



**Gallagher Re**

## Global (re)insurers' financial results for full year 2022

**Combined ratios remain strong at full-year 2022 but investment losses reduce ROE and shareholders' equity.**



23 MARCH 2023

## Key themes from full-year and Q4 (re)insurance results<sup>1</sup>

- Year-on-year premium growth averaged 12.1% for FY 2022, supported by improved pricing for commercial lines and reinsurance business.
- The average combined ratio deteriorated marginally to 95.7% (FY 2021: 94.7%), mainly due to an inflation-driven increase in the attritional loss ratio.
- Investment losses weighed on the average full-year ROE, which dropped to 10% (FY 2021: 12.6%).
- Shareholders' equity decreased by an average of 27% in FY 2022, driven by unrealised losses on investments and to a lesser extent capital return (both dividends and buybacks).
- Despite declining shareholders' equity, European solvency remained robust at 235% (FY 2021: 225%), supported by higher risk-free interest rates and retained profits.
- The total average consensus 2023 earnings per share (EPS) estimate was virtually unchanged following FY 2022 results.

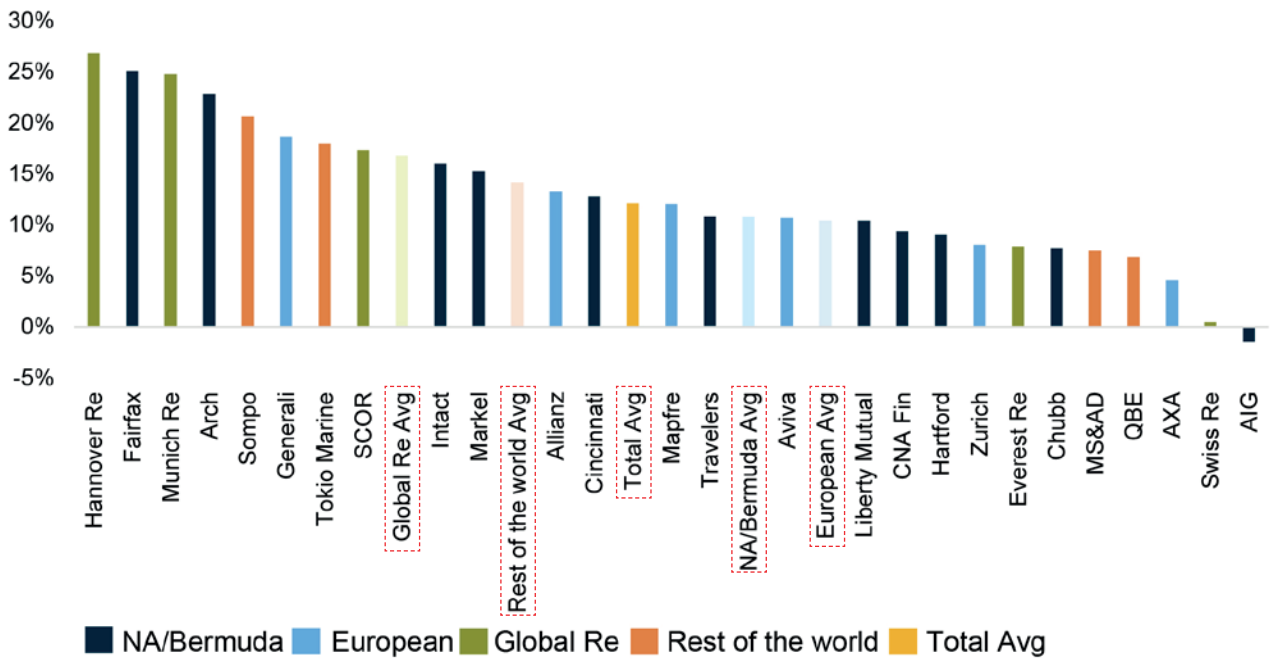
## Pricing momentum continues through Q4 2022

The (re)insurers we track reported total average growth in P&C premiums of 12.1% for FY 2022 and 10.2% for Q4 2022, with the strongest FY 2022 increase coming from the Global Reinsurers (+16.7%). The double-digit growth in premiums on both a quarterly and annual basis continues to be supported by not only price increases but also higher policy retention and organic growth.

Inflation hit a 40-year high in many global economies in 2022 and continues to have an impact on industry premium trends. Apart from AIG, all companies we track reported a year-on-year increase in premium. Sixteen of the 26 companies in our data set reported double digit premium growth and of those, five reported increases over 20%. Earnings call commentary on pricing echoed a theme presented throughout the year that companies continued to push for rate increases in response to the volatile economy and inflationary trends. Although rate increases continue to moderate, some management teams expect overall margin expansion for their commercial lines business in 2023. Margin trends varied by commercial line of business with workers' compensation and professional liability lines (e.g., D&O) being viewed as challenged while commercial property pricing has benefited from rising reinsurance costs. Personal lines margins continued to be challenged in 2022 but management teams are optimistic about improvement in 2023 as recent rate increases earn through. Generally, insurers expect strong premium growth to continue throughout 2023.

