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P&C insurers might see a rebound in 2023, but it won't be all rainbows and butterflies

Article

The news: The US property and casualty industry is expected to rebound in 2023 and 2024 from a trying 2022, per Swiss Re's "US Property & Casualty outlook: sources of optimism from a difficult starting point” report. Here we review the industry’s performance in 2022 and look at what will drive and what will stall progress in 2023.

2022 in review: The P&C industry recorded **a $26.9 billion net underwriting loss in 2022, more than six times the loss it experienced in 2021,** per the American Property Casualty Insurance Association (APCIA)

- The industry’s return on equity (ROE) came in at 2.5%, per Swiss Re. Profits were hit hard by persistent inflation and an outsized number of catastrophic events, including Hurricane Ian.
- Net income fell to $41.2 billion last year, down 33.6% from 2021, according to the APCIA. The industry suffered losses in net investment income due to the realization of negative capital gains.
- Earned premiums grew 8.3%, but that wasn’t enough to offset losses and loss adjustments, which increased 14.1%. The sector’s combined ratio worsened to 102.7%, from 99.6% in 2021.

To 2023 and beyond: Swiss Re’s report provides **a more optimistic outlook for 2023,** but we see some economic and natural forces affecting underwriting and reserves that could dent its forecast.

- **Profit:** Swiss Re estimates that the US P&C industry’s profits will grow to roughly 8% in 2023, potentially climbing as high as 9.5% in 2024.
- **Underwriting:** The sector’s combined ratio is expected to improve to 100% in 2023 and 98.5% in 2024. Inflation in the US is slowly declining, but it remains stubbornly present. The major underwriting risk insurers face this year is an increasing number of natural catastrophes (natcats). The first quarter of 2023 saw an above-average number of natcat claims, and climate-related disasters have tripled in the last 30 years.
- **Reserves:** Inflation has eaten away at insurers’ reserves in 2022, which already faced depletion due to conservative estimates related to COVID losses in 2020 and 2021. Inflation is expected to continue gnawing at reserves in 2023, along with consumer-related changes in travel and work preferences.
- **Auto:** Inflation has driven up the cost of cars and the cost of car repairs in 2022, which causes claim costs to rise. Car accidents are also on the rise. Forbes reported a 7% increase in fatal car accidents in the US between 2019 and 2020. But according to the March CPI, auto

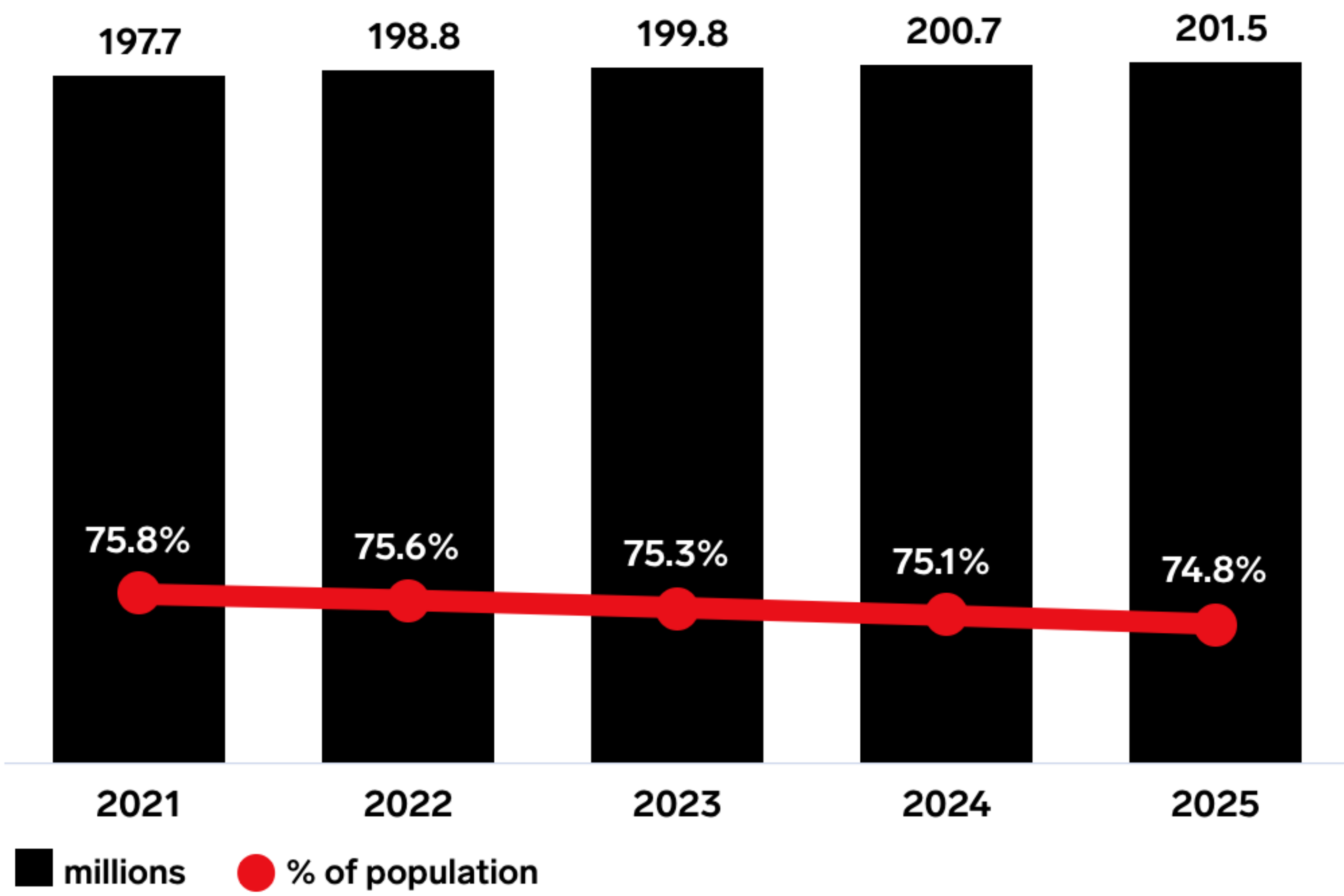
insurance premiums are up 15% YoY, meaning the subdivision could see generous profits in 2023.

- **Investment income:** P&C insurers should enjoy increased investment income and rising recurring yields in 2023 as the Fed is expected to raise rates once again to between 5% and 5.25%.

The big takeaway: Insurers are beginning to feel the relief of the post-pandemic return to normalcy. But the recessionary outlook for the US means they'll continue to face challenges, albeit relatively mild. High interest rates will assist in boosting profits, though inflation may take longer than expected to fall to the Fed's targeted 2%. Insurers will also need to re-evaluate how they measure climate risk to ensure they are prepared to handle the risk of greater climate-related crises.

Auto Insurance Policyholders and Penetration

US, 2021-2025



Note: ages 18+; drivers whose name is included on an auto insurance policy; includes drivers who do not legally own the vehicle insured; excludes drivers who exclusively use commercial or public vehicles
Source: eMarketer, March 2023

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