increased 7.4% YoY. Both Texas and Florida recorded the next highest market share at 9.7% and 9.5%, respectively, and each saw premium increases of over 16.0%.



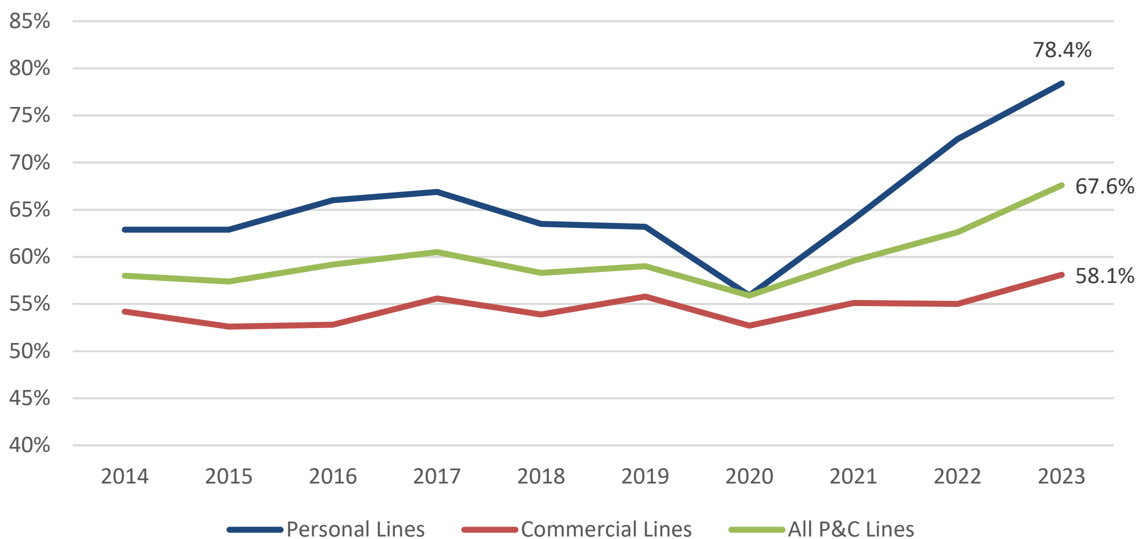
UNDERWRITING OPERATIONS



The P&C industry recorded a $22.2 billion underwriting loss for the first half of 2023, its second consecutive mid-year loss and the largest mid-year loss since 2011. Despite substantial pricing and underwriting actions taken by insurers, the personal lines segment continued its downturn primarily due to the high inflation and natural catastrophes which were significantly higher at an estimated $32 billion in the U.S. in the first half of 2023 compared to $19 billion for the same period last year. In contrast, commercial lines results were favorable due to a trend of rate increases and tighter underwriting guidelines in most lines since the fourth quarter of 2018.

For the current period, net premiums earned increased 8.6% to $395.5 billion while net losses and LAE incurred increased 16.1% to $310.8 billion resulting in a 5.0-point deterioration in the net loss ratio to 78.6%. The expense ratio experienced a minor improvement to 25.2% due to net premium written growth. Overall, the combined ratio deteriorated 4.4-points to 104.2%.

The recent challenges with underwriting profitability in the P&C industry is largely attributed to personal lines performance. Personal auto lines experienced an increase in accident frequency after the pandemic related shutdowns were lifted and traffic volumes returned to normal. Inflation hit a 40-year high in mid-year 2022 and continues to wreak havoc on the cost of claims during the second half of 2023. Additionally, the homeowners line has been challenged by natural catastrophes as well as inflation which is driving up replacement costs. The $32 billion in insured losses related to natural catastrophes in the first half of the year contributed 8.1-points to the overall industry's net loss ratio of 78.6%. The chart below shows the pure direct loss ratio (PDLR) by segment for the last ten mid-year periods.