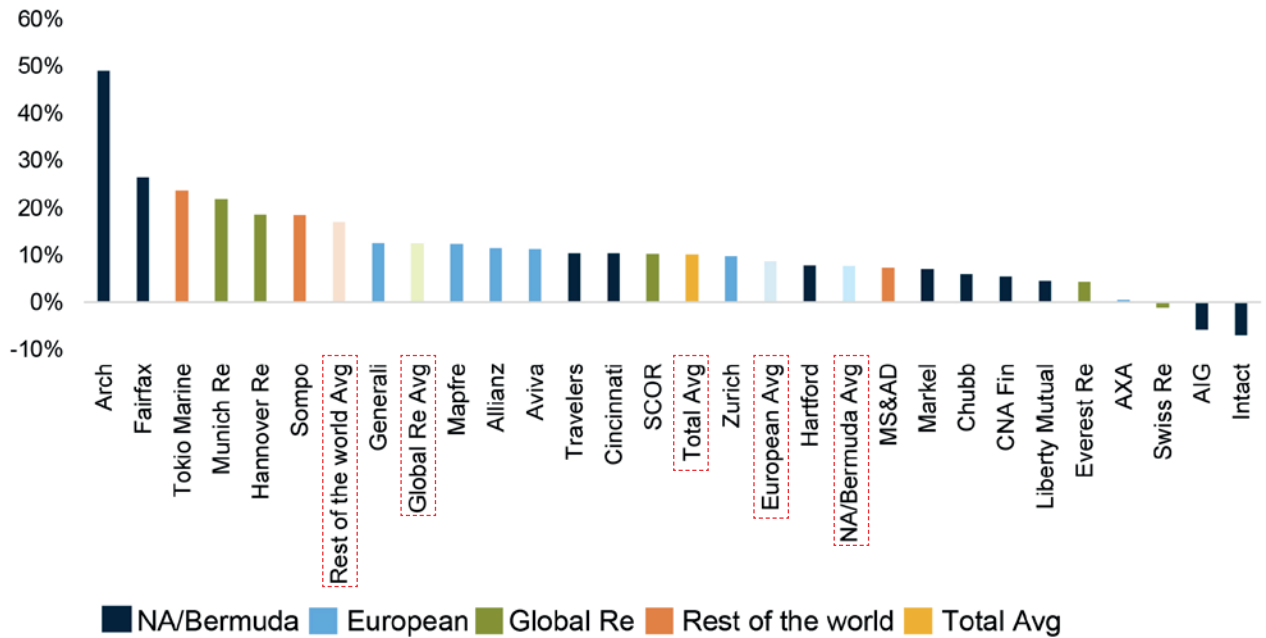
<sup>1</sup>We track the largest (re)insurers globally who have meaningful commercial lines or reinsurance operations. Unless otherwise indicated, we are referring to the January-December 2022 period.

