Global (re)insurers’ 2021 financial results

A strong finish to a profitable year

Gallagher Re

Strategic & Financial Analytics

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Gallagher Re

Summary[1]

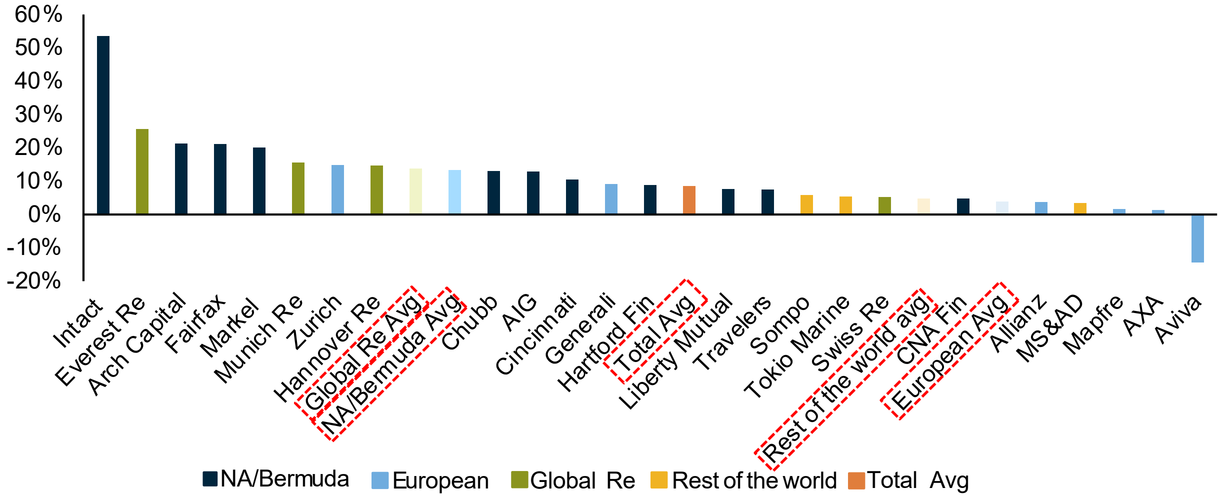
- This note summarises the key themes emerging from global (re)insurers' 2021 full-year results.
- Robust premium growth continued with an average increase of 8% for the full-year and 11% for Q4. As seen earlier in the year, growth was fuelled by both the improving economic environment and favourable pricing for commercial lines in particular.
- Combined ratios were stronger in 2021, improving from an average 98% at FY 20 to 95%, driven by better attritional loss ratios and natural catastrophes having less impact than last year's COVID losses.
- Capital positions in Europe strengthened further in 2021, with Solvency II capital ratios expanding from 209% to 226%.
- While the tracked group saw small but persistently positive earnings per share (EPS) estimate revisions following previous quarterly results last year, EPS estimates for 2022 were kept broadly unchanged following Q4 results.
- Inflation remained one of the most discussed themes on analyst conference calls. While price increases to date have outstripped claim trends, higher material and repair costs are impacting short-tail lines and a few companies have cited inflation when strengthening reserves for longer-tail lines.

Robust premium growth continued through Q4

All the (re)insurers we track reported full-year growth in premiums, except for Aviva which closed its disposal of certain European subsidiaries in the fourth quarter. Premium growth averaged 8% for the full-year and 11% for Q4. The strongest growth came from the North American/Bermudan insurers and the global reinsurers, both of which groups achieved 13%-14% premium growth in 2021. The largest premium increase was Intact's increase of over 50%, reflecting the impact of its acquisition of RSA's Canadian and UK operations, and continued strong commercial lines growth.

Across the group, growth in premiums for both the full year and Q4 was fuelled by continued favourable pricing for commercial lines business and the improving economic environment. Rate increases for reinsurance and retail insurance also supported premium growth, albeit to a lesser extent. Management teams are typically expecting that pricing increases will continue to exceed loss cost trends.

