Global (re)insurers' Q1 2022 financial results

Strong underwriting performance, but investment markets weigh on ROE and shareholders' equity

Gallagher Re

Strategic & Financial Analytics

31 May 2022

Summary[1]

- This note summarises the key themes emerging from global (re)insurers' Q1 2022 results.
- Premium growth remained positive with an average increase of 11% in Q1 supported by continued favourable pricing for commercial lines and reinsurance business.
- Underwriting results were strong with (re)insurers posting a 94% combined ratio (Q1 21: 96%), driven by favourable rates and a lower natural catastrophe loss impact compared to last year.
- Declining equity markets contributed to a drop in the average ROE to 9% (Q1 21: 14%).
- European solvency improved to 227% (Q1 21: 220%), supported by rising risk-free interest rates and retained profits.
- Despite the solid operating results noted above, reported shareholders' equity across the group saw significant declines driven by the impact of higher interest rates causing a fall in the value of bond portfolios and equity holdings.
- Consensus 2023 earnings per share (EPS) estimates increased by 1.1% following Q1 results.

Premium growth remained positive in Q1, but a careful watch on claims inflation

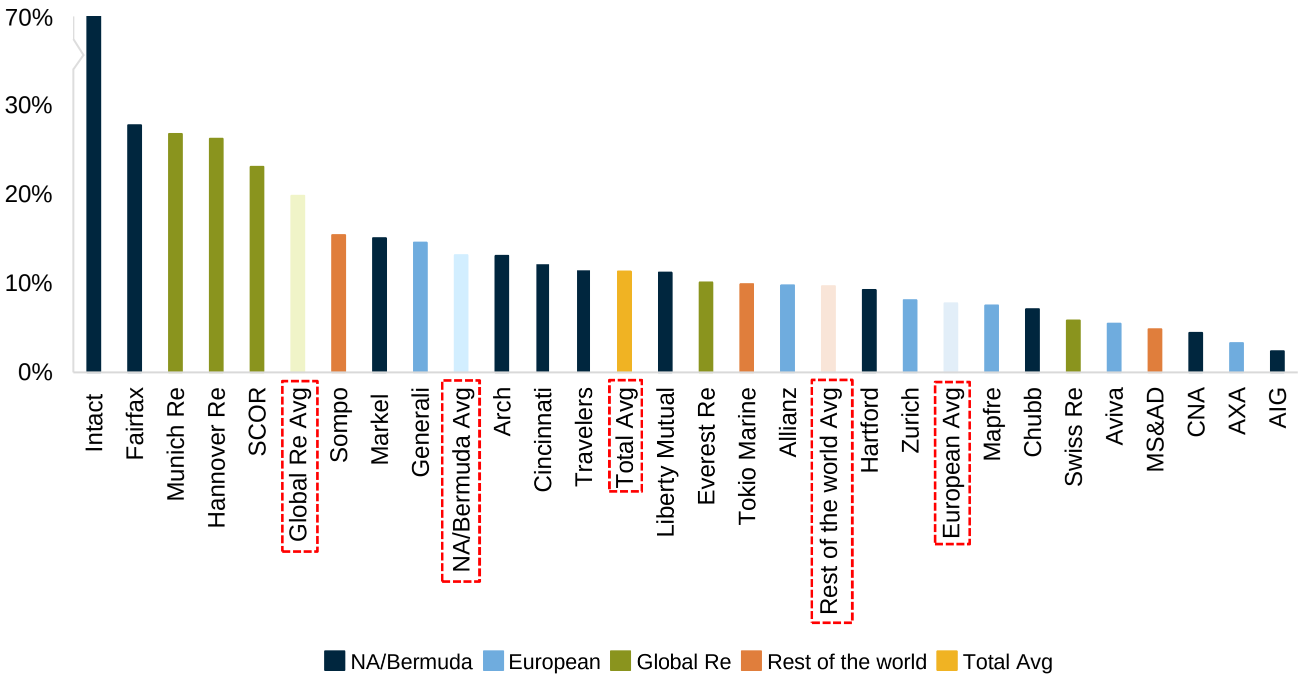
The (re)insurers which we track reported average premium growth of 11% in Q1, with the strongest increases coming from the Global Reinsurers (+20%) and North American and Bermudan (re)insurers (+13%). Intact's increase of over 70% reflected its acquisition of RSA's Canadian and UK operations and organic growth driven by commercial lines.