## Growth in P&C premiums: FY 2022 vs FY 2021<sup>2</sup>



Source: Company disclosures, Gallagher Re

## Growth in P&C premiums: Q4 2022 vs Q4 2021<sup>2</sup>



Source: Company disclosures, Gallagher Re

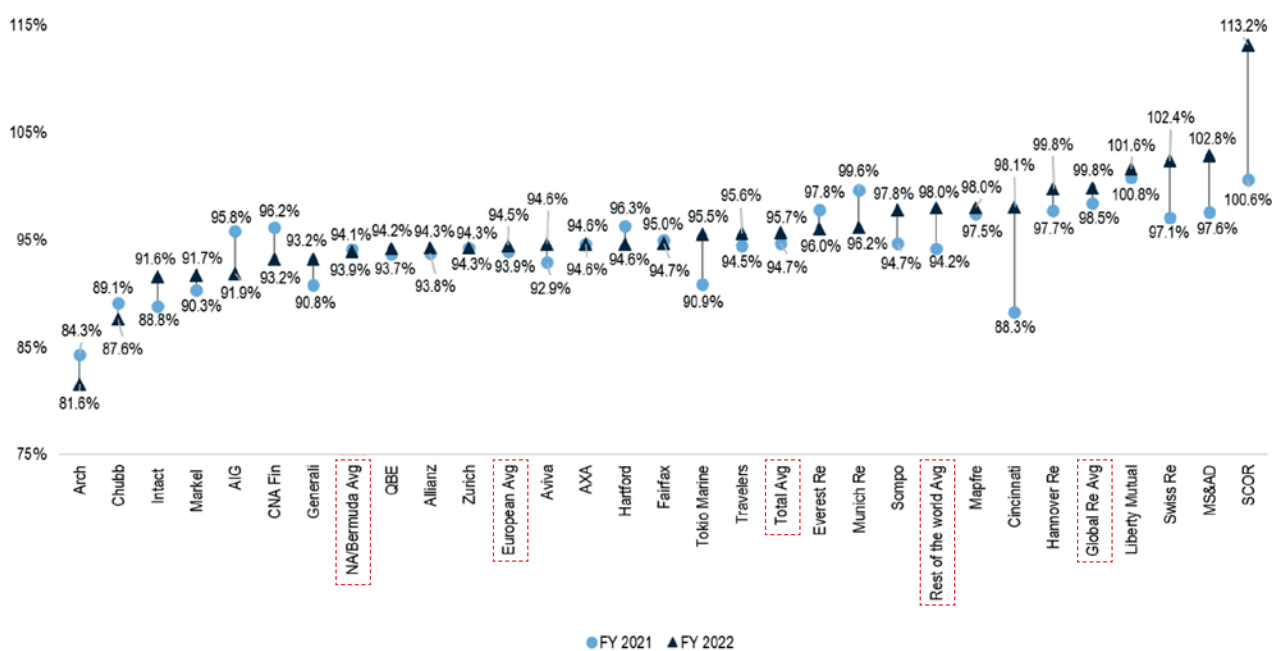
<sup>2</sup>Premiums are P&C net premiums written, except as follows: for Swiss Re, Munich Re and Mapfre, premiums are net earned premiums; for Aviva, Zurich and Generali premiums are P&C segment gross premium written, for AXA premiums are gross revenues; for Sompo & Tokio Marine, domestic and international re-calendarised figures are taken. For MS&AD domestic and MS Amlin, re-calendarised figures are taken. Growth in P&C net premiums for Q4 2022 versus Q4 2021 excludes QBE

## Underwriting profitability deteriorates marginally driven by higher attritional loss ratio

For FY 2022, the companies we track reported an average combined ratio of 95.7% (FY 2021: 94.7%). While prior year reserve development was modestly more favourable compared to prior year, and natural cat losses more benign, the overall loss ratio trended higher on inflationary pressures. Of the subset of companies that disclose the split, only three reported an improvement in the FY 2022 attritional loss ratio compared to FY 2021, with AIG reporting the largest improvement of 1.8 points resulting from that company's continued reshaping of its portfolio.

Higher attritional losses pushed the Q4 2022 combined ratio slightly higher, to 93.2% from 93.0% in Q4 2021. Only one company—Hannover Re—reported a greater-than-100% combined ratio in the quarter, weakening by 4 points from Q4 2021. This resulted from an 8 point deterioration in its loss ratio which outpaced 4 points in expense ratio savings. Overall, inflationary pressures contributed to weaker results, with 12 companies deteriorating, compared to 9 companies with better overall results in the quarter compared to prior year. Even among those companies that reported improved overall combined ratios, however, inflation featured in company disclosures as a contributing factor, with, for some, improvements from lower Nat-Cat losses or the expense ratio offsetting higher attritional loss experience in the quarter.

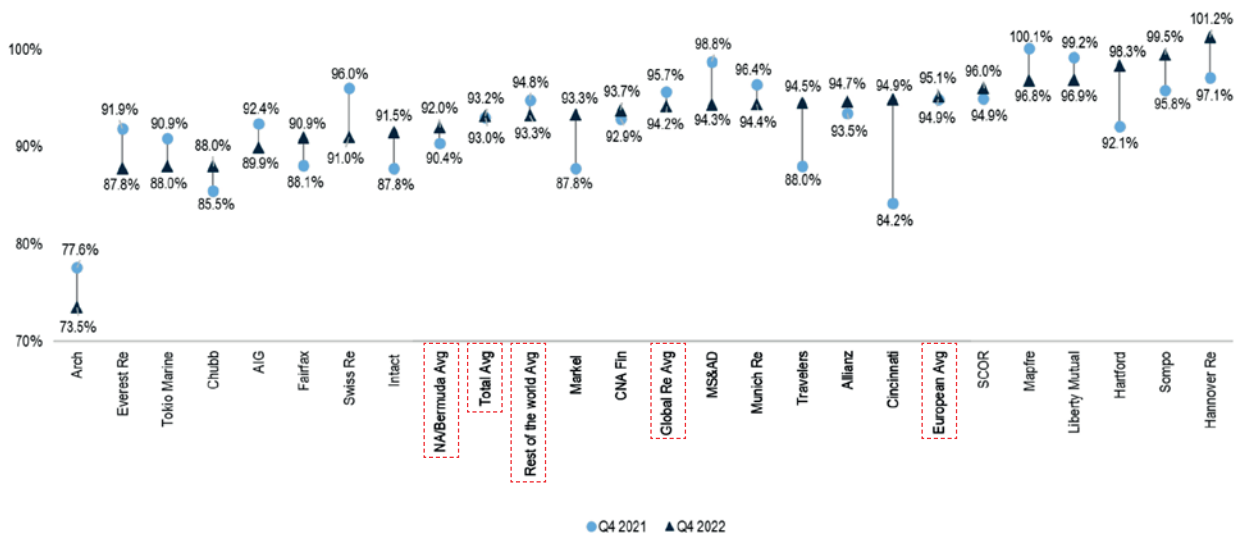
### Combined ratios: FY 2022 vs FY 2021<sup>3</sup>