Growth in P&C premiums – FY 2021 vs FY 2020[2]

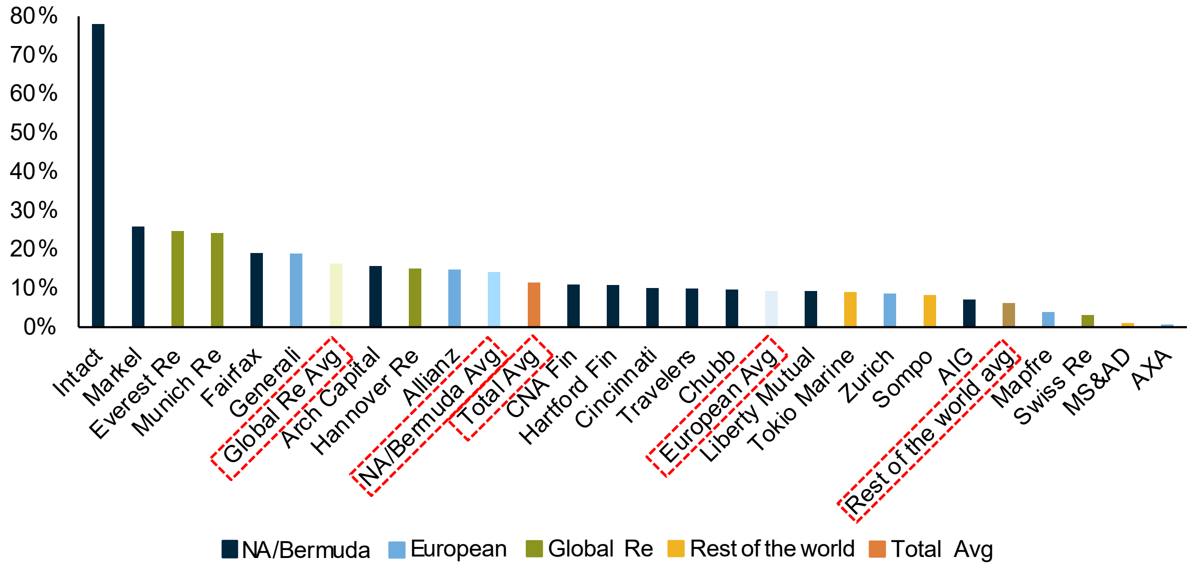


Source: Company disclosures, Gallagher Re

[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-December 2021 period.

[2] Premiums are P&C net premiums written, except as follows: for Swiss Re, Munich Re and Mapfre, premiums are net earned premium and for AXA, Zurich and Generali premiums are P&C segment gross premium written. For Sompo & Tokio Marine, domestic and international re-calendarised figures are taken. For MS&AD domestic, and MS Amlin, re-calendarised figures are taken.

Growth in P&C premiums – Q4 2021 vs Q4 2020[3]



Source: Company disclosures, Gallagher Re

Combined ratios stronger in 2021, driven by better attritional loss ratios and natural catastrophes having less impact than last year's COVID losses

Despite several large natural catastrophe losses in the year, combined ratios were strong and showed noteworthy improvement versus 2020. Across the universe of companies we follow, the combined ratio improved from 97.9% to 94.7%. This improvement was achieved by all categories of companies, with the strongest improvement coming from the global reinsurers (105.2% to 98.2%).