Continued favourable pricing for commercial lines and reinsurance business remained key drivers of premium growth in the quarter. Global reinsurers commented on improved risk-adjusted pricing at 1 January, albeit with significant variation by line of business and by region. Certain commercial writers reported double-digit premium growth and commented that rate increases continue to exceed claims inflation.

Increases in economic inflation, and an expectation that this trend will continue, have created more uncertainty around ultimate losses that will be incurred to settle claims. These factors, as well as the impact of the sustained low interest rate environment on net investment income, have driven the higher rates. Companies are achieving rate on rate increases in many cases for the fourth consecutive year. Some management teams noted that they are carefully monitoring trends in pricing and claims inflation and will adjust premium growth where required to support profitability.

[1]We track the biggest (re)insurers globally who have meaningful commercial lines or reinsurance operations. Unless otherwise indicated, we are referring to the January-March 2022 period.

Growth in P&C premiums – Q1 2022 vs Q1 2021[2]



Source: Company disclosures, Gallagher Re

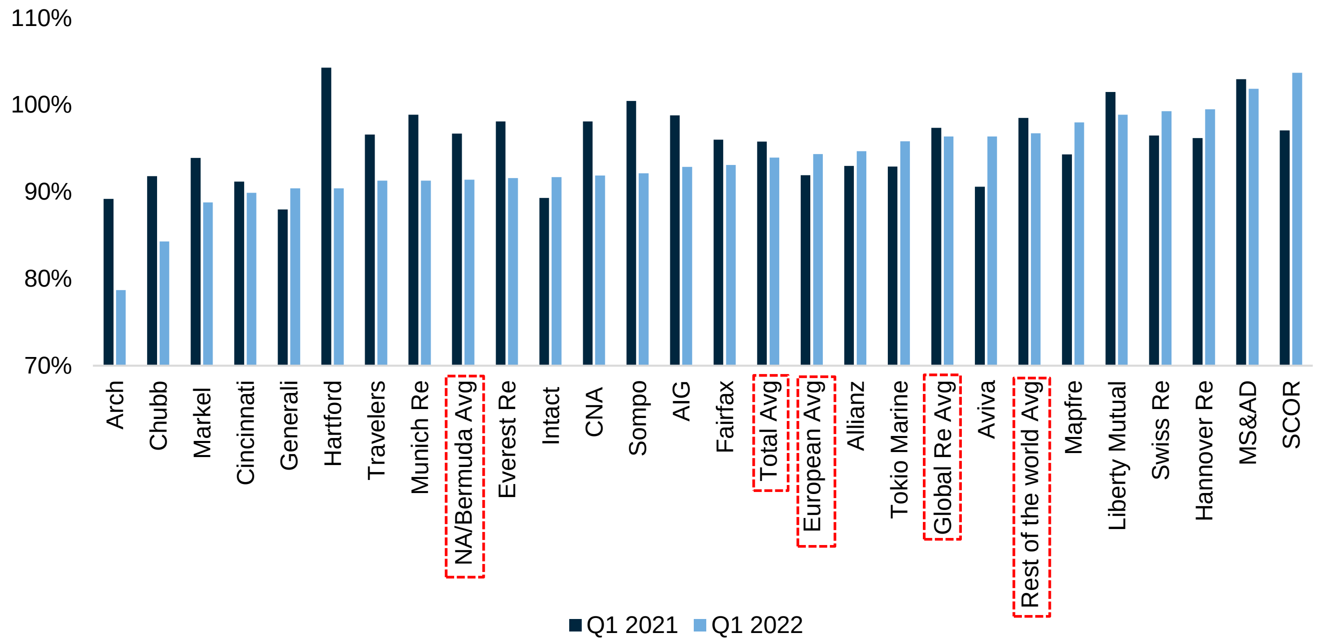
Strong underwriting results in Q1, with challenges ahead

Q1 22 year on year underwriting results were exceptionally strong with an average combined ratio for the (re)insurers we track of 94% compared to 96% for Q1 21. Nearly every company posted a sub-100% combined ratio. This improvement was supported by the above noted 11% growth in Q1 premium, continued net favourable development of prior accident year reserves, lower weather-related loss impact (light Q1 compared to the Texas Freeze in 2021), and lower expenses, modestly offset by higher attritional losses.

Although not a significant driver of overall Q1 results, some (re)insurers established reserves for claims exposure relating to the war in Ukraine. Looking ahead, we will continue to monitor these exposures as claims emergence becomes clearer. One of the biggest challenges over the next three quarters is continued increases in social inflation due to its impact on loss costs and loss ratio trends, especially in the more liability exposed lines.

