

Global (re)insurance: Q1 trends generally favourable, driven by positive pricing momentum

Willis Re
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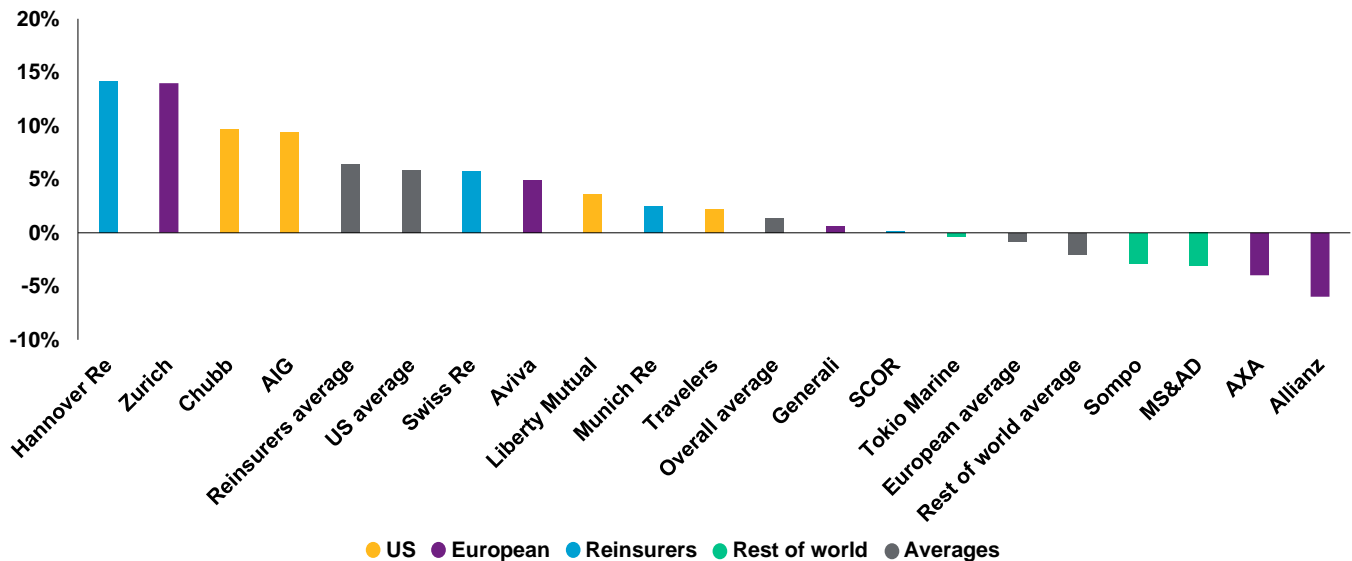
Summary

- This note summarizes the key themes emerging from global (re)insurers' Q1 2021 results¹
- We track 17 of the biggest (re)insurers globally who have meaningful commercial lines or reinsurance operations
- Most (re)insurers achieved meaningful premium growth in Q1 2021, with rate momentum in reinsurance and commercial lines trumping any residual COVID-19 volume pressure
- While a number of (re)insurers reported improved ex-cat accident year combined ratios, due to favourable pricing conditions, the Texas winter storm dented several headline combined ratios
- European solvency ratios expanded again in Q1, with the main driver being an inflation related rise in risk-free interest rates. Solvency ratios have now generally regained their end-2019 pre-COVID levels
- Possibly the most telling take-away from the Q1 results season is that consensus earnings estimates nudged up slightly, with rate momentum, premium growth and the investment yield outlook all contributing to the slightly more positive outlook

Favourable reinsurance and commercial insurance pricing drives premium growth

Continued rate momentum for reinsurance and commercial insurance lines of business drove strong premium growth for a number of the companies which we track. Notable examples included year on year quarterly growth in net written premiums of c.14% by Hannover Re and Zurich, and growth of almost 10% by AIG and Chubb. By and large, growth was stronger for the US insurers and the reinsurers, due to stronger rate momentum and, for all the USD reporters, a positive currency impact. Although acknowledging some slowing in rate for certain lines of business and geographies, management teams were confident that reinsurance and commercial insurance pricing would remain favourable for the remainder of 2021 and into 2022. Some companies reported overall reductions in premium due to actions taken to cut back on certain parts of their portfolios which had underperformed due to inadequate pricing. Continued COVID-19 related drag on retail P&C business was also cited as a constraining factor on premium levels. This, plus a negative currency impact, was the main reason for the 6% decline at Allianz.

