Property & Casualty Insurance Industry

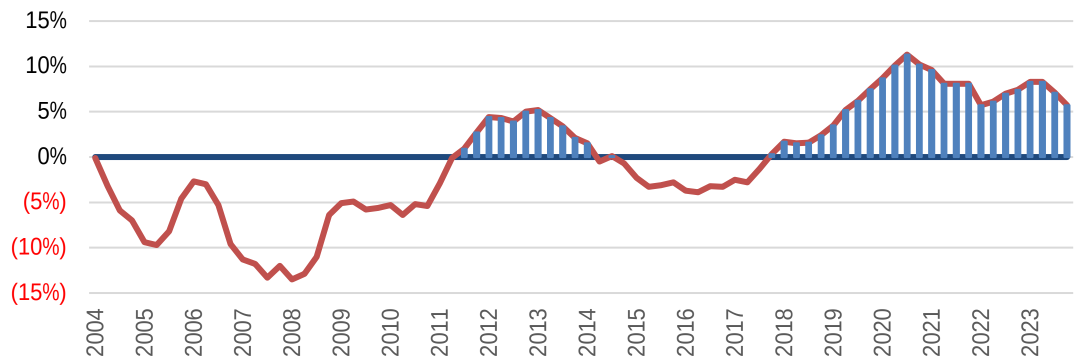
OVERVIEW

Rapidly rising claims costs driven primarily by increased frequency of severe storms and rising replacement costs

MARKET CONDITIONS

Premium Pricing

The U.S. P&C commercial market has experienced hard market conditions since roughly 2018, somewhat longer than the typical three- or four-year cycles experienced in the last forty years. Price increases have started to stabilize in the commercial lines sector as shown in the chart below as commercial insurers have been taking steady rate increases for 25 consecutive quarters to offset pressures from catastrophes and economic and social inflation. According to The Council of Insurance Agents and Brokers (CIAB) Q4 Market Survey, commercial premiums increased by an average of 5.7% across all lines in the fourth quarter of 2023, down from 7.1% in the third quarter.



The CIAB survey also indicated commercial property premium increases moderated in the fourth quarter but still had the highest increase of all lines at 11.8%. Respondents pointed to issues with reinsurance capacity and pricing, losses from natural catastrophes, and inflation as the factors driving the higher rates. Most respondents also indicated a decreased underwriting capacity due to these factors. The survey also showed that commercial auto rates increased 7.3% in the fourth quarter, marking 46 consecutive quarters of rate increases within this line.

Regarding the personal lines market, there have been double digit rate increases and some insurers are withdrawing from catastrophe prone areas due to significant pressure from high inflation, rising reinsurance costs, and rapidly growing losses from natural disasters.

Capacity

While net premiums written grew 10.0%, policyholders' surplus grew at a lesser rate of 6.2% leading to a 3.1-point increase in the net writings leverage ratio to 81.2%. Despite the higher net writings leverage, the P&C industry is still in a good position for future growth.

PREMIUM

Premium growth in the P&C industry continues to be strong, evidenced by a 10.5% increase in direct premiums written (DPW), with the momentum leaning toward the personal lines market which comprised roughly half of total DPW. Homeownerp.9 ( )8 0 Td[(w)-3.r0.7 (u c)11.9 wwn

Direct Writings & Profitability by State and Territory (in Millions except for percent)

	Change	2023	2022	Change	2023	2022	2023	2022	2023	2022
AL	12.2%	13,147	11,716	3.5 pts	63.2%	59.6%	7,933	6,765	12,554	11,343
AK	7.7%	1,995	1,853	3.9 pts	53.1%	49.2%	1,025	880	1,933	1,789
AR	14.9%	17,960	15,629	(3.3) pts	64.3%	67.6%	10,981	10,112	17,079	14,966
AR	13.1%	7,932	7,015	(2.2) pts	85.3%	87.5%	6,423	5,952	7,529	6,803
CA	7.0%	111,242	103,941	4.1 pts	66.7%	62.6%	72,023	63,161	107,987	100,913
CO	12.7%	20,582	18,256	18.5 pts	77.6%	59.1%	15,239	10,283	19,640	17,397
CT	8.0%	11,508	10,652	1.6 pts	63.0%	61745246 0.023 Tw 8.4447 0 0 8.440-d[(7,)20.8 (529)]TJ0 Tc				