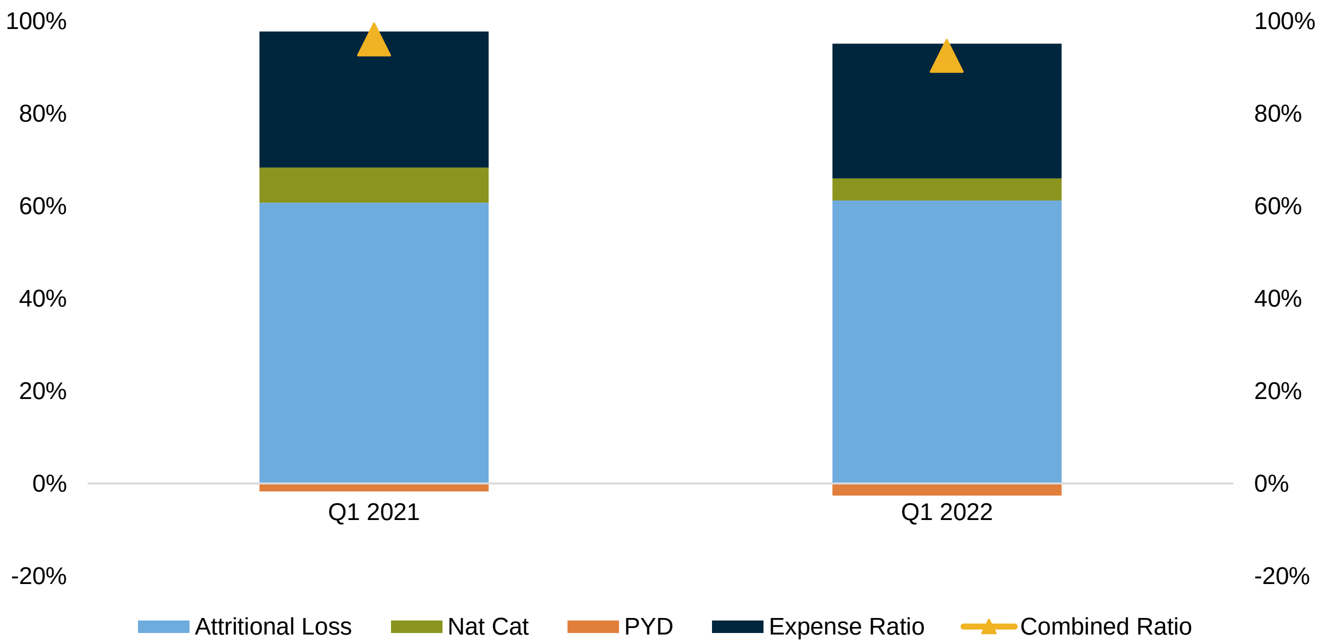
[2]Premiums are P&C net premiums written, except as follows: for Swiss Re and Munich Re, premiums are net earned premiums; for Zurich, Aviva and Generali, premiums are P&C segment gross premiums written; and for AXA, premiums are gross revenues. Sompo, Tokio Marine, and MS&AD figures have been re-calendarised.

Combined ratios – Q1 2022 vs Q1 2021[3]



Source: Company disclosures, Gallagher Re

Combined ratio components – Q1 2022 vs Q1 2021[4]