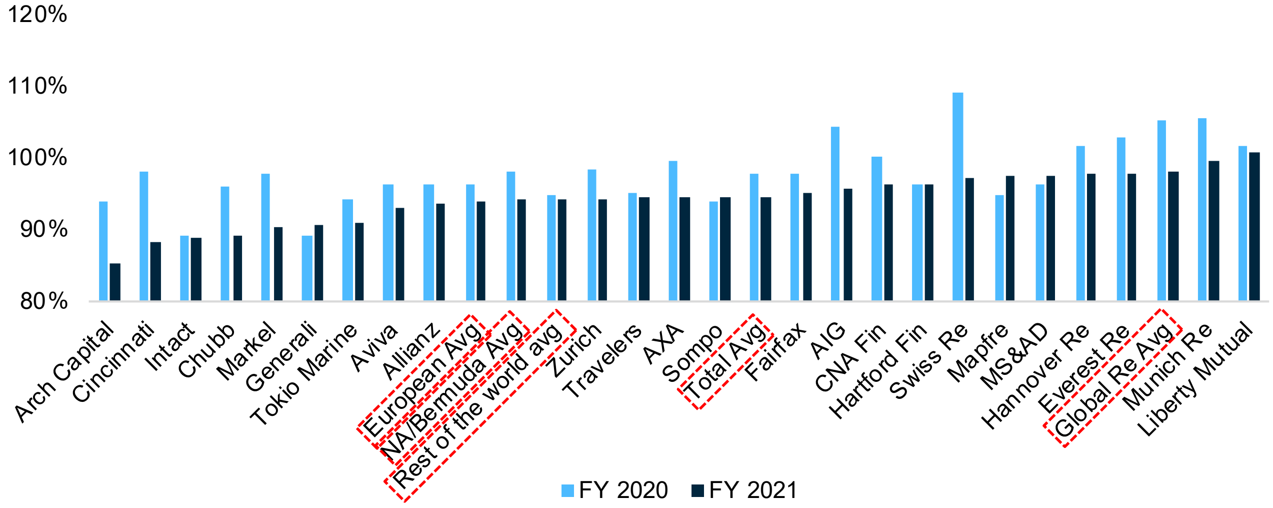
As the waterfall chart on page 5 shows (which covers a subset of our constituents), the 2021 improvement came from every component of the combined ratio. Most notably, attritional loss ratios improved by 0.9 percentage points, as the earning through of price increases outstripped claim costs. Natural catastrophe losses were also lower by 1.5 points, although these losses were elevated in both 2020 and 2021 relative to history. Note that 'nat cat' includes COVID losses for 2020. Favourable prior year development also provided a stronger benefit to combined ratios in 2021 – somewhat surprisingly given concerns over inflation and high-profile reserve additions at a few insurers. Finally, expense ratios also improved, with premiums growing faster than expenses.

Looking at the discrete Q4, the picture is similar to that for the full year: combined ratios on average improved from 96.4% in Q4 2020 to 93.0%. It was a broad-based improvement with all groups of companies showing a better result (particularly global reinsurers – from 104.7% to 95.9%).

Strong combined ratio performance, plus supportive investment markets, drove a robust improvement in return on equity (ROE). The average ROE improved from 5% in 2020 to 12%, including an average 13% ROE in Q4.

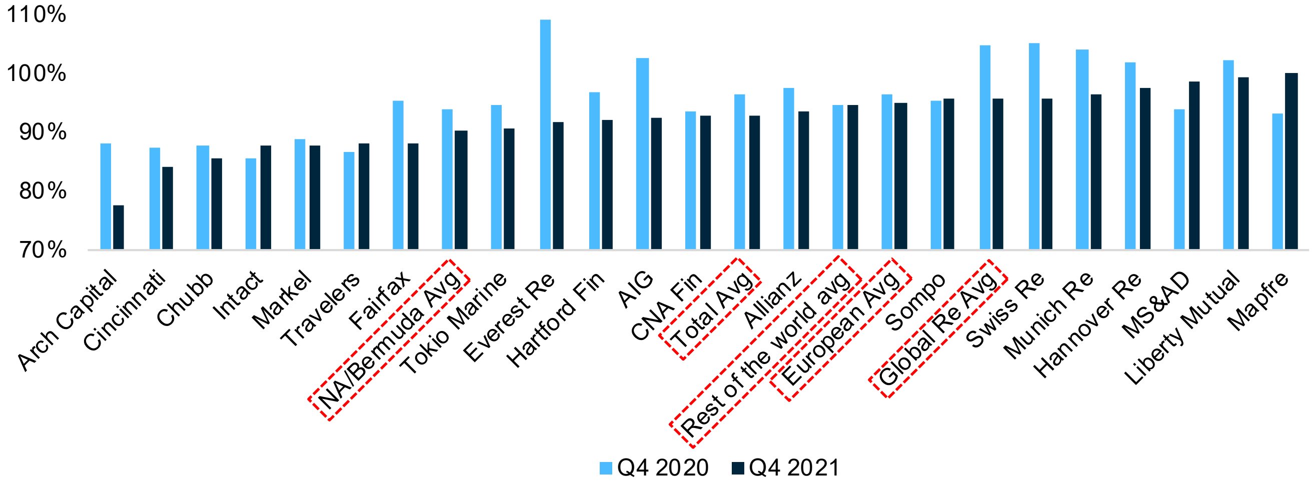
[3] Premiums are P&C net premiums written, except as follows: for Swiss Re, Munich Re, and Mapfre, premiums are net earned premium and for AXA, Zurich and Generali premiums are P&C segment gross written premium. For Sompo & Tokio Marine, domestic & international re-calendarised figures are taken. For MS&AD domestic, and MS Amlin, re-calendarised figures are taken.

