RESEARCH & ANALYSIS

Catastrophe losses send P&C industry to large Q3 statutory underwriting loss

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U.S. property and casualty insurers likely suffered their largest aggregate statutory net underwriting loss in 25 quarters during the three-month period ended Sept. 30 after hurricanes Harvey, Irma and Maria rocked the industry.

A first look at statutory data obtained by S&P Global Market Intelligence reveals a net underwriting loss of $16.02 billion for the third quarter as compared with a modest profit of $163.5 million in the year-earlier period. It had been since the third quarter of 2011 that the industry generated a net underwriting loss in excess of $10 billion and since the second quarter of 2011 that it produced a larger net underwriting loss.

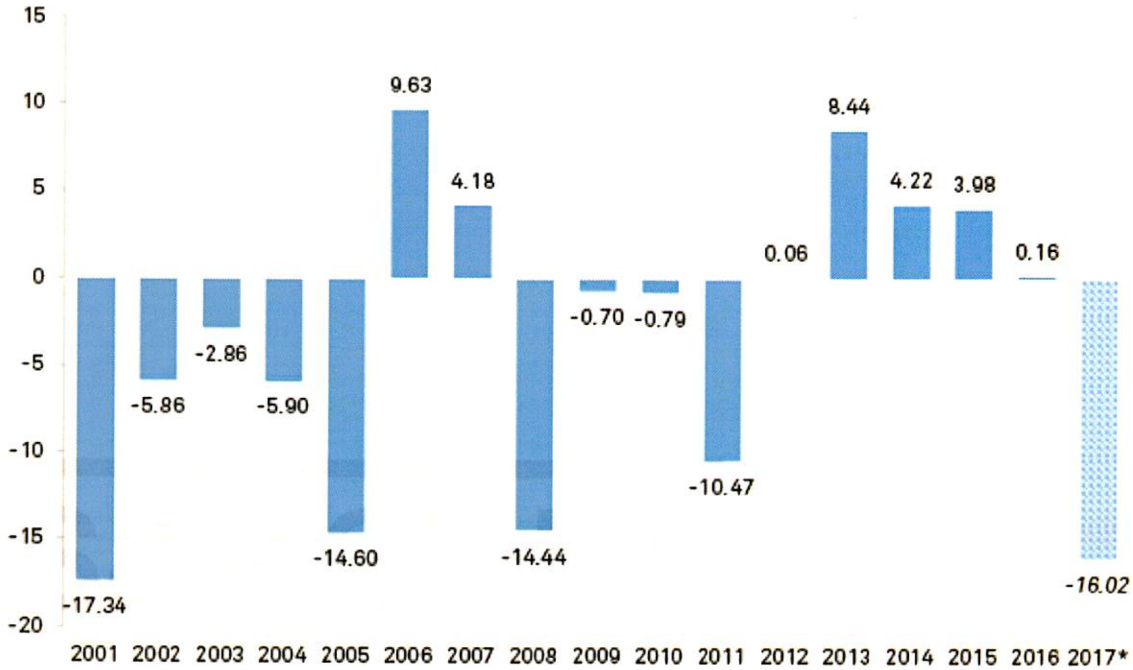
S&P Global Market Intelligence does not capture comprehensive financial results for certain state funds and residual markets, including Citizens Property Insurance Corp. The third quarter's net underwriting loss would have exceeded $17 billion had Citizens been included as it suffered from a $1.01 billion net underwriting loss for the period.

Three American International Group Inc. units and Berkshire Hathaway Inc.'s National Indemnity Co. all posted net underwriting losses in excess of $1 billion during the third quarter. They were also among the 40 individual P&C entities that posted net underwriting losses of $100 million or more. Only nine did so in the third quarter of 2016.

The Berkshire Hathaway reinsurance group suffered $1.45 billion in catastrophe losses during the third quarter as a result of the three hurricanes and an earthquake in Mexico. AIG reported $3 billion in catastrophe losses from those events on a worldwide basis, and it also engaged in material strengthening of loss and loss-adjustment-expense, or LAE, reserves for prior accident years.

Among the 15 AIG U.S. P&C units for which Sept. 30 results are available, loss and LAE reserve development for prior accident years was unfavorable by $574.7 million during the third quarter. American Home Assurance Co., Lexington Insurance Co. and National Union Fire Insurance Co. of Pittsburgh Pa., the three AIG entities to have produced net underwriting losses in excess of $1 billion during the third quarter, were responsible for essentially all of the unfavorable development.

Q3 US P&C industry net underwriting gains and losses ($B)



Data compiled Nov. 19, 2017.
Results for the third quarters of 2001 through 2016 reflect S&P Global Market Intelligence consolidations of data reported on quarterly statutory statements. Data for certain New Jersey-domiciled filers is unavailable by statute. Citizens Property Insurance Corp. and select other state funds and residual markets are excluded.
* The value displayed for the third quarter of 2017 should be considered preliminary in nature as it reflects the aggregation of results reported by individual entities constituting approximately 94.6% of expected filers. It is subject to change.
Source: S&P Global Market Intelligence

Net underwriting results at National Indemnity, American Home Assurance and National Union Fire deteriorated by more than $1 billion from their levels in the third quarter of 2016, but they were not the only P&C insurers to show a significant worsening in results. U.S. domiciled reinsurers Everest Reinsurance Co., Munich Reinsurance America Inc., Transatlantic Reinsurance Co. and Swiss Reinsurance America Corp. each reported net underwriting losses well into the hundreds of millions after three of the four companies produced underwriting profits in the year-earlier period.

Factory Mutual Insurance Co.'s $510 million net underwriting loss not only represented deterioration of $664 million from the year-earlier period, it was the largest it had posted in any quarter since at least the start of 2001. Its largest net underwriting loss prior to the third quarter amounted to $342.3 million in the second quarter of 2011.

The catastrophes notwithstanding, a number of P&C insurers showed year-over-year improvement in net underwriting results, and none more so than State Farm Mutual Automobile Insurance Co.

The lead member of the State Farm group posted a net underwriting loss of $728.6 million in the third quarter, down from a loss of $1.89 billion in the year-earlier period. The net underwriting loss for the State Farm P&C group as a whole of $1.29 billion marked improvement from a loss of $1.82 billion in the year-earlier period, despite a swing for the Texas-focused State Farm Lloyds to a net underwriting loss of $280.1 million from a gain of $106.7 million.

The State Farm P&C group last showed a favorable year-over-year comparison in its net underwriting result in the first quarter of 2015.

Catastrophes, both natural and man-made, have been responsible for the largest net underwriting losses produced by the P&C industry since the start of 2001. The second quarter of 2011, a period in which the industry's net underwriting loss totaled $19.18 billion, is most closely associated with a rash of tornados and windstorms that hit the Midwest and the Southeast. The events of 9/11 led the industry to post a $17.34 billion net underwriting loss in the third quarter of 2001.

It is possible that the industry's third-quarter loss will rise to some degree from where it stood as of Nov. 19 in that Sept. 30 results were not available for five of the top 15 writers of fire, allied lines, and homeowners, farmowners and commercial multiperil business in Puerto Rico, based on 2016 direct premiums written. San Juan-based MAPFRE PRAICO Insurance Co., the largest individual entity in those lines in a U.S. territory that was hard hit by Maria, posted a net underwriting loss of $49.5 million for the third quarter.

But the magnitude of the red ink still will not approach that of the second quarter of 2011 or the third quarter of 2001 on an inflation-adjusted basis as the size of those net underwriting losses in current dollars would exceed $20 billion, apiece.