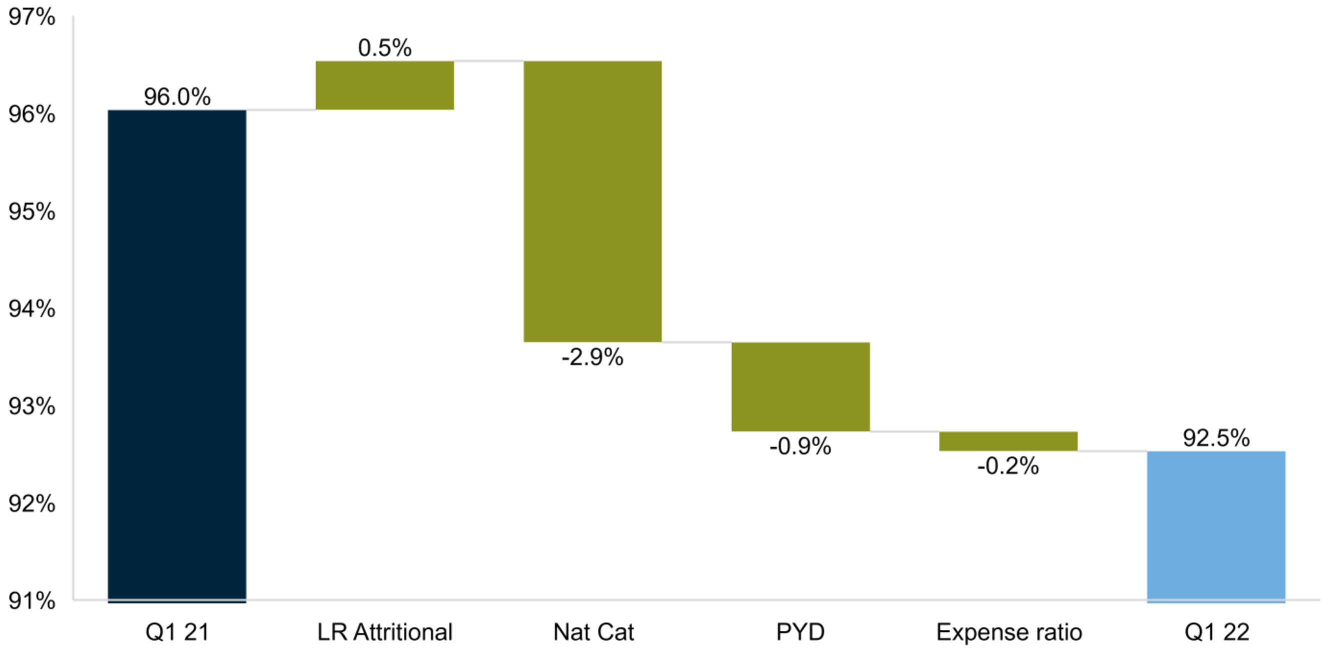


Source: Company disclosures, Gallagher Re

[3]Combined ratios are: P&C reinsurance segment for Munich Re, Swiss Re, Hannover Re, Everest Re, and SCOR; general insurance for Aviva; domestic and international re-calendarised figures for Sompo and Tokio Marine; domestic and MS Amlin re-calendarised figures for MS&AD. Swiss Re and Munich Re natural catastrophe losses include man-made losses.

[4]Relates to the subset of companies which provide the relevant disclosure on combined ratio components. The subset excludes AXA, Zurich, Generali, Aviva, Mapfre, Swiss Re, Hannover Re, China Re, Tokio Marine, Sompo and MS&AD.

Drivers of change in combined ratios – Q1 2022 vs Q1 2021[5]



Source: Company disclosures, Gallagher Re

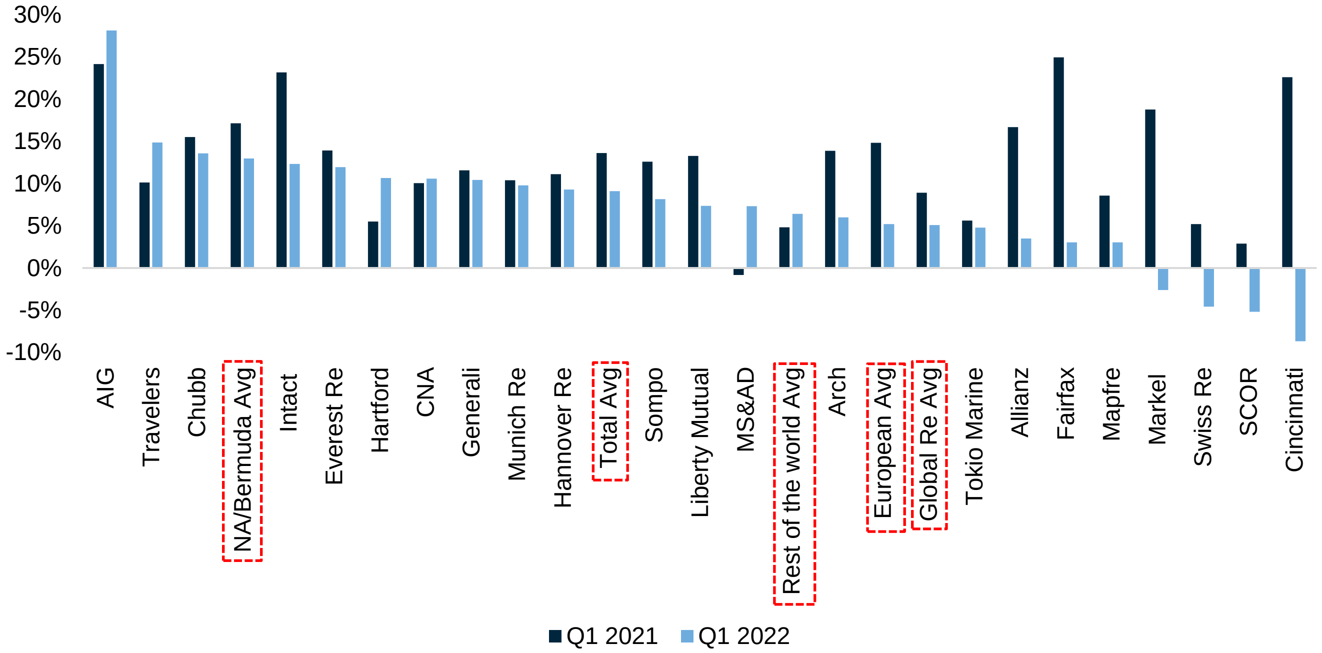
Q1 22 average ROE impacted by falling equity markets