Combined ratios – FY 2021 vs FY 2020[4]



Source: Company disclosures, Gallagher Re

Combined ratios – Q4 2021 vs Q4 2020[5]



Source: Company disclosures, Gallagher Re

[4] Combined ratios for Swiss Re and Munich Re relate to their P&C reinsurance segments. Aviva's combined ratio relates to its general insurance segment. Combined ratios for Sompo & Tokio Marine relate to their domestic and international re-calendarised figures. MS&AD's combined ratio relates to its domestic and MS Amlin re-calendarised figures.

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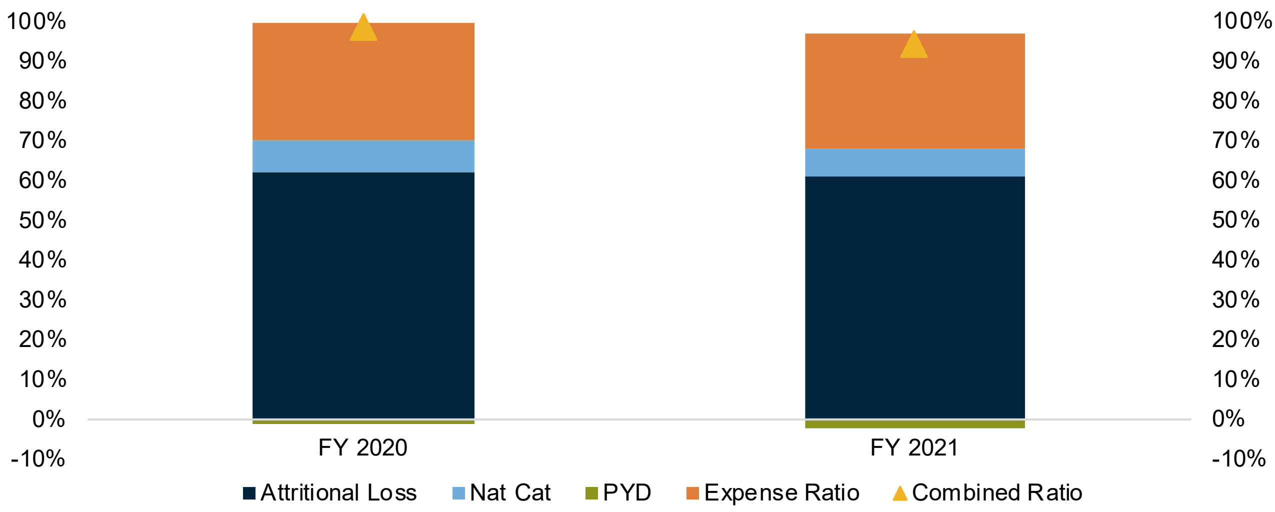
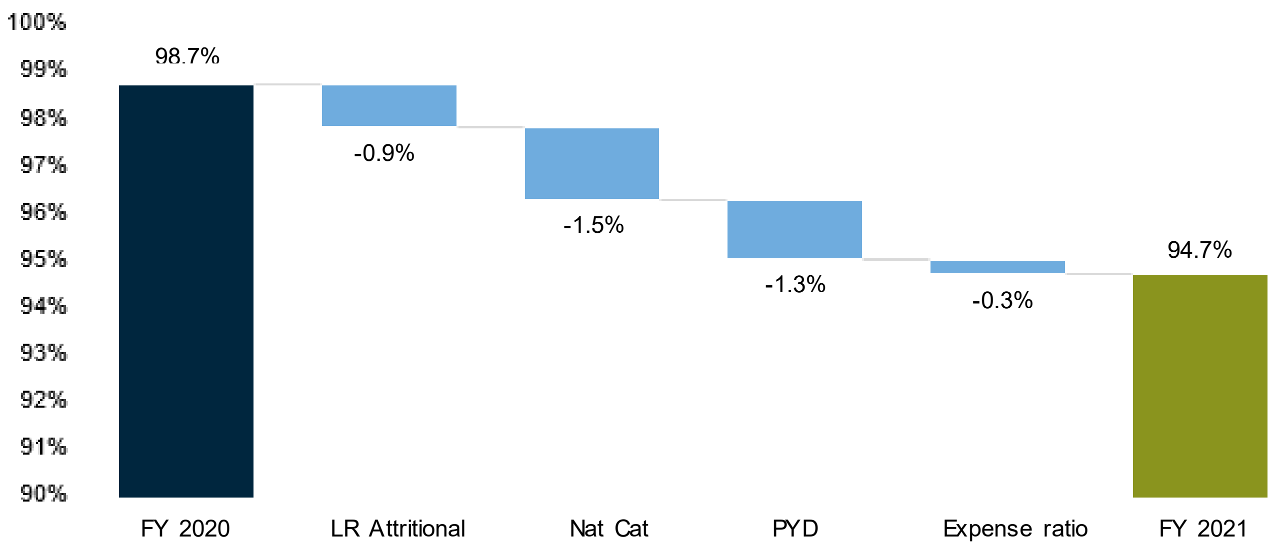
Combined ratio components – FY 2021 vs FY 2020[6]



