

Record First-Half 2005 Profits and Surplus Help P/C Insurers Cover Hurricane Claims

The U.S. property/casualty insurance industry's net income after taxes rose 29.1 percent to a record \$30.9 billion in first-half 2005 from \$23.9 billion in first-half 2004. Reflecting the industry's income, its consolidated surplus, or statutory net worth, increased 4.7 percent to \$412.5 billion at June 30 from \$393.8 billion at year-end 2004, according to Insurance Services Organization (ISO) and the Property Casualty Insurers Association of America (PCI).

The industry's strong performance in first-half 2005 could not have come at a better time for insurers now facing billions of dollars in insured losses from Hurricanes Katrina and Rita.

The industry's income in first-half 2005 surpassed its income during any other six-month period since the start

of ISO's quarterly records in 1986, both before and after adjusting for inflation.

The industry's surplus as of June 30, 2005 was also a record, before and after adjusting for inflation. Increases in net gains on underwriting and net investment income drove the growth in net income

and surplus. Net gains on underwriting increased 43.5 percent to \$13.2 billion in first-half 2005 from \$9.2 billion in first-half 2004, as the combined ratio — a key measure of losses and other underwriting expenses per dollar of premium — improved 1.5 percentage points to 94.3 percent from 92.7

percent. Net investment income—primarily dividends from stocks and interest on bonds—grew 32.7 percent to \$25.3 billion in six-months 2005 from \$19 billion in six-months 2004.

"Insurers' underwriting results for first-half 2005 were truly remarkable," said John J. Kollar, ISO vice president for consulting and research. "At 92.7 percent, the combined ratio for first-half 2005 was the best first-half combined ratio since the start of quarterly records extending back to 1986"

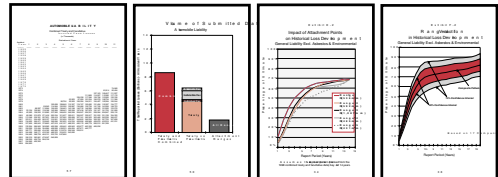
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"Insurers' investment income in first-half 2005 benefited from \$3.1 billion in one-time-only special dividends one insurer received from an investment subsidiary," said

Gregory Heidrich, PCI senior vice president for policy development and research. "But even excluding those special dividends, investment income rose 16.5 percent to \$22.2 bil-

lion in first-half 2005."

Reflecting the increases in net gains on underwriting, investment income, and net income after taxes, the industry's annualized rate of return on average surplus rose to 15.3 percent in first-half 2005 from 13.4 percent in first-half 2004.


"The industry's annualized rate of return through six months bounced back from a cyclical low of 1.8 percent in first-half 2001 to its highest level since the start of records in 1986, but losses from Katrina and Rita will have a substantial impact on insurers' profitability for 2005 as a whole," observed Kollar.

"With ISO's property claim services unit report-

ing that Hurricane Katrina caused \$34.4 billion in insured losses to property, and various sources estimating losses from Hurricane Rita at between \$2.5 billion and \$7 billion, those storms could cut the industry's rate of return for full-year 2005 by 7 or 8 percentage points if U.S. insurers had to shoulder the entire burden," said Heidrich. "Once we have good estimates of the losses that will be covered by foreign reinsurers and residual market mechanisms, we'll be able to develop a more precise assessment of the financial impact of Katrina and Rita on the domestic insurance industry."

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