For those (re)insurers we track which report it at Q1, the average ROE reduced to 9% (Q1 21: 14%), pulled lower by the European and Global reinsurer segments, and certain North American and Bermudan (re)insurers for which, under US GAAP, unrealised investment depreciation due to falling equity markets in Q1 22 flowed through the P&L. This was the driver of the net losses reported by Markel and Cincinnati.

AIG and Travelers reported higher ROEs, supported by continued strong P&C profitability and higher realised investment gains in the case of AIG.

[5]Relates to the subset of companies which provide the relevant disclosure on combined ratio components. The subset excludes AXA, Zurich, Generali, Aviva, Mapfre, Swiss Re, Hannover Re, China Re, Tokio Marine, Sompo and MS&AD.

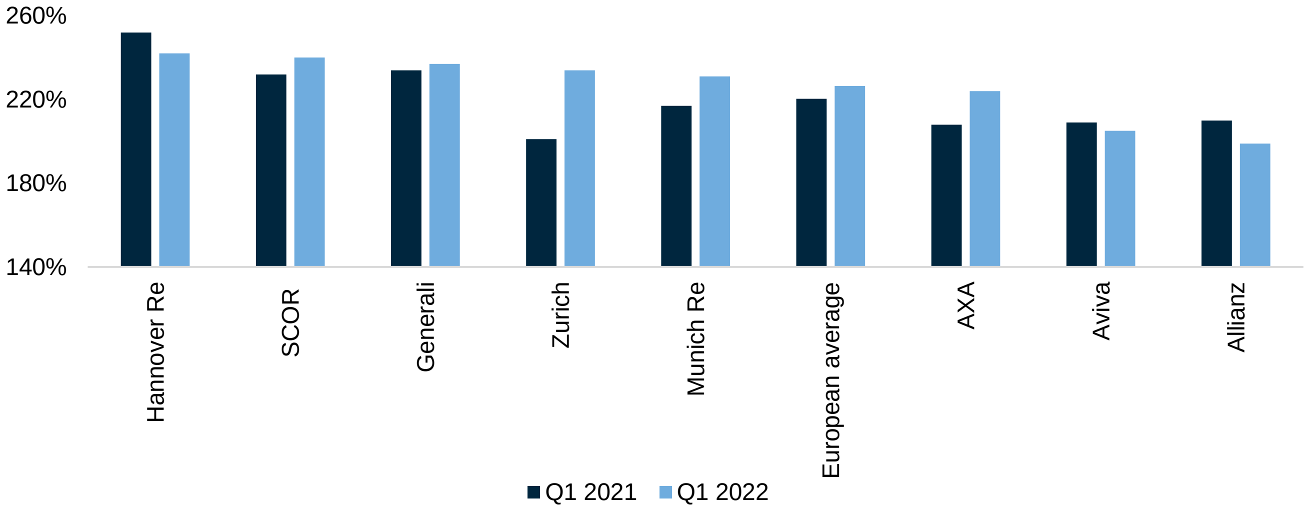
Return on Equity – Q1 2022 vs Q1 2021[6]



Increase in risk-free rates supports rise in European sector solvency at Q1

Despite falling equity markets and widening bond spreads in Q1, average solvency for the European (re)insurers which we tracked improved to 227% (Q1 21 : 220%), supported by rising risk-free interest rates and retained profits. This level of sector solvency is at the upper end of guidance levels, which provides a strong base for capital returns. Rising risk-free rates result in higher solvency ratios as the reduction in liabilities, which are discounted at risk-free rates under Solvency II, exceeds the reduction in bond portfolio values.