Source: Company disclosures, Gallagher Re

Drivers of change in full-year combined ratios[7]



Source: Company disclosures, Gallagher Re

[6] Relates to the subset of companies which provide the relevant disclosure on combined ratio components. The subset excludes Mapfre, Tokio Marine, Sompo and MS&AD.
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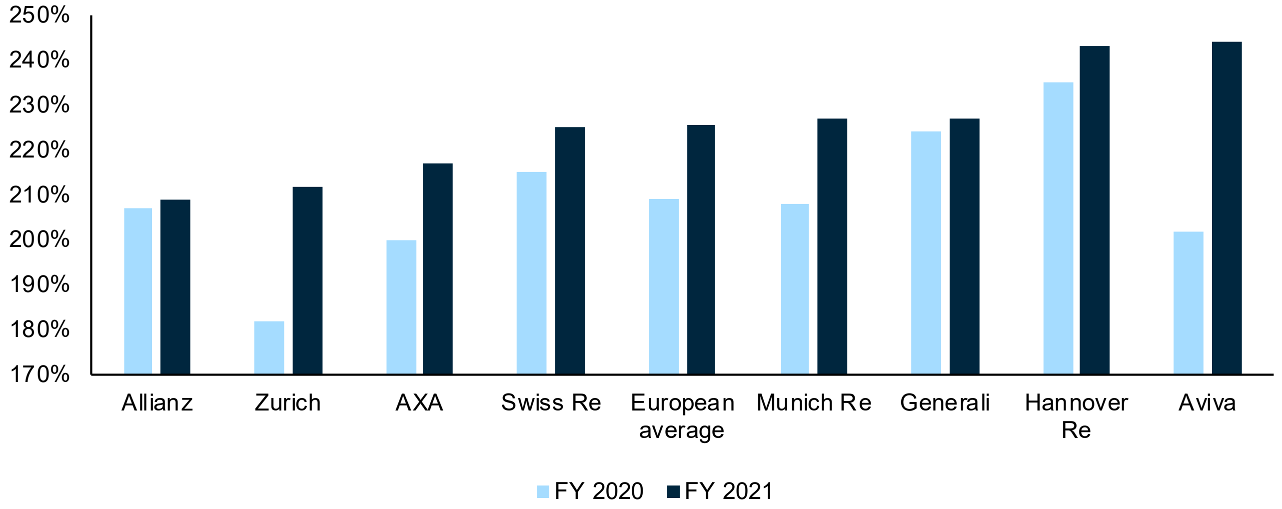
Capital positions in Europe strengthened further in 2021

