

Property/Casualty Insurance Industry's Surplus Continued to Grow in 2017, Despite 15.8 Percent Drop in Net Income

JERSEY CITY, N.J., May 14, 2018 — Private U.S. property/casualty insurers saw investment gains push the industry's surplus to a new all-time-high value of \$752.5 billion in 2017, a \$51.7 billion increase from 2016, and catastrophe losses suppressed the industry's net income after taxes to \$36.1 billion in 2017, a 15.8 percent decline from a year earlier, according to ISO, a Verisk (Nasdaq:VRSK) business, and the Property Casualty Insurers Association of America (PCI).

The industry's net investment income increased to \$49.0 billion in 2017 from \$46.6 billion a year earlier, and net written premium growth rebounded to 4.6 percent for 2017 from 2.7 percent in 2016.

Losses and loss adjustment expenses (LLAE) rose 8.4 percent in 2017, significantly exceeding the 3.3 percent earned premium growth. The increase in LLAE was driven by catastrophe losses, as three major hurricanes—Harvey, Irma, and Maria—made landfall in the United States in the third quarter, followed by devastating California wildfires in the fourth. The net underwriting loss reached \$23.2 billion, far exceeding the \$4.7 billion underwriting loss for 2016.

"Three major hurricanes and devastating wildfires resulted in significant underwriting losses for insurers in 2017, suppressing the industry's income but failing to erode its capital. Moreover, investment gains, partially driven by changes in the tax law, drove the industry surplus to a record high. Insurers have a sophisticated protection system that includes reinsurance, insurance-linked securities, and their own capital, supporting their ability to pay claims after significantly worse catastrophes. Still, these catastrophes tested the ability of insurers to serve their customers and highlighted significant coverage gaps in flood insurance today. The reality is that millions of Americans are uninsured or underinsured against flooding, and insurers have a great opportunity to meet these changing needs. Weather events, though, aren't the only perils that concern customers. Cyber risks are threatening businesses of all sizes and are expected to grow rapidly in the coming years. At Verisk, we're working hard to help insurers address risks like flood and cyber and meet the rapidly changing expectations of their customers, both now and in the future."

Neil Spector, President, ISO

"During the second half of 2017, insurers weathered one of the most challenging series of catastrophic loss events in U.S. history. Yet, despite Hurricanes Harvey, Irma, and Maria, along with devastating wildfires in California, industry surplus grew to record levels. The catastrophe losses were largely offset by nearly \$74 billion in realized and unrealized capital gains as a result of favorable market returns, which benefited in part from the anticipated positive impact of U.S. tax reform. U.S. insurers are hanging onto profitability through unusually favorable financial market developments. However, the increasing underwriting losses call into question catastrophic rate adequacy, particularly based on long-term global trends toward increasing catastrophic loss frequency and severity and predictions for another active catastrophe season in the U.S. this year. Fortunately, as the U.S. prepares for potentially active 2018 hurricane and wildfire seasons, insurers continue to be strong, well capitalized, and well prepared to meet the needs of customers."

Robert Gordon, PCI's Senior Vice President for Policy, Research and International