European solvency ratios – Q1 2022 vs Q1 2021[7]



Source: Company disclosures, Gallagher Re

[6]Return on equity data excludes China Re, AXA, Aviva and Zurich.
[7]Mapfre and Swiss Re are not included.

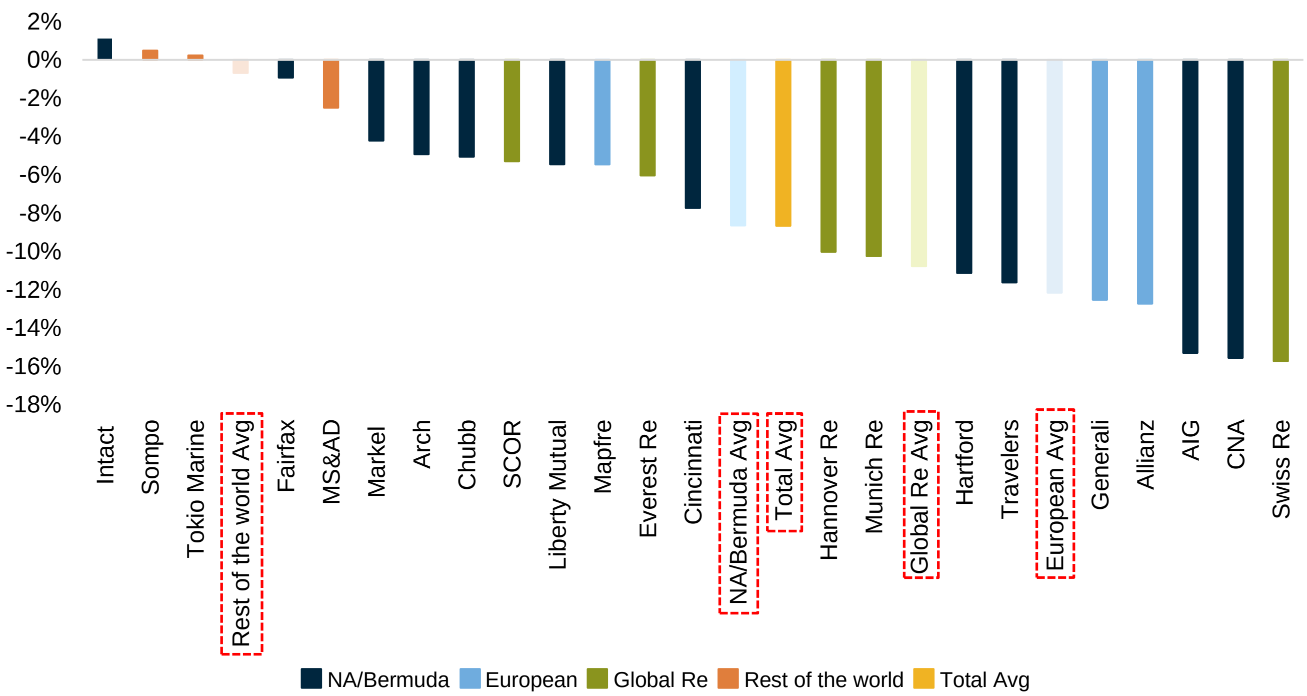
Shareholders' equity declines at Q1 driven by falling asset values

Despite the solid operating results noted above, reported shareholders' equity across the group saw significant declines. The average decrease across the group was -9%. North American and Bermudan (re)insurers were in line with this average, while Global Reinsurers (-11%) and European (re)insurers (-12%) saw more significant movements.

The primary driver was a tightening of financial conditions driven by central banks and policymakers leading to higher market interest rates and a challenging environment for risk assets. The result for global (re)insurers has been mark to market losses on bond portfolios and equity holdings. As such, the impact is felt strongest at companies with the longest duration liabilities (and hence assets), and highest exposure to market sensitive assets.

Given growing economic headwinds including signs of more persistent inflation, financial market volatility will likely remain a hot topic throughout the remaining periods in 2022. Note that the timing of recognition of mark-to-market losses can differ across companies particularly for alternative investments. This downwards pressure on reported capital remains something to watch, particularly given the likely pressure on higher exposure-bases of insured assets and increasing premium levels driven by inflation.