The average solvency ratio for our European constituents at year-end 2021 increased to 226% compared to 209% at year-end 2020. The solvency improvement in 2021 was largely driven by significant tailwinds from rising risk-free interest rates and equity markets, as well as operating capital generation and deployment. Rising risk-free rates result in higher solvency ratios as the reduction in liabilities, discounted at the risk-free rates under Solvency II, exceeds the reduction in bond portfolio values.

European solvency ratios – FY 2021 vs FY 2020



Source: Company disclosures, Gallagher Re

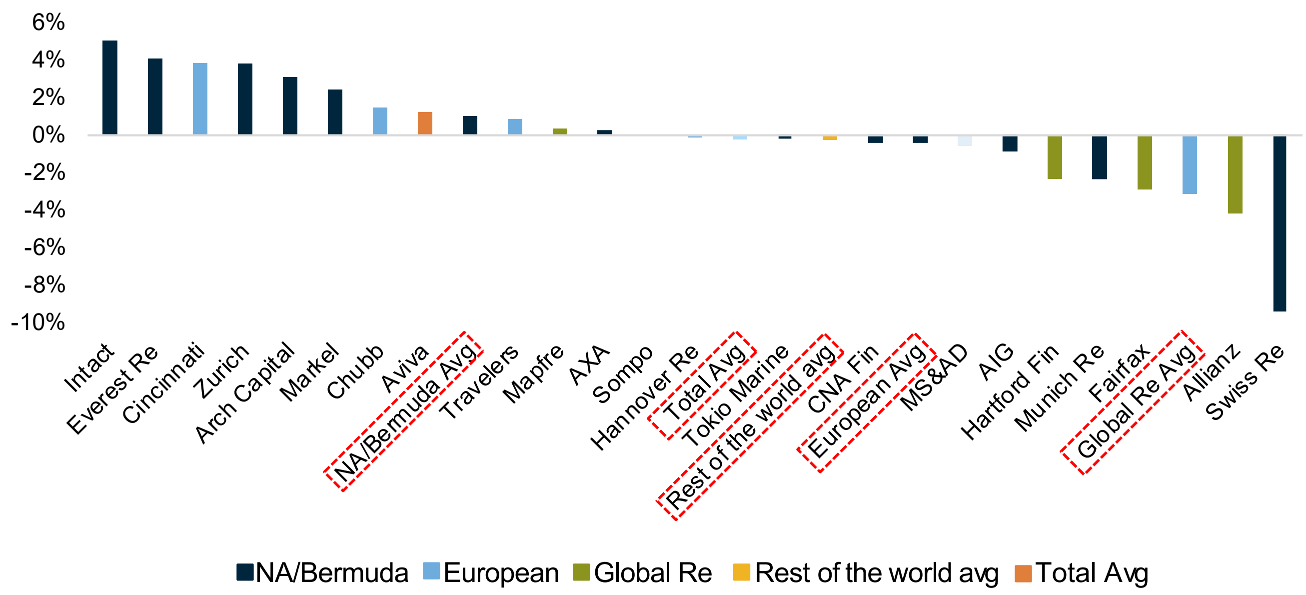
Despite strong Q4, trend of positive estimate revisions has stalled

While the group saw small but persistently positive EPS estimate revisions following previous quarterly results last year, EPS estimates for 2022 were kept broadly unchanged following Q4 results. There was also a wider spread of outcomes than in response to Q3 earnings between the upwards and downwards revisions.