Source: Company disclosures, Gallagher Re

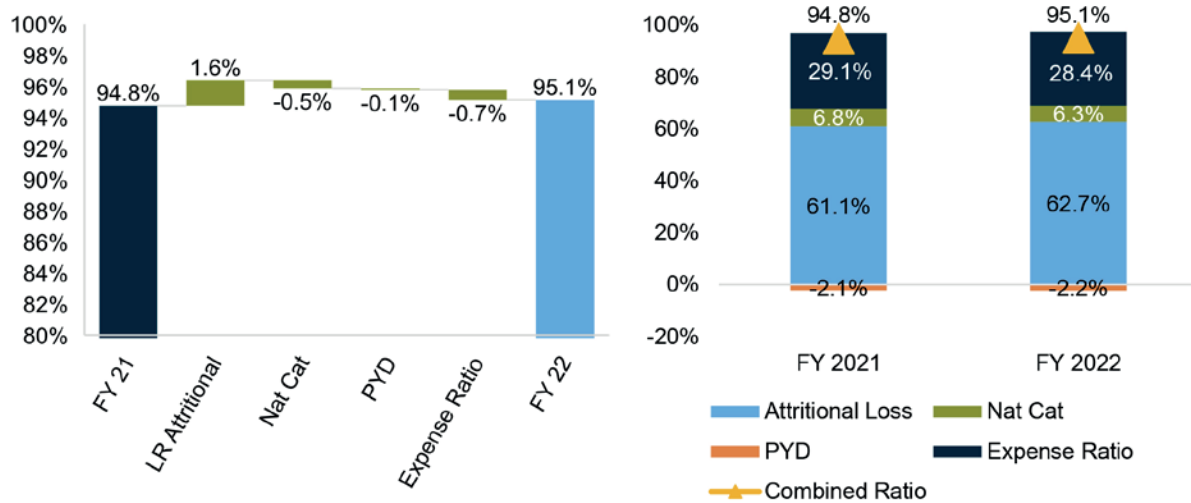
<sup>3</sup>Combined ratios FY 2022 for Swiss Re, Hannover Re, Everest Re, SCOR and Munich Re, Generali relate to their P&C reinsurance segments. Aviva's combined ratio relates to its general insurance segment. Combined ratios for Sompo & Tokio Marine relate to their domestic and international re-calendarised figures. MS&AD's combined ratio relates to its domestic and MS Amlin re-calendarised figures.

