How the Property/Casualty Insurance Industry Profited from the COVID-19 Pandemic

The U.S. property/casualty insurance industry has made substantial profits as a result of the pandemic.

- The industry accumulated significant profit and record-breaking surplus (increasing to $914 billion) in 2020.[1]

- Across the board, companies reported large profits, extending into 2021. In some cases, profits more than doubled.[2]

- Insurers appear to have hidden some of their profits in reserves, the money set aside to pay claims but which they really do not anticipate paying and will release back into future income.[3]

Auto insurance companies in particular made a windfall from COVID-19.

- Early into the pandemic, consumer groups began pressing auto insurance carriers for premium refunds as people stopped driving. While some companies responded with some premium relief, they did so only for a short time. As a result, "The staggering drop in accidents this year resulted in a dramatic drop in claims paid by insurers, handing companies massive windfall profits even after accounting for the woefully inadequate premium relief provided in the spring."[4]

- Instead of refunding money to policyholders, companies – touting the pandemic's impact in financial reports – rewarded shareholders with dividends.[5]

Significant industry profits continue to be made off the backs of struggling businesses.

- When it came to one type of commercial claim – business interruption – companies have rejected these claims, aggressively fought businesses in court, and have paid out very little.[6]

- Large premium increases for businesses, which began before the pandemic, grew through 2020, and are continuing, have greatly contributed to industry profits.[7]

NOTES

[1] Leslie Scism, "AIG's Profit Rises on Premium Growth, Investment Gains," *Wall Street Journal*, May 6, 2021; Fitch Ratings, "U.S. P/C Insurers Report 2020 Underwriting Profits Despite Costs of COVID-19: Fitch," *Insurance Journal*, April 12, 2021 ("pricing continues to increase at a level unseen since 2003").

[2] Angela Childers, "Liberty Mutual reports sharply higher profit despite cat losses," *Business Insurance*, May 6, 2021; Leslie Scism, "AIG's Profit Rises on Premium Growth, Investment Gains," *Wall Street Journal*, May 6, 2021; Claire Wilkinson, "Travelers reports 22% Q1 profit gain despite cat losses," *Business Insurance*, April 20, 2021; Leslie Scism and Allison Prang, "Travelers More Than Doubles Quarterly Income," *Wall Street Journal*, October 20, 2020 ("Property-casualty insurer Travelers Cos. more than doubled its net income in the third quarter, benefiting from auto policyholders driving fewer miles and increased premium rates.")

[3] William Wilt and Alan Zimmerman, "Loss Reserve 'Conservatism' Will Shape the Pricing Cycle," *Carrier Management*, May 18, 2021 ("The 'big news' we conveyed at Assured Research was that our reserve estimate for the industry moved to a significantly redundant reserve position at year-end 2020 (YE2020) – $28 billion, or 4 percent of carried reserves across the 10 most recent accident years. That's a material change from our estimated reserve deficiency last year ($5 billion) and stems primarily from what we believe is a consistent and exceptionally conservative reserve position on the pandemic plagued accident-year 2020 (or AY2020) loss ratio across nearly every line of insurance.")

[4] Consumer Federation of America press release, "Auto Insurance Refunds Needed as New Data Show Crashes Remain Well Below Normal Due to Pandemic; 23% Fewer Accidents in September and October," December 22, 2020; Leslie Scism and Allison Prang, "Travelers More Than Doubles Quarterly Income," *Wall Street Journal*, October 20, 2020 ("Property-casualty insurer Travelers Cos. more than doubled its net income in the third quarter, benefiting from auto policyholders driving fewer miles and increased premium rates.")

[5] Consumer Federation of America press release, "Auto Insurance Refunds Needed as New Data Show Crashes Remain Well Below Normal Due to Pandemic; 23% Fewer Accidents in September and October," December 22, 2020. ("Progressive reported over $3.3 billion in net income between April and September (Q2 and Q3), which is $1.5 billion, or 82%, more than it earned during the same period last year. On December 4, Progressive announced a $4.50 per share annual dividend for its shareholders (~$2.6 billion), which is nearly double the 2019 annual dividend. GEICO's pre-tax earnings tripled during the second and third quarters of 2020 to $2.34 billion compared with $769 million in 2019. The third quarter earnings are up 83% from $835 million in earnings for the third quarter of 2019. Allstate reported auto insurance underwriting income for the combined two quarters of $1.87 billion, more than a billion dollars better than 2019.")

[6] "Moody's Says COVID-19 Impact on P&C Insurance Sector Was 'Moderate,'" *Claims Journal*, May 24, 2021 ("Businesses have filed about 1,700 business-interruption claims because of COVID-19 shutdowns, but those cases are largely being decided in favor of insurers, Moody's said"); Noor Zainab Hussain and Suzanne Barlyn, "Travelers Insurance Profit Soared in Q4 on Fewer Claims, Investment Gains," *Insurance Journal*, January 21, 2021.

[7] Gavin Souter, "Property/casualty insurance prices keep rising," *Business Insurance*, April 6, 2021; Matthew Lerner, "Global prices rise 22% in Q4: Marsh," *Business Insurance*, February 4, 2021, ("Global commercial insurance prices rose 22% in the fourth quarter of 2020, the largest year-over-year increase in the Marsh Global Insurance Market Index since its inception in 2012"); Claire Wilkinson, "Chubb's Q4 profit doubles," *Business Insurance*, February 3, 2021 ("We had … excellent financial results, headlined by rapid premium revenue growth and margin improvement – a trend we are confident will continue"); Leslie Scism and Allison Prang "Travelers Profit Increases 50%, Fueled by Car-Insurance Unit," *Wall Street Journal*, January 21, 2021.