Shareholders' equity – Q1 2022 vs Q4 2021[8]



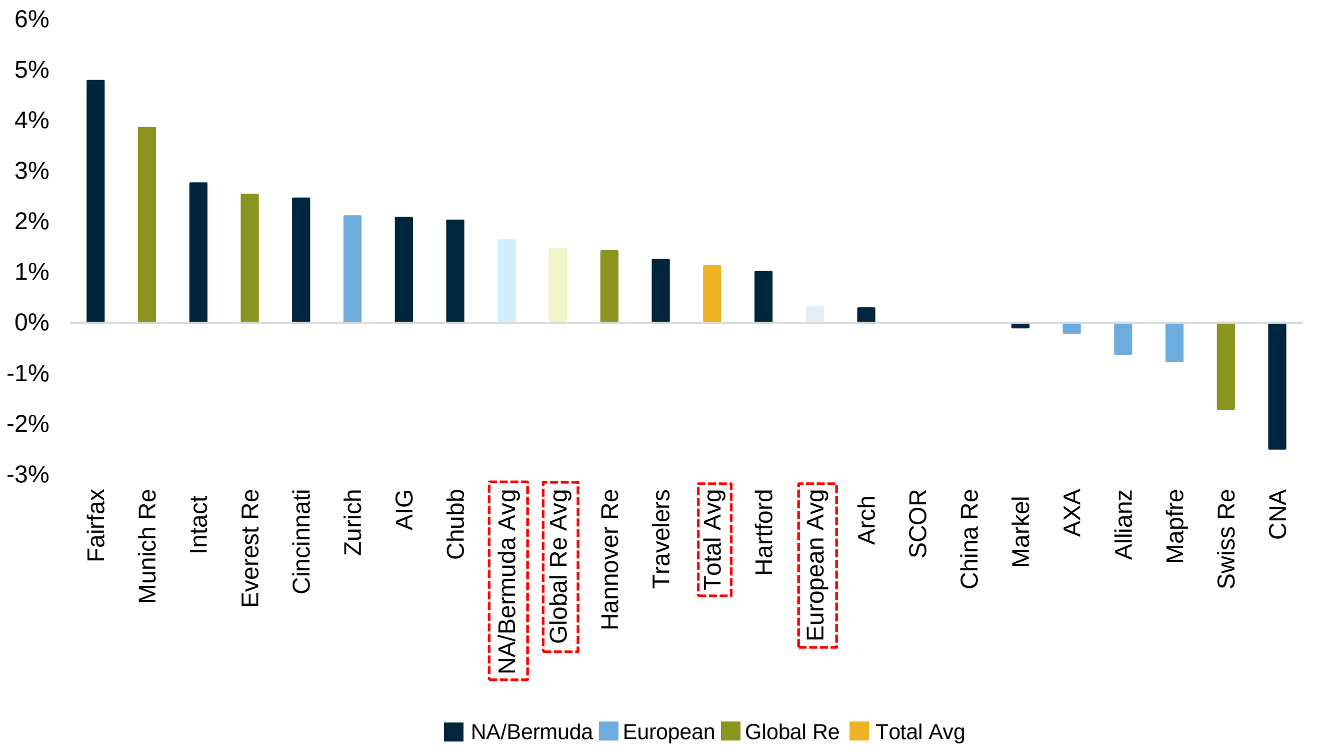
Source: Company disclosures, Gallagher Re

[8]Shareholder's equity data excludes Axa, Aviva, China Re & Zurich.

Consensus EPS estimates continue to march north, despite the Q1 headwinds

The movement in analyst consensus future earnings estimates provides a good proxy for the overall take-away from Q1 results in terms of the sector's financial health and outlook. While the Q1 investment result headwinds dampened ROEs in the quarter, the outlook for ongoing earnings power has improved. Consensus 2023 earnings per share (EPS) estimates increased by 1.1% following Q1 results. The most significant drivers of the increase are stronger than expected premium growth (a consistent theme of past increases) and an anticipation of improving investment income due to the recent increase in bond yields (a more recent trend).