## Combined ratios: Q4 2022 vs Q4 2021<sup>4</sup>



Source: Company disclosures, Gallagher Re

## Combined ratio components: FY 2022 vs FY 2021<sup>5</sup>

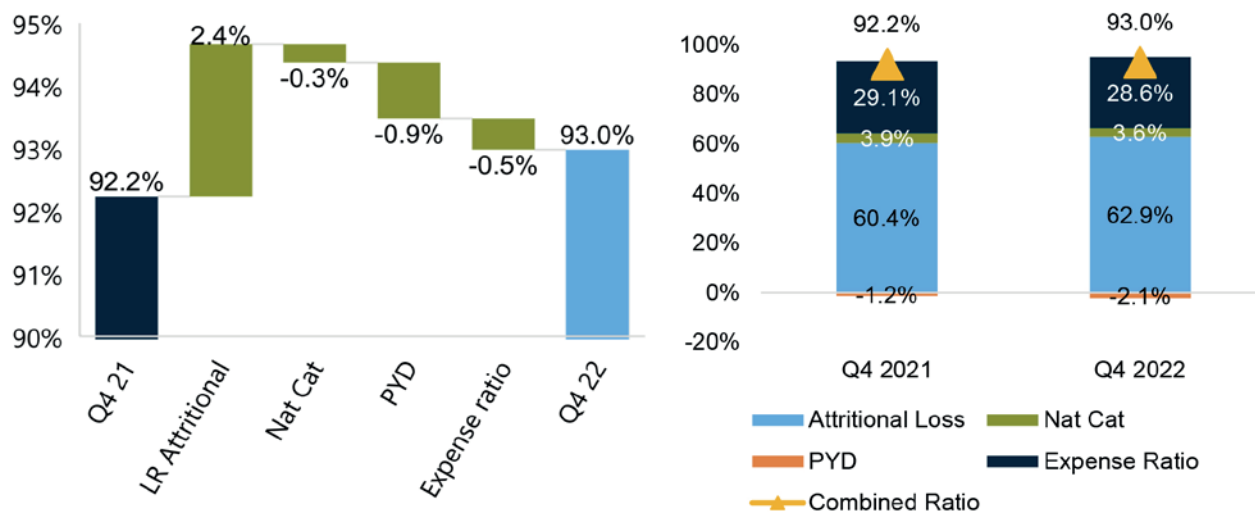


Source: Company disclosures, Gallagher Re

<sup>4</sup>Combined ratios for Swiss Re, Hannover Re, Everest Re, SCOR 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. Q4 combined ratios exclude AXA, QBE, Zurich, Generali and Aviva.

<sup>5</sup>Relates to the subset of companies which provide the relevant disclosure on combined ratio components. The FY 2022 subset excludes Aviva, Mapfre, Tokio Marine, Sompo and MS&AD.

## Combined ratio components: Q4 2022 vs Q4 2021<sup>6</sup>



Source: Company disclosures, Gallagher Re

## FY 2022 average ROE impacted by falling equity markets

The average ROE decreased to 10% at FY 2022 (FY 2021: 12.6%), with 19 of our 26 constituents registering declines. Significant drops in ROE were reported by several North American and Bermudan (re)insurers, largely due to unrealised investment depreciation as a result of falling equity markets (which flows through the P&L under US GAAP). This was the main driver of the notable drops in ROE by Cincinnati and Markel. Higher than expected natural catastrophe losses were a contributor to the decline in ROE for the major Japanese insurers. AIG's FY 2022 ROE increased significantly from the prior period supported by a lower combined ratio and higher realised investment gains. Rising reinvestment yields continue to support ROEs for all segments.

For the fourth quarter, average ROE improved to 16.3% from 12.8% at Q4 2021; the improvement for the European segment was driven by the significant increase in Allianz's profitability (following litigation provisioning in Q4 2021) and the improvement for the Global Re segment was due in part to a lower combined ratio. The sale of its pet insurance was the key driver of Fairfax's significant increase in ROE at Q4 2022. AIG's Q4 2022 ROE decreased despite a 2.5 ppt improvement in its combined ratio to 89.9%, partly due to realised investment losses and one-off gains in Q4 2021 from the sale of its life and retirement business.

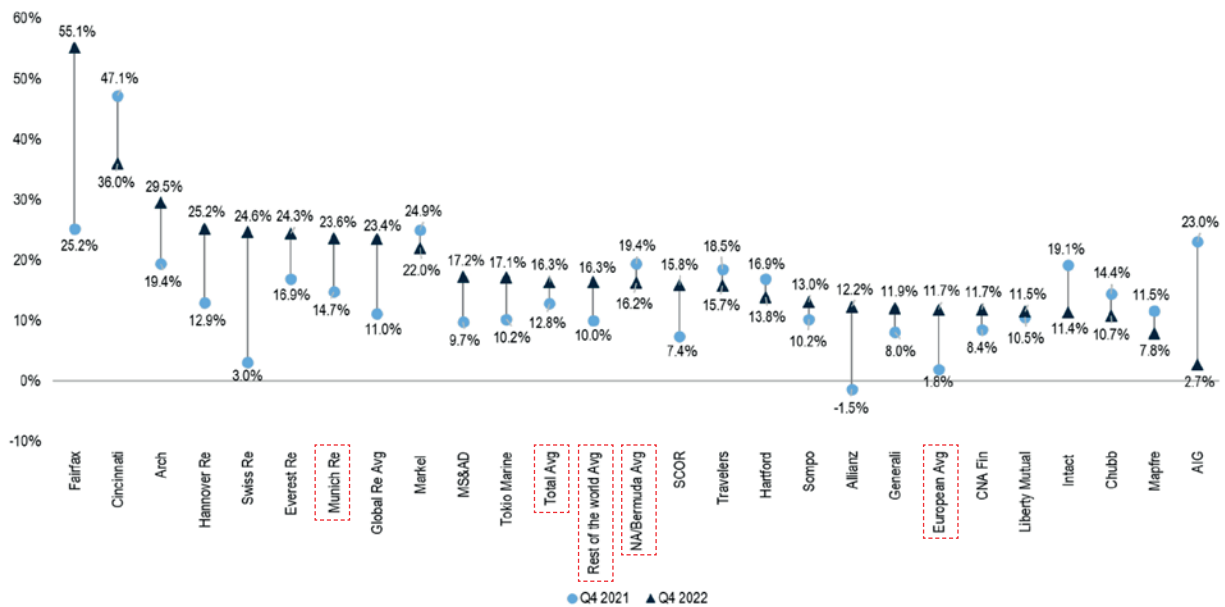
<sup>6</sup>Relates to the subset of companies which provide the relevant disclosure on combined ratio components. The Q4 22 subset excludes AXA, Zurich, Aviva, Generali, Mapfre, Tokio Marine, Sompo and MS&AD, QBE.