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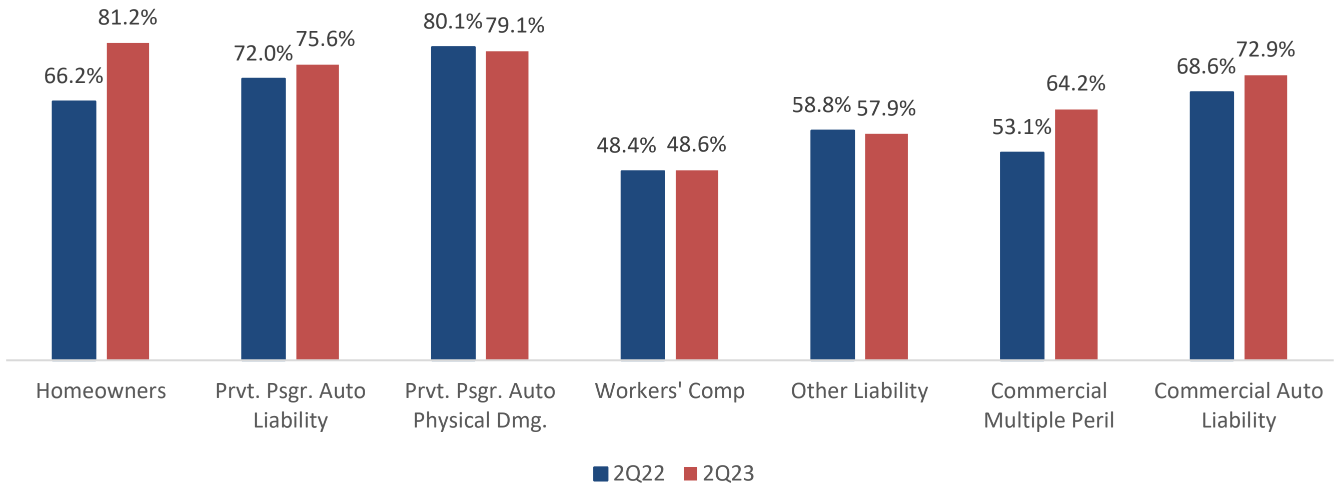
Within the personal lines segment, the PDLR for the homeowners line deteriorated sharply to 81.2% in the current period compared to 66.2% for the same period last year. The private passenger auto liability line worsened 3.6-points to 75.6% while personal auto physical damage improved 1.0-point but still remained elevated at 79.1%. The commercial lines segment results were favorable as evidenced by a PDLR of 58.1%, however, the commercial multiple peril line experienced an 11.1-point deterioration to 64.2% driven by higher property loss costs resulting in a 69.8% PDLR in the non-liability portion and an overall PDLR of 64.2%. The workers' compensation line has seen eight plus years of underwriting profits primarily due to the release of prior year reserves.

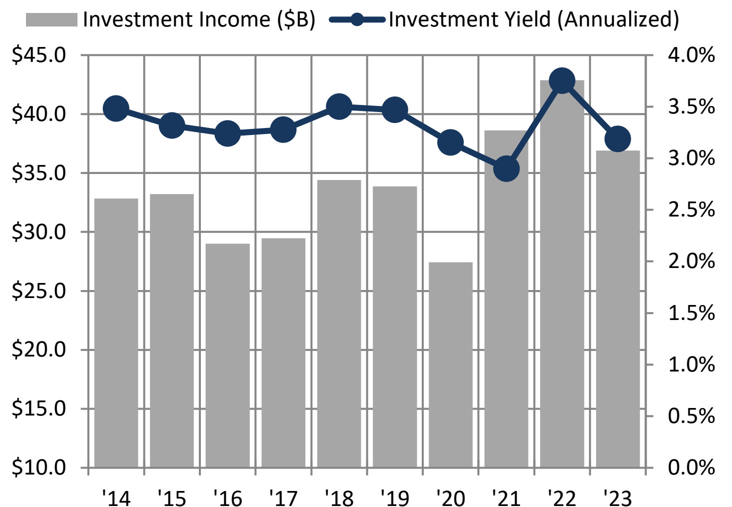


INVESTMENT OPERATIONS

Investment gains were 13.9% lower than the first half of last year, totaling $36.9 billion for the six months ended June 30, 2023. Net investment income earned was 12.1% lower while fluctuations in equity markets produced a 33.8% decrease in realized capital gains to $2.4 billion compared to $3.6 billion a year ago and a 75.3% decrease compared to June 30, 2021.

Investment yield (annualized) was 3.19% versus 3.75% for the prior year period due to the 12.1% decrease in net investment income earned. The main vehicle for investment income was bonds, which leaves insurers exposed to interest rate risk. To combat inflation, the U.S. Federal Reserve (Fed) increased the federal funds rate four times in 2023. The Fed raised the rate by one quarter of a point in July, bringing the benchmark interest rate up to a target range of 5.25-5.50%, the highest since 2008.