By sub-group, the strongest performance was from North American and Bermudan (re)insurers, with solid earnings momentum and continued strong reported growth contributing to revisions. This sub-group was up 1.0%. In general, the investment community appears to remain bullish that earned rate increases on US business will continue to improve reported underwriting performance, though inflationary pressures and geopolitics remain hot topics.

On the other end of the scale, there were negative revisions among the global reinsurers we track, with this group seeing estimates lowered by 3%. European insurers also saw modestly lower estimates on average, down -0.4%. Among the outliers on the downside, analysts appeared to be focused on weaker than expected forward guidance and current period accident year loss picks in P&C as evidence of a less bullish environment. One notable data point is that there were nine companies with negative revisions this quarter, versus only three in Q3.

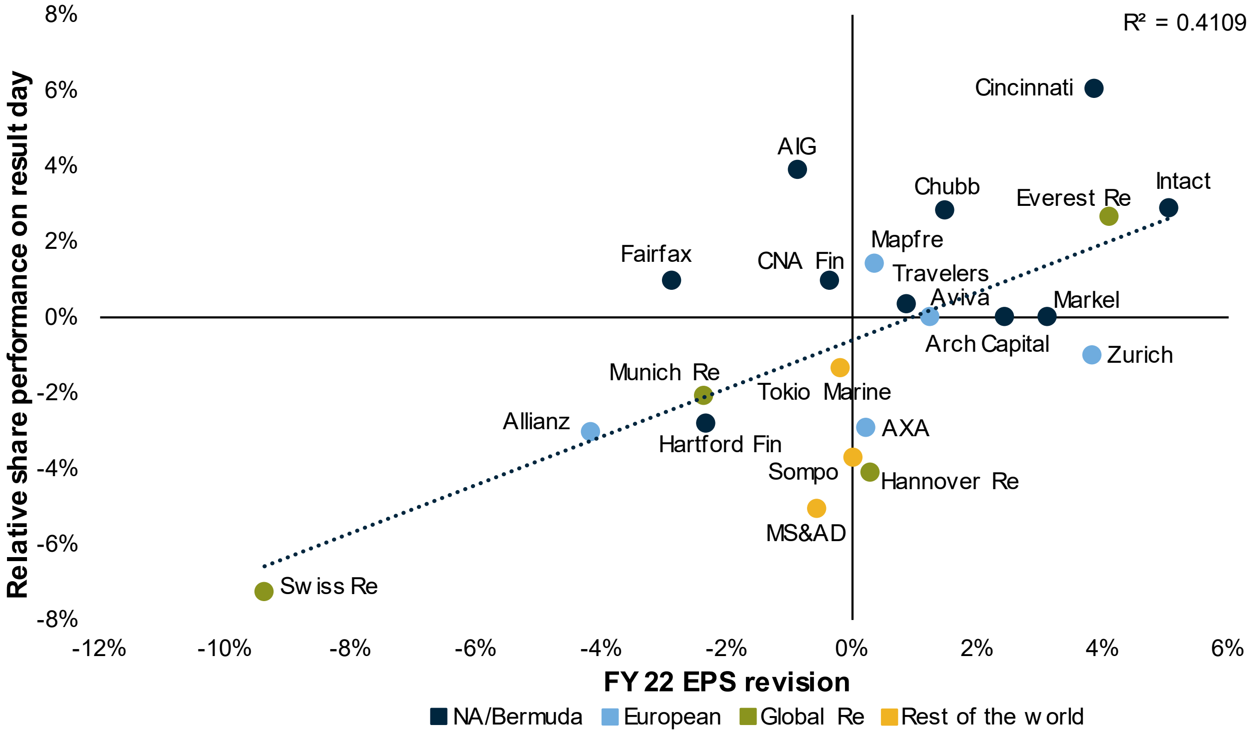
Change in consensus 2022 EPS estimates[8]



Source: Capital IQ

[8] FY 2022 consensus EPS estimates are sourced from S&P Capital IQ. Pre-Release and post-release estimates are as of one day before and 5 days after company's FY 2021 earnings release, respectively.