## Return on equity: FY 2022 vs FY 2021<sup>7</sup>



Source: Company disclosures, Gallagher Re

## Return on equity: Q4 2022 vs Q4 2021<sup>8</sup>



Source: Company disclosures, Gallagher Re

<sup>7</sup>Return on equity figures are calculated figures for Liberty Mutual, Markel, Cincinnati, Hartford, Fairfax, Zurich, Generali, Mapfre, Swiss Re, SCOR, Tokio Marine, MS&AD and Sompo.

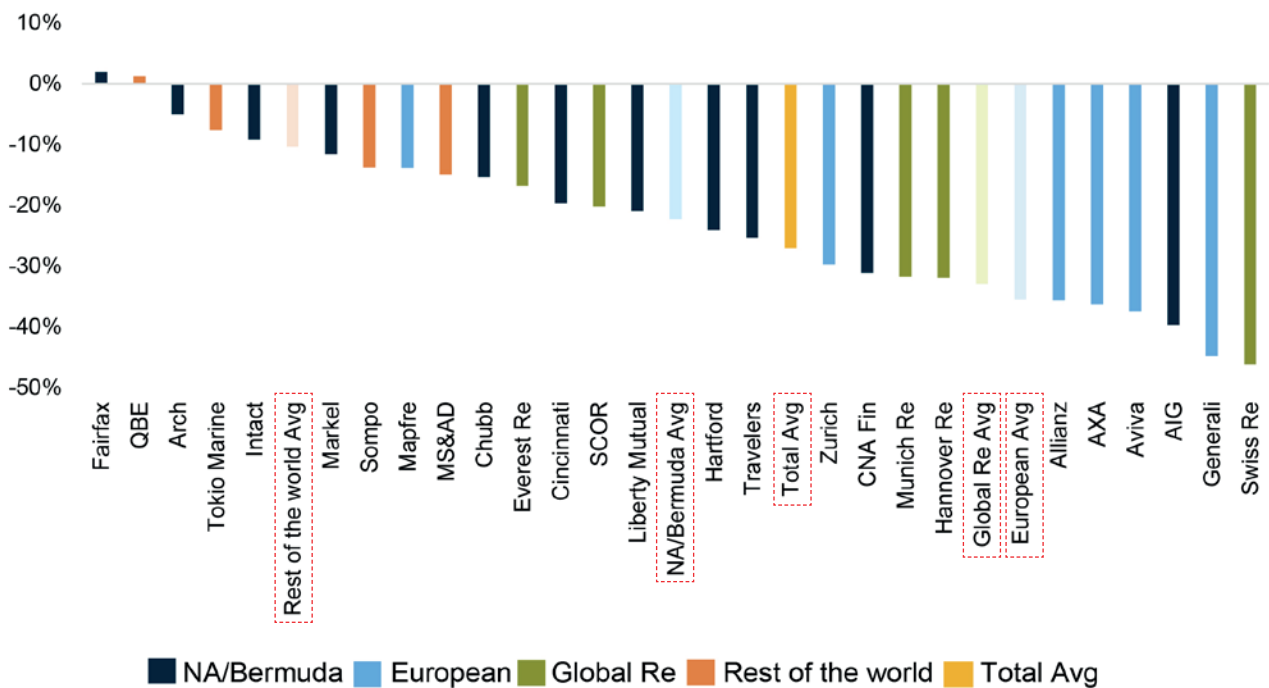
<sup>8</sup>Return on Equity excludes AXA, Aviva and Zurich, QBE.

## Shareholders' equity falls on average 27% driven by lower asset values, capital return

Shareholders' equity decreased by an average of 27% in FY 2022. All segments we track declined, with Europeans (-36%) and Global Reinsurers (-33%) seeing the most significant declines. North America/Bermuda was also down double digits (-22%)

The main driver of the decline in shareholders' equity came from unrealised losses on companies' investment portfolios and to a lesser extent capital return (both dividends and buybacks). The unrealised losses were driven by a rise in interest rates and threats of recession which resulted in lower market values of bonds and equities held by (re)insurers. Over the course of 2022, the most significant declines in shareholders' equity occurred through 9M, particularly in Q2 and Q3. Most companies, particularly in the North America/Bermuda segment saw a quarter over quarter increase in Q4.

