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Property/Casualty Underwriting Profit Jumps 18 Percent

According to ISO and the Property Casualty Insurers Association of America (PCI), the U.S. property/casualty insurance industry's net income after taxes fell 9.3 percent to \$28.3 billion in first-half 2006 due to a deterioration in the industry's investment results.

However, the deterioration was largely due to some one time accounting issues without which the industry would have actually reported a 7.4 percent rise in investment income.

There were no special developments in the underwriting department for the first half of 2006 however, allowing the industry to post some record performance in the business of insurance. Insurers' net gains on underwriting increased almost 18 percent to \$15.1 billion in first-half 2006 from \$12.8 billion in first-half 2005 while its combined ratio improved 1 percentage point to 92 percent in the first half of 2006 from 93 percent in the first half of 2005.

Genio Staranczak, PCI chief economist, said, "At 92 percent, the combined ratio for first-half 2006 was the best first-half combined ratio since the start of quarterly records extending back to 1986."

And, overall underwriting results improved even while catastrophe losses increased 71 percent. Catastrophes caused \$5.3 billion in insured property losses in first-half 2006, up 71.8 percent from \$3.1 billion in first-half 2005, according to ISO's Property Claim Services (PCS) unit.

On the investment results side, the reported decline was caused by two special developments that affected the results. In first-half 2006, one insurer engaged in a complex series of transactions as it prepared itself to be sold by its

noninsurer parent. Consequently, the insurer posted \$1.7 billion of realized capital losses that flowed through net income and an offsetting amount of unrealized capital gains. And, in first-half 2005, another insurer received \$3.1 billion in nonrecurring dividends from an investment subsidiary. If not for these special developments, industry net income after taxes would have actually risen \$1.2 billion, or 4.3 percent, to \$29.5 billion in first-half 2006 from \$28.3 billion in first-half 2005.

"The 3.5 percent decline in industry investment income in first-half 2006 is a result of special developments not expected to have an influence on investment income going forward," said Staranczak. "Adjusted for three special developments affecting the data for first-half 2005 and first-half 2006, industry investment income increased 7.4 percent in first-half 2006 as insurers' average holdings of cash and invested assets rose 7.7 percent."

Second-Quarter Results

Second-quarter 2006 net gains on underwriting amount to 6.1 percent of the \$108.4 billion in premiums earned during the period, up from 5.4 percent of the \$105.5 billion in premiums earned during second-quarter 2005.

The industry's combined ratio improved to 92.8 percent in second-quarter 2006 from 93.9 percent in second-quarter 2005. At 92.8 percent, the industry's second-quarter combined ratio improved to its best level since at least 1986, when ISO's quarterly records begin.