UNDERWRITING OPERATIONS

The U.S. P&C industry posted an $18.4 billion underwriting loss, a slight improvement compared to the $24.7 billion loss last year primarily due to modest improvements in personal auto loss ratios. While personal lines continued to drag down results, it was the homeowners line that was the main driver in the current year, with a sharp YoY deterioration due to elevated natural catastrophes and higher replacement costs. Driven by higher premiums across most commercial lines, the commercial market achieved profitable underwriting results, outperforming the personal lines market. Overall, net premiums earned increased 9.4% while net losses and LAE incurred increased 9.2%, leading to a 0.2-point improvement in the net loss ratio to 76.2%. The expense ratio improved 0.8-points to 24.9% as the 10.0% increase in net premiums written outpaced a 6.5% increase in other underwriting expenses incurred. Overall, the combined ratio improved 1.0-point to 101.5%.

Natural Catastrophes

Insured losses in the U.S from natural catastrophes amounted to roughly $80 billion according to most reports. What makes 2023 an outlier is that the majority of losses resulted from severe convective storms rather than a few isolated large-scale events like hurricanes. In fact, during 2023 only one hurricane made landfall in the U.S., Hurricane Idalia in Florida.

Overall, there were 28 catastrophic events in the U.S. that generated at least $1 billion in insured losses in 2023. This is considerably higher than the historical annual average of 8.5 events from 1980-2023. The annual average for the most recent five years is also notably higher at 20.4 events.

Source: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024). https://www.ncei.noaa.gov/access/billions/, DOI: [10.25921/stkw-7w73](https://doi.org/10.25921/stkw-7w73)

Personal Lines

The combined ratio for personal lines improved to
104.7% compared to 110.1% last year. Afteo 110.0 11.0 1 rg84ft y 11 y77Af (f)10.5Tm( )Tx.2 TJEMC ETBT/S2%sttC 0.

natural catastrophe claims in 2023. The net loss ratio worsened 6.0-points to 84.2%. The combined ratio for homeowners was the worst in at least a decade at 110.5%.

Commercial Lines

While the overall combined ratio remained below 100%, there has been a slight YoY deterioration in most major commercial lines. TWT326( )]TJ /Head.5.28.4 (e)7 1( )]TJ22813.1 (mt(d)1 15.961Tw 1999.%6[81.8%13.9 1.5.2 02uaTc 0 T.04315

and a two-year redundancy of $4.9 billion. The industry has benefited from prior year reserve releases, however, the trend is decelerating as seen on the chart on the right. Actuaries are having a harder time estimating future liabilities due to 4

Premium Analysis

After YoY growth in recent years, unaffiliated assumed premiums written (APW) decreased 1.8% compared to 2022 to $48.0 billion. However, this was still a 36.2% increase compared to five years ago. Insurers classified as professional reinsurers accounted for approximately 55% of total unaffiliated APW in the U.S. property and casualty industry.

The reduction in unaffiliated assumptions was mainly related to decreased APW on a proportional basis as nonproportional assumed property and liability both increased. Nonproportional assumed property replaced other liability –

per policy increased 3.7% to $1,247. However, there was a significant increase in average losses. Direct losses and LAE incurred increased 57.6% to $52 per policy while direct losses and LAE paid increased to a collective $53 per policy.

Profitability

Operating income dropped for the second consecutive year, down 29.3% compared to last year to $16.5 billion. This decline was primarily due to decreased premiums written as premiums earned decreased 29.5% to $15.4 billion. Total operating expenses decreased 26.7% to $15.8 billion, although losses and LAE incurred did increase slightly. Net operating gains dropped a little over 60% to $715.5 million.

Net investment gains increased nearly 25% to $585.6 million as both net investment income earned increased 9.1% to $574.8 million, and net realized capital gains totaled $10.8 million compared to $57.9 million net realized losses in the previous year. The drop in net operating gains outpaced the increase in net investment gains so net income decreased 41.7% to $1.1 billion. This was the second consecutive YoY decrease in net income for the industry.

The combined ratio worsened 6.3 points to 104.1% and was comprised of a net loss ratio of 4.7% (worsened 1.6 points) and an expense ratio of 99.4% (worsened 4.8 points). This was the first year since 2018 that the industry combined ratio exceeded 100%, representing a 10-year high.

Capital & Surplus

Although less significant, policyholders' surplus (PHS) fell again this year, 2.9% to $5.8 billion. The main factor that drove the decrease was dividends paid to stockholders of $1.2 billion (down 39.8%) and to a lesser extent, a $139.2 million increase in nonadmitted assets. Return on surplus decreased

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