Growth in P&C premiums – Q1 2021 vs Q1 2020²



Source: Company disclosures, Willis Re

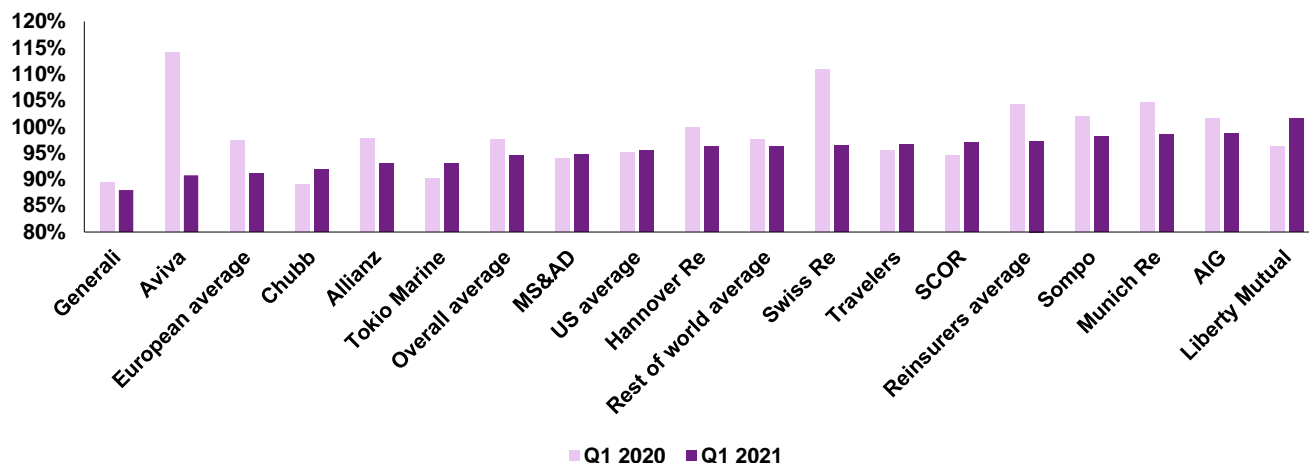
¹ Unless otherwise indicated, we are referring to the January-March 2021 period. For the three Japanese insurers who have a March year-end, this aligns with their Q4 reporting period.

² Except as noted, premiums are net premiums written. For Generali, Aviva, Zurich, AXA and Hannover Re premiums are gross premiums written. For Munich Re and Swiss Re premiums are net earned premium.

Improved underlying profitability due to pricing tailwind, offset by higher cat losses

Rate increases for reinsurance and commercial insurance lines of business continued to outstrip claims inflation, resulting in improved ex-cat accident year combined ratios. For companies with meaningful personal lines activities, low claim frequency due to COVID also helped. Despite this improvement in underlying profitability, reported combined ratios at Q1 2021 for some companies deteriorated compared to Q1 2020 due to above average Nat Cat losses, mainly as a result of the Texas winter storm. Concerns around inflation were raised by analysts on several earnings calls. While noting that this is an area they continue to monitor carefully, management teams were not unduly concerned, taking the view that inflation trends had not changed significantly, the gap between headline rate increases and loss cost inflation remains significant, and historically conservative reserving approaches provide a buffer. While inflation is certainly a threat to the non-life business model, we also note that a material uptick in inflation should also be accompanied by a normalisation in interest rates.

Combined ratios – Q1 2021 vs Q1 2020³

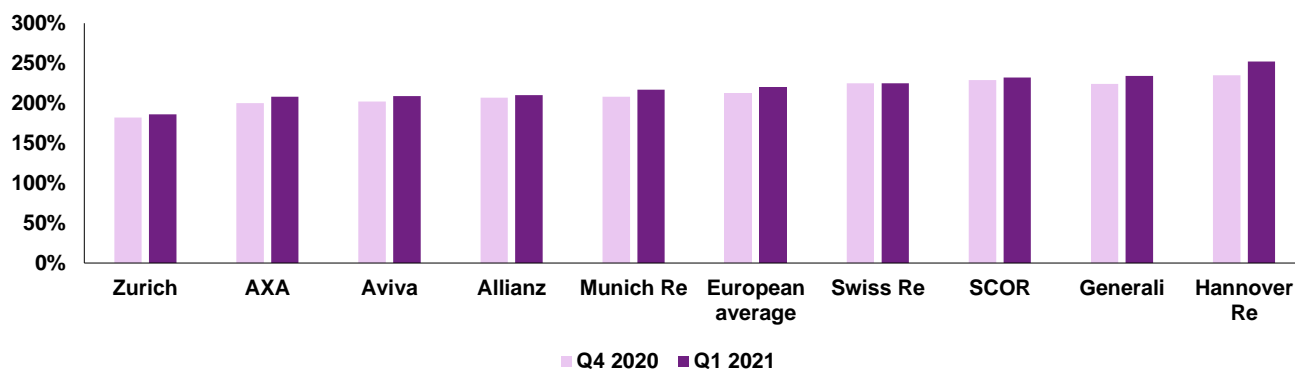


Source: Company disclosures, Willis Re

European solvency levels increase as inflation concerns push risk-free rates higher