Bonds comprised the majority of the industry's cash and invested assets at 49.2%, while unaffiliated common stocks were 20.8%, affiliated common stocks 13.1%, Schedule BA assets 7.7%, cash, cash equivalents and short-term investments totaled 6.6%, mortgage loans 1.3%, and all other cash and invested assets 1.3%.



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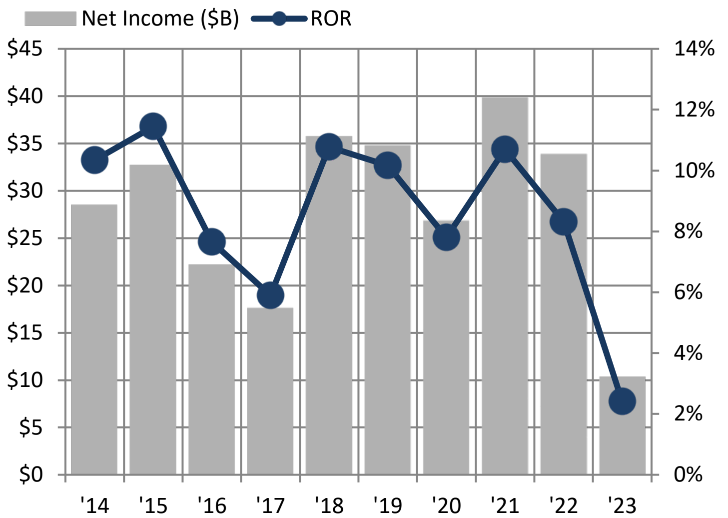
NET INCOME

Net income of $10.4 billion was 69.2% lower compared to the same period last year. The steep underwriting loss was offset by investment gains to continue the long trend of industry profits.

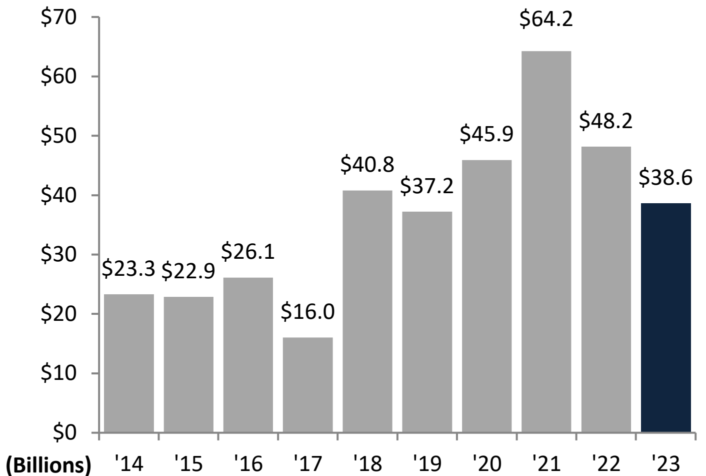
Return on revenue (RoR) of 2.4% was 5.9-points lower compared to last year's RoR of 8.3% as net income was significantly lower in relation to net premiums earned and investment gains.



CASH FLOW & LIQUIDITY

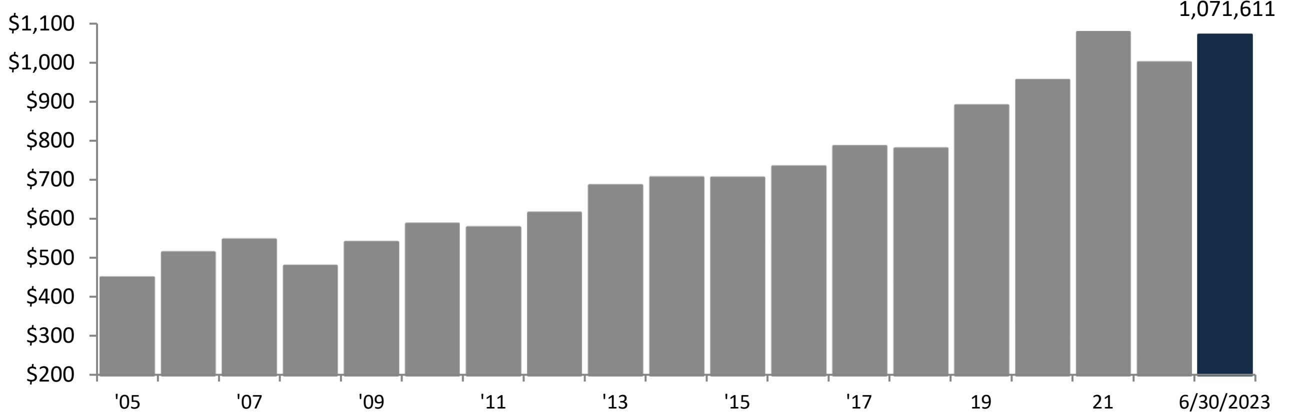
Net cash provided by operating activities decreased 19.8% compared to the same period in 2022 to $38.6 billion. The deterioration stemmed from an 18.4% increase in benefit and loss related payments as higher loss costs in personal lines continued. Partially offsetting the increase in loss payments was an 11.8% increase in premiums collected net of reinsurance.