### Shareholders' equity: FY 2022 vs FY 2021



Source: Company disclosures, Gallagher Re



## European solvency remains robust despite declines in shareholders' equity

Despite the above noted declines in shareholders' equity, FY 2022 European capital levels remained robust on a regulatory basis as the reduction in bond portfolio values caused by rising interest rates was less significant than the reduction in liabilities, which are discounted at risk-free rates under Solvency II. Albeit a less significant driver, retained profits also contributed to solvency levels for several companies. Offsetting factors included capital actions, such as share buy backs and dividends, and reserve strengthening.

Average solvency for the European sector increased to 235% (FY 2021: 225%) with most companies at the upper end of, and in some cases materially above, their target solvency levels. The largest drop in solvency was recorded by Aviva and was entirely due to an exceptionally large capital return executed in 2022. We expect companies to continue to utilize excess capital to support organic growth in lines of business which meet internal return on capital targets as well as providing capital returns to shareholders.

### European solvency ratios: FY 2022 vs FY 2021<sup>9</sup>



Source: Company disclosures, Gallagher Re

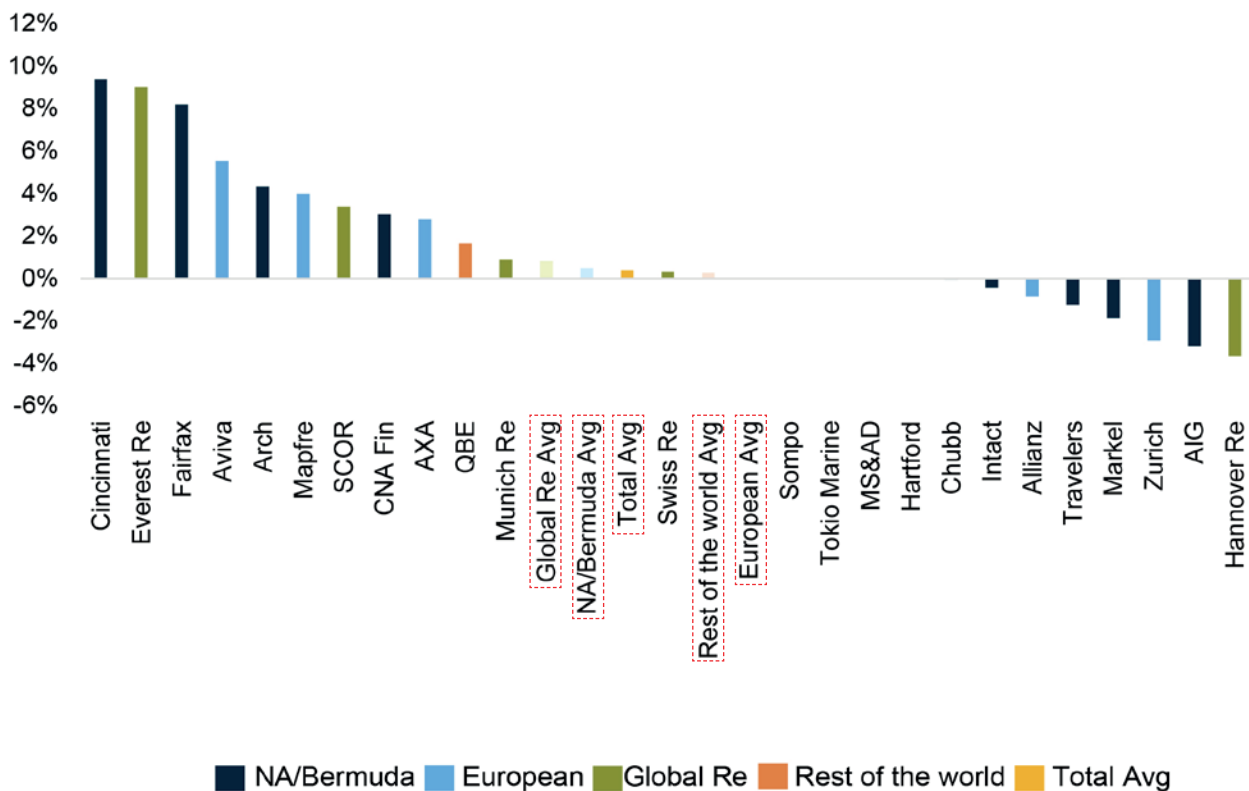
<sup>9</sup>Excludes Mapfre. FY 2022 Swiss Re solvency ratio is > 280%

## Loss cost inflation and higher net investment income expectations drive EPS revisions

The total average consensus 2023 earnings per share (EPS) estimate was virtually unchanged following FY 2022 results. The Global Reinsurers' (+0.8%) revisions (most particularly Everest Re +9.0%) were due to more favourable growth and margin expectations. North America/Bermuda also saw positive EPS revisions for 2023 (+0.5%), driven by significant revisions for Fairfax (+8.2%), and Cincinnati Financial (+9.3%) on higher net investment income (NII).

