Industry Income — A Portrait of 2013's First Half

A.M. Best said in the first six-months of 2013 property and casualty insurers posted their first underwriting profit since 2007. It gets better. Net income rose by 65% and pretax operating income jumped 40% when compared to the same time period in 2012.

Fewer catastrophes and catastrophe losses, more stable investments and income from them, pricing boosts and more exposures in a recovering economy are the reason.

The policyholder surplus hit a record $627 billion — a 7.4% increase — in the first six months. "Favorable net income and a $20 billion shift in the industry's unrealized capital gain position, to a $17.5 billion unrealized gain from a $2.5 billion unrealized loss for the same period in 2012, were the primary drivers of the increase," A.M. Best said in the report.

Personal lines did well, too. It caught an after taxes net income increase of 53.3% — or $8.1 billion — and underwriting income leaped to a $700 million increase. That's significant because personal lines underwriting lost $2.6 billion in the first half of 2012.

"Several factors contributed to the improved underwriting results, including increased net premiums earned and fewer catastrophe losses, which was offset somewhat by less favorable development of prior years' loss reserves," A.M. Best noted.

Premium volume increased for commercial lines because of improved pricing and more exposure. The combined ratio was 95.1 down from 101.8 a year ago.

Net income for commercial lines leaped — and with a capital L — 84% to $20.4 billion. That net income improved because of $9 billion in capital gains compared to $3.4 billion in the first part of 2012.

Towers Watson — in its ***Property & Casualty Insurance CFO Survey*** — concludes that A.M Best good news and the other good pricing news we've heard about this year means we've finally reached a hard market.

Even better news. The report concludes that the hard market will be with us for another year or so. The report's conclusions are from the conclusions of CFOs that Towers Watson recently surveyed.

•75% of CFOs characterize the ***property*** market as hardening or hard.
•That's a 30% increase from the survey two-years ago.
•65% of CFOs characterize the ***casualty*** market as hardening or hard.
•That's up 52% over two-years ago.
•51% think the ***property*** market will harden for the next one to two years.
•52% think the ***casualty*** market will harden for the next one to two years.

Bruce Fell of Towers Watson said, "Insurers' perceptions of the market have changed considerably, from a glimmer of hope for a turn in the insurance cycle, to the solidifying of firmer rates we're experiencing today. The impact of the softer market the past several years, combined with low interest rates, has hurt insurers' profitability. The state of today's market should give insurers some breathing room and an opportunity to increase their bottom-line."

Almost all — 98% — of the CFOs expect their redundancies to last two to three more years.

Fell said almost everyone agrees we're in a hard market and that this hard market is way different from past hard markets. "Rather than being a reaction to poor pricing and severely deficient reserves — which cut deep into the industry's financials and take years to reverse — the current market is characterized by pricing reflective of low investment yields and a tendency towards rational use of capital, and exists in spite of the reserve redundancies suggested by the results of our survey. Better investment yields coupled with the perception of relatively healthy financials may eventually lead to eroding pricing discipline. Further, the recent influx of alternative capital into the catastrophe reinsurance market could place downward pressure on reinsurance rates."

The CFOs also expressed industry concerns:

- 81% worry about the economy and the market environment.
- 44% worry about natural catastrophes.
- 34% found inadequate rate levels to be their top concern.
- 37% worry about expanding into new products and markets.

When it comes to growth, profit and risk objectives:

- 93% think investment returns are the biggest challenge.

- 51% are concerned about economic growth.
- 49% think a competitive environment is the top concern.
- 45% don’t think their firm is well prepared to respond to those challenges.