The liquidity ratio worsened 0.3-points but remained solid at 80.0% at June 30, 2023. Liquid assets increased 8.0% while adjusted liabilities increased 8.3%.



CAPITAL & SURPLUS

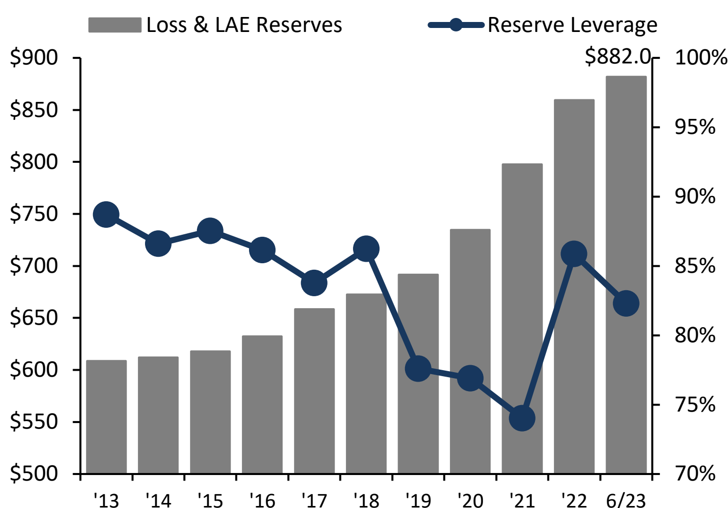
Industry aggregated policyholders' surplus (adjusted to eliminate stacking) totaled $1.1 trillion at June 30, 2023, a 7.1% increase compared to $1.0 trillion at December 31, 2022. Although net income was lower compared to last year, insurers reported unrealized capital gains of $70.8 billion compared to unrealized capital losses of $122.3 billion for the same period a year ago.



RESERVES

Loss and LAE reserves increased 2.6% since the prior year-end to $882.0 billion at June 30, 2023, and was comprised of $741.2 billion unpaid losses and $140.8 billion unpaid LAE. For the current period, reserve leverage improved 3.6-points to 82.3% compared to 85.9% at the prior year-end attributable to the increase in surplus.

The trend in net favorable loss reserve development continued with an overall redundancy of $5.4 billion in the first half of 2023, which consisted of a $71.2 billion redundancy in prior year IBNR loss and LAE reserves, partially offset by a $65.8 billion deficiency in prior year known case loss and LAE reserves.



Title Industry

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

For the six months ended June 30,	YoY Chg.	2023	2022	2021	2020	2019
Direct Premiums Written	(39.9)%	$7,356	$12,234	$12,315	$8,136	$6,913
Direct Ops.	(41.9)%	$751	$1,292	$1,226	$863	$854
Non-Aff. Agency Ops.	(41.2)%	$4,715	$8,022	$7,997	$5,211	$4,257
Aff. Agency Ops.	(35.3)%	$1,890	$2,919	$3,092	$2,063	$1,803
Premiums Earned	(38.0)%	$7,438	$11,988	$11,969	$8,034	$6,871
Loss & LAE Incurred	16.0%	$363	$313	$285	$255	$283
Operating Exp Incurred	(36.1)%	$7,324	$11,461	$11,454	$7,828	$6,710
Net Operating Gain/(Loss)	(70.8)%	$317	$1,085	$1,190	$633	$465
Net Inv. Income Earned	55.1%	$274	$177	$168	$203	$202
Net Realized Gain/(Loss)	NM	$(21)	$77	$25	$(26)	$44
Net Inv. Gain (Loss)	(0.3)%	$254	$254	$193	$178	$247
Net Income	(56.7)%	$473	$1,093	$1,108	$675	$585
Loss Ratio	2.3-pts	4.9%	2.6%	2.4%	3.2%	4.1%
Expense Ratio	2.9-pts	98.5%	95.6%	95.7%	97.5%	97.7%
Combined Ratio	5.1-pts	103.4%	98.2%	98.1%	100.6%	101.8%
Net Unrealized Gain/(Loss)	NM	$14	$(667)	$270	$(187)	$215
Net Cash from Operations	(84.3)%	$138	$879	$1,286	$689	$348