Change in consensus 2023 EPS estimates[9]

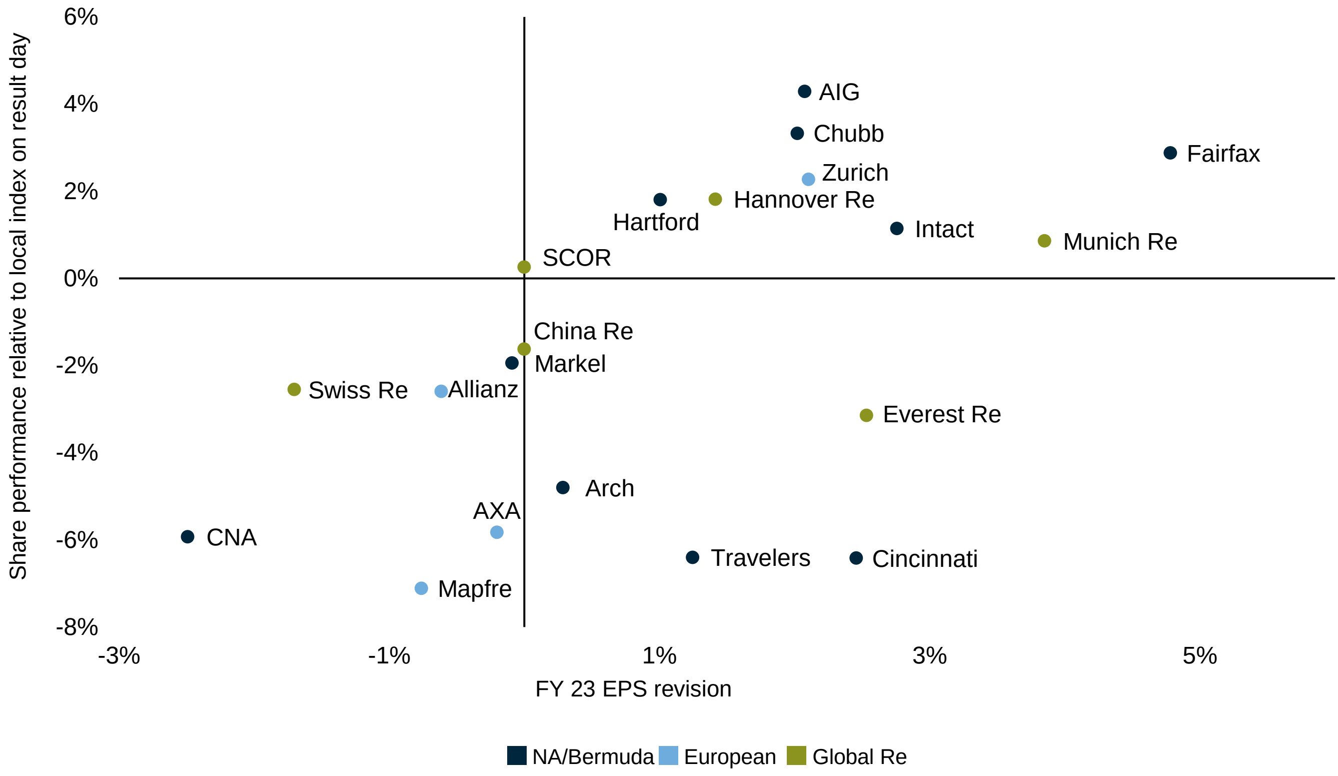


Source: Capital IQ

Share price moves on the back of Q1 results were, for the most part, fairly muted. One would normally expect share price performance (relative to the insurer's local index) to be correlated to how earnings expectations changed. This was borne out for the likes of CNA (EPS cuts and underperformance) and Fairfax (positive in both respects). The share price reaction at other companies was more nuanced. Analysts covering Travelers, for example, did raise earnings estimates, but the market reaction was clouded by comments that price increases slowed versus previous quarters.

[9]FY 2023 Consensus EPS estimates are sourced from S&P Capital IQ. Pre-release and post-release estimates are one day before results and five days after, respectively. Excluded companies are Generali, Tokio Marine, Aviva, MS&AD and Sompo.

Relative share price performance vs EPS revisions[10]



Source: Capital IQ

[10]Consensus EPS estimates five days after results vs one day prior. Local indices used: S&P 500 for Chubb, AIG, Travelers, Liberty mutual, Hartford, CNA, Cincinnati, Markel, Arch, Everest Re; S&P/TSX for Fairfax and Intact; STOXX Europe 600 for Allianz, AXA, Zurich, Generali, Aviva, Mapfre, Munich Re, Swiss Re, Hannover Re, and SCOR; Nikkei 225 for Tokio Marine, Sompo & MS&AD; and HIS for China Re.

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