Relative share price performance vs EPS revisions[9]



Source: Capital IQ

Inflation remains a hot topic

Inflation remained one of the most discussed themes on analyst conference calls. FY 2021 claims levels were affected by higher material and repair costs, largely impacting short-tail lines. This included higher property re-build costs due to a rise in the cost of lumber and certain other commodities, and higher motor repair costs, partly due to a rise in used vehicle prices. In 2021 the earning through of price increases was able to outstrip claims inflation, as evidenced by the improvement in attritional loss ratios. Pricing and terms will need to remain favourable in order to maintain or grow margins in 2022 and 2023. Analysts, regulators, and rating agencies will continue to monitor inflation trends carefully, particularly on liability lines, given how severely impacted (re)insurers have been during previous periods of sustained high inflation. To date we have not seen widespread adverse reserve development for liability lines, although pockets of strengthening continue to be reported.

Of course, inflation also impacts the asset side of (re)insurers balance sheets. The recent uptick in bond yields is allowing insurers to invest at higher new money yields. This will show up in results with a lag, as insurers are still sitting on older bonds with lower coupons. Nevertheless, this up-tick in new money yields was a small source of upgrades for 2022 and 2023 earnings forecasts coming out of the Q4 reporting season.

[9] Consensus EPS estimates five days after results vs one day prior. Local Index used for companies Chubb, AIG, Travelers, Liberty mutual, Hartford, CNA Financial, Markel, Arch, Everest Re is S&P 500. Local index used for Allianz, AXA, Zurich, Generali, Aviva, Mapfre, Munich Re, Swiss Re, Hannover Re is STOXX Europe 600. Local index used for Tokio Marine, Sompo and MS &AD is Nikkei 225.

How can we help?

Gallagher Re's Strategic & Financial Analytics teams advise clients on strategic and capital management issues. To find out more, please contact your local client advocate or reach out to our experts.

Contact us – International Strategic and Financial Analytics

Brian Shea
T: +44 (0)20 3124 8625
E: brian_shea@ajgre.com

Stephen Mullan
T: +44 (0)20 3124 7552
E: stephen_mullan@ajgre.com

Milena Lacheta
T: +44 (0)20 3124 7133
E: milena_lacheta@ajgre.com

Alessandro Chiari
T: +44 (0) 77 1994 7939
E: alessandro_chiari@ajgre.com

Contact us – Specialty Strategic and Financial Analytics

Shireen Gammoh
T: +44 (0)20 7877 6135
E: shireen_gammoh@gallagherre.com

Laurence Lee-Tsang-Tan
T: +44 (0)20 3124 7773
E: laurence_lee-tsang-tan@ajgre.com

Mike Cane
T: +44 (0)20 3124 7291
E: mike_cane@ajgre.com

Kavit Khagram
T: +44 (0)20 3124 8987
E: kavit_khagram@ajgre.com

Contact us – North America Strategic and Financial Analytics

Raj Bohra
T: +1 212 915 8444
E: raj_bohra@ajgre.com

Ralph Cagnetta
T: +1 212 915 8412
E: ralph_cagnetta@ajgre.com

Elizabeth Cordani
T: +1 860 241 4490
E: elizabeth_cordani@ajgre.com

Gavin Davis
T: +1 917 972 7351
E: gavin_davis@ajgre.com

Adrian Nusaputra
T: +1 212 915 7856
E: adrian_nusaputra@ajgre.com

Gus Park
T: +1 212 915 8438
E: gus_park@ajgre.com

Frank Reda
T: +1 212 309 3595
E: frank_reda@ajgre.com

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