NM=Not Meaningful

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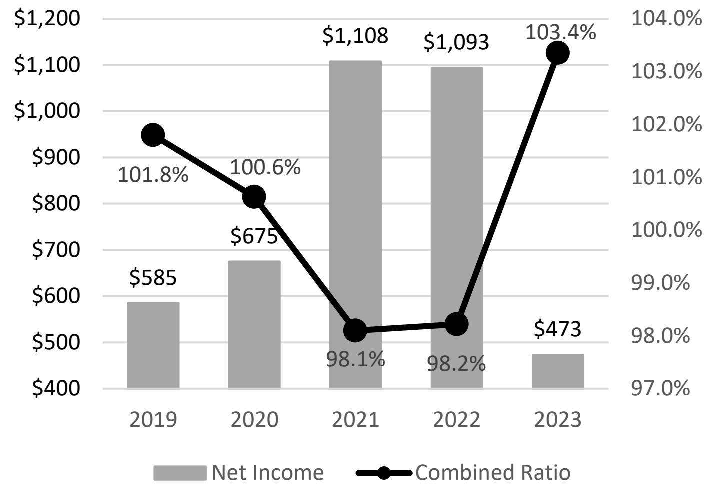
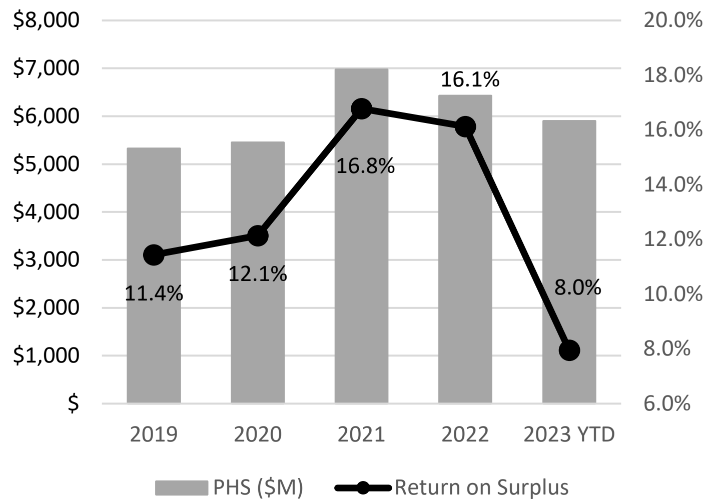
Title Industry Overview

The U.S. Title sector recorded a 39.9% decline in DPW compared to this time last year, reflecting a slowdown in new housing starts driven by higher interest rates. The decrease occurred in all three segments, direct operations, affiliated operations, and non-affiliated agency operations.



A net operating gain of $317.4 million was reported for the first half of 2023, representing a 70.8% YoY decrease compared to $1.1 billion for the first half of 2022, driven by a 38.0% decrease in earned premiums while losses and loss adjustment expenses incurred remained relatively unchanged. The mid-year combined ratio of 103.4% was 5.1-points higher than last year.

A net investment gain of $253.5 million was roughly the same as the prior year period. Net investment income earned was $274.1 million, a 55.1% increase compared to 2022 while realized investment losses totaled $20.6 million versus realized gains of $77.0 million last year. Overall, lower operating income drove a 56.7% decline in net income to $473.3 million.



Policyholder Surplus (PHS) decreased 8.2% compared to mid-year 2022. This decrease was primarily driven by lower net income and $532.0 million in dividends to stockholders and partially offset by unrealized investment gains. The return on surplus decreased 8.1-points YoY as the decrease in net income was greater than the decline in surplus.

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