Solvency ratios, an important quarterly metric for the Europeans, increased across the board in Q1. The average ratio now stands at a robust 219%. This also represents a full recovery from the pre-COVID level at year-end 2019. Although retained profits and rising equity markets provided support, the key driver of the improvement in solvency in Q1 21 was rising interest rates. In our previous publications in this series we noted that the sector's recovery in solvency in Q3 and Q4 of 2020 was more L than V due to the constraining impact of a further decline in already low interest rates. That changed in Q1 21 as inflation concerns pushed risk free rates higher. This provided a boost to sector solvency as the reduction in liabilities, which are discounted at risk-free rates under Solvency 2, exceeded the reduction in bond portfolio values. We expect capital returns to increase in 2021 and 2022, given that European solvency is now at the upper end of management guidance levels, and as any remaining regulatory restrictions on dividends fall away.

Solvency ratios – Q1 2021 vs Q4 2020⁴



Source: Company disclosures, Willis Re

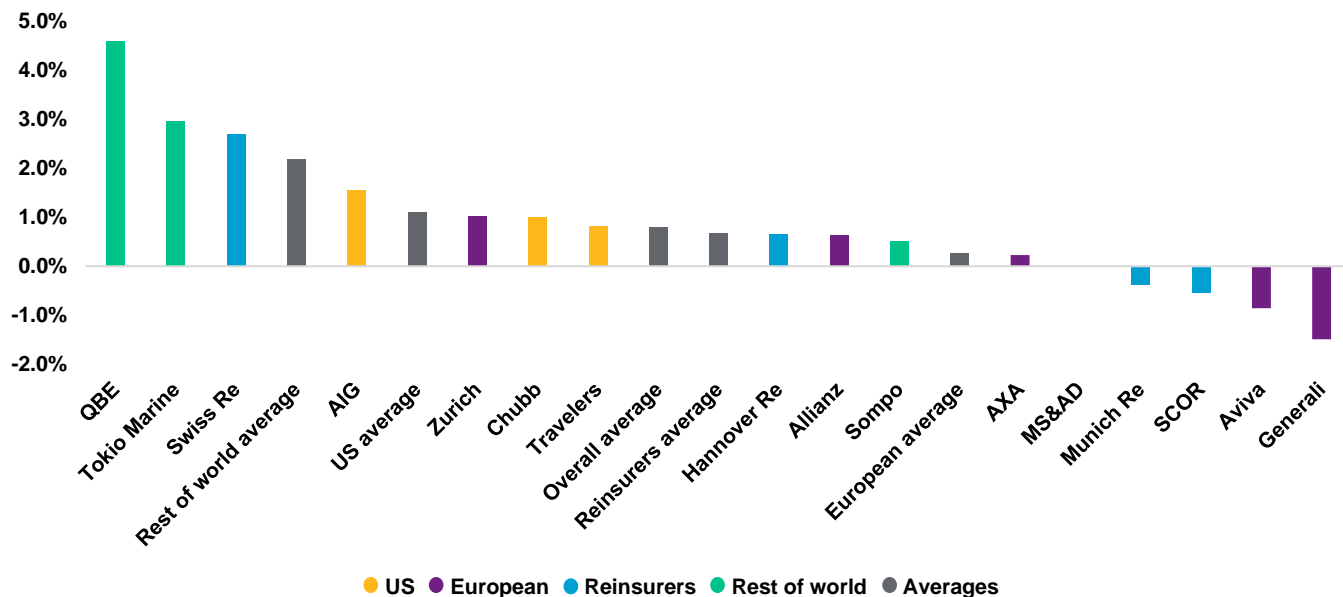
³ Combined ratios for the three Japanese insurers relate to these companies' domestic operations rather than their group-wide activities.

⁴ Swiss Re's Q1 2021 figure is not available, and so its Q4 2020 solvency ratio is shown for Q1 as well.

Q1 results produced modest earnings estimate upgrades

Possibly the most telling take-away from the Q1 results season is that consensus earnings estimates nudged up slightly, with rate momentum, premium growth and the investment yield outlook all contributing to the slightly more positive outlook. Consensus 2022 estimates (which are uncontaminated by any one-off impacts coming out of Q1 2021) increased by an average 1%. The US and 'Rest of World' (Japanese + QBE) saw consistent small increases. It was more of a mixed bag for the Europeans and reinsurers, with currency headwinds dampening the EUR reporters.

Change in consensus 2022 EPS estimates⁵



Source: Capital IQ

⁵ Consensus EPS estimates five days after results vs one day prior. For MS&AD, Sompo and Tokio Marine, EPS estimates for 2022 correspond to y/e March 2023.

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Willis 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.

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