Overall, companies remain concerned about loss cost inflation, particularly social inflation within casualty and economic inflation within personal lines, which is expected to continue to pressure underlying loss trends. On the positive side, expectations for NII generally increased and premium growth is expected to continue through 2023.

### Change in consensus 2023 EPS estimates<sup>10</sup>

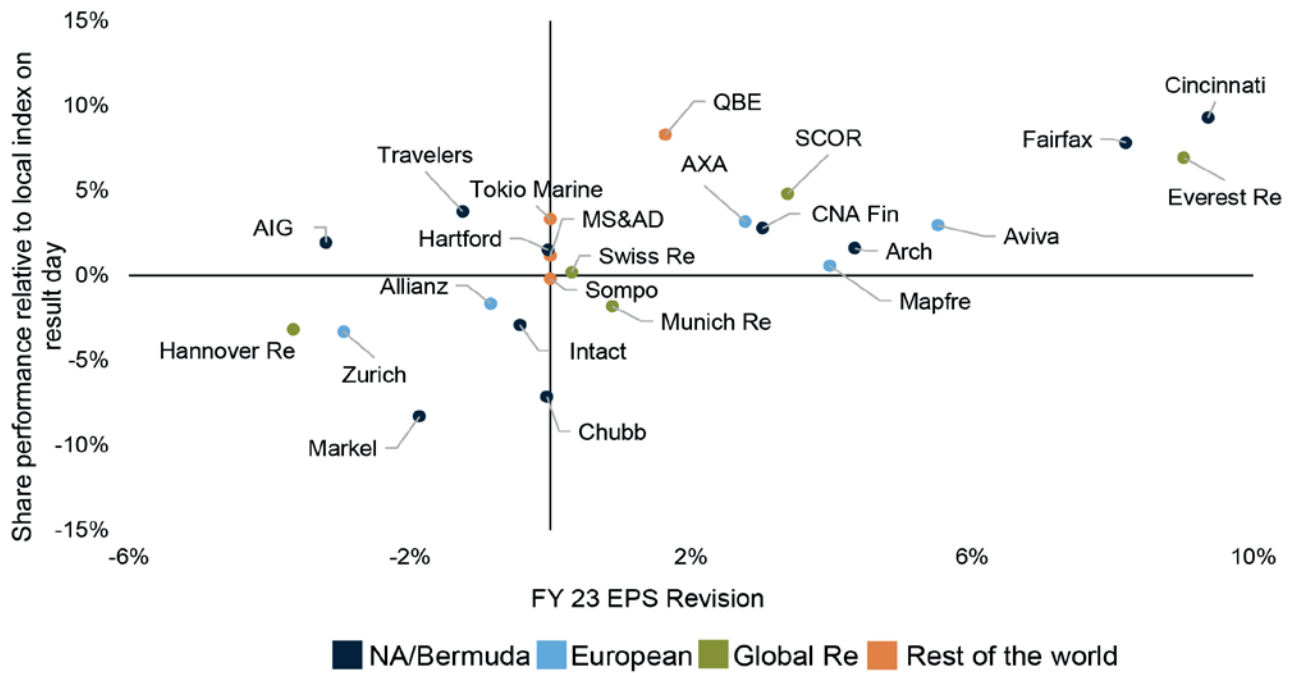


Source: Capital IQ

Share performance on results day, relative to an insurer's local index, is generally well-correlated to EPS revisions. This was particularly the case for Cincinnati whose share price and consensus 2023 EPS estimate increased on expectations of higher investment income.

<sup>10</sup>Consensus EPS estimates are sourced from S&P Capital IQ. Pre-release and post-release estimates are as of one day before and five days after company's earnings release, respectively. Excludes Liberty Mutual, Generali

## Relative share price performance vs 2023 EPS revisions<sup>11</sup>



Source: Capital IQ

<sup>11</sup>Consensus EPS estimates five days after results vs one day prior. Local index used for Chubb, AIG, Travelers, Hartford, CNA Financial, Markel, Arch, Everest Re is S&P 500. Local index for Fairfax and Intact is Canadian Index. Local index used for Allianz, AXA, Zurich, Generali, Aviva, Mapfre, Munich Re, Swiss Re, Hannover Re, SCOR is STOXX Europe 600. Local index used for Tokio Marine, Sompo and MS&AD is Nikkei 225. Local index for QBE is Australian stock index. Excluded companies include Generali



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