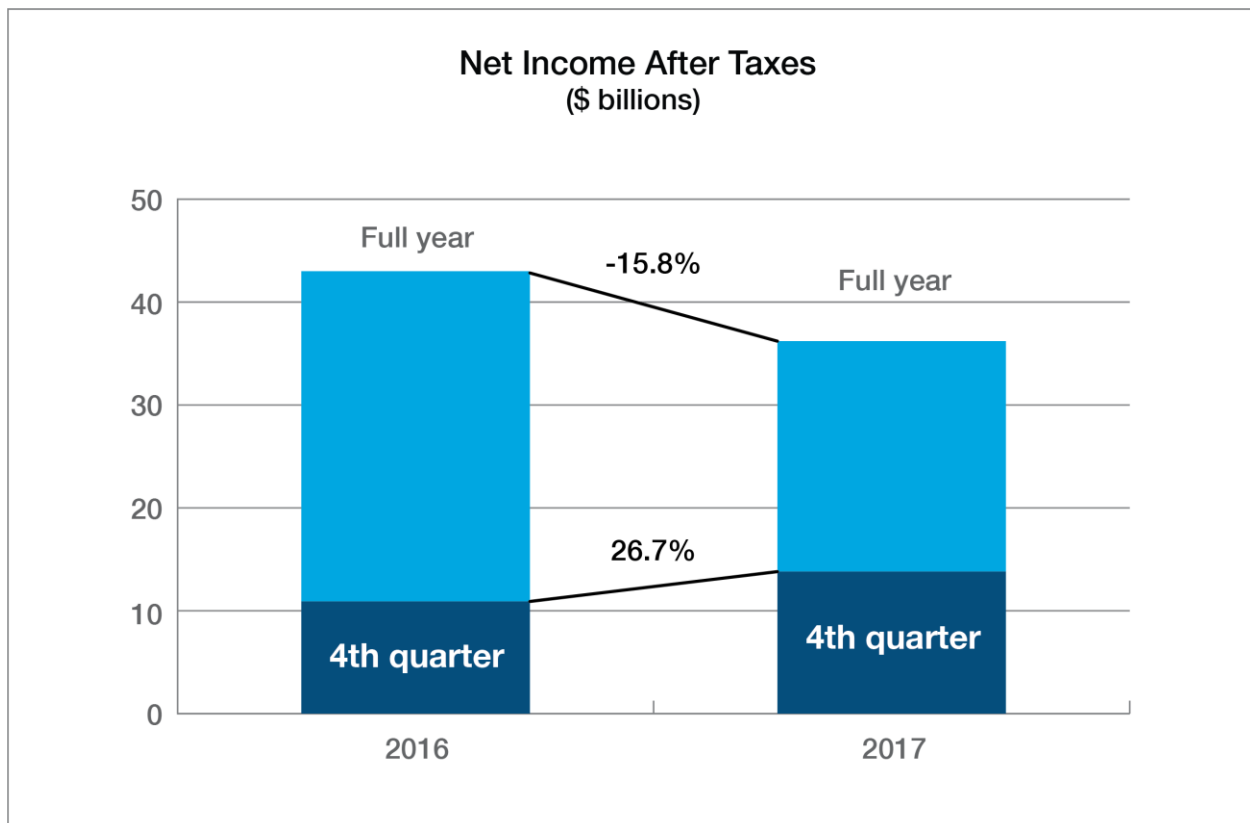
Fourth-Quarter Results

Insurers' net income after taxes increased to \$13.8 billion in fourth-quarter 2017 from \$10.9 billion in fourth-quarter 2016, while their combined ratio improved to 102.5 percent in fourth-quarter 2017 from 104.1 percent a year earlier.

Their annualized rate of return on average surplus rose to 7.5 percent in fourth-quarter 2017 from 6.3 percent a year earlier.

Net written premiums rose 6.1 percent in fourth-quarter 2017, compared with 2.4 percent in fourth-quarter 2016.

View the full report from ISO and PCI [here](#).



2017: BY THE NUMBERS

\$752.5 billion

Industry surplus, compared with \$719.4 billion three months earlier and \$700.8 billion at year-end 2016

4.6%

Net written premium growth, rebounding after 2.7% in 2016

3.1%

Investment yield, 0.4 percentage points below the 3.5% average value for the last ten years

\$36.1 billion

Net income after taxes, a 15.8% drop from \$42.9 billion for 2016

103.7%

Combined ratio, after 100.6% for 2016

\$23.2 billion

Net underwriting loss, after \$4.7 billion underwriting loss for 2016

\$15.1 billion

Realized capital gains, more than double the \$7.3 billion for 2016

About ISO

Since 1971, ISO has been a leading source of information about property/casualty insurance risk. For a broad spectrum of commercial and personal lines of insurance, ISO provides statistical, actuarial, underwriting, and claims information and analytics; compliance and fraud identification tools; policy language; information about specific locations; and technical services. ISO serves insurers, reinsurers, agents and brokers, insurance regulators, risk managers, and other participants in the property/casualty insurance marketplace. ISO is a Verisk (Nasdaq:VRSK) business. For more information, please visit www.verisk.com/iso.

About PCI

PCI is composed of nearly 1,000 member companies, representing the broadest cross section of insurers of any national trade association. PCI members write more than \$183 billion in annual premium, 35 percent of the nation's property/casualty insurance. Member companies write 42 percent of the U.S. automobile insurance market, 27 percent of the homeowners market, 32 percent of the commercial property and liability market, and 34 percent of the private workers' compensation market. For more information, visit www.pciaa.net.

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