News Brief

VENBROOK INSURANCE SERVICES

Q2 P&C Industry Combined Ratio, Net Income at Worst Levels Since 2011

Mounting underwriting losses pushed second-quarter property/casualty insurance industry net income and profitability to the worst levels since 2011, according to a new report from the American Property Casualty Insurance Association (APCIA).

“While the aggregate industry balance sheet is strong enough to meet its contractual commitments and obligations to consumers and businesses, the ever-increasing challenges from claims cost and expense increases, extreme weather events, legal system abuse, and ongoing regulatory resistance to rate adequacy in a few jurisdictions, continue to have significant negative financial consequences for insurers,” Robert Gordon, senior vice president of policy, research and international for APCIA, said in a statement.

The industry’s combined ratio of 106.5% in Q2 matched the third-quarter combined ratio in 2022, which puts the two quarters in a tie for the worst results recorded since 2011. The first-half combined ratio of 104.3% was 4.4 points higher than last year’s 99.9%. In addition, the Q2 after-tax net income of $400 million was the lowest level since 2011. According to the report, the first-half net income was $8.9 billion, representing a pre-tax return on revenue of 2.3% and a “paltry” after-tax return on statutory surplus of 1.8%.

Personal and commercial auto lines, in particular, are experiencing significant loss cost pressures, said APCIA. Personal auto incurred losses have risen faster than premium volume growth. First-half personal auto losses rose 12.3% over 2022, property losses were up 10.7%, and liability losses were up 13.4%. Direct premium growth for all commercial lines in the first half was 6.4%, down significantly from a 13.4% increase a year earlier. Workers compensation premiums grew at 3.1%, following a spurt of 10.5% growth in the same period last year.

APCIA estimated catastrophe (CAT) losses of $30.7 billion for the second quarter and $38.4 billion for the year's first half. Not included in those estimates are the early third-quarter losses of the Maui wildfires and Hurricane Idalia, which are estimated at $12 billion combined. CAT losses accounted for 10.2 percentage points in the combined ratio for all lines, though their impact on homeowners and commercial property insurance lines “was proportionately much greater.”

“In the U.S., catastrophe losses pushed what would otherwise have been a profitable quarter into underwriting loss territory,” Gordon said. “But it’s not just the weather that is impacting insurance marketplaces and consumers. Across the country, insurers are having to recapitalize after suffering from these historic losses as well as historic high economic inflation, legal system abuse, and worsening regulatory restrictions. Together, these pressures have forced some insurers to rebalance their risk nationwide.”

APCIA highlighted legal system abuse as a contributor to social inflation, a term referring to the growth in claims costs associated with rising jury verdicts and legal settlements. Legal expenses paid by a group of 34 insurers grew 14% from $421 million in 2019 to $480 million last year, according to S&P data.

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