Commentary
Strong Earnings in H1 2024 Continue to Support Positive Outlook on Global P&C Reinsurers

Morningstar DBRS
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Key Highlights
- Global P&C reinsurers reported strong earnings with solid top-line growth driven by the favourable pricing environment, notably in property and specialty businesses.
- While H1 2024 was ranked as one of the costliest half years for natural catastrophe losses in the past 10 years, the selected reinsurers maintained high profitability with disciplined underwriting.
- Global reinsurers continue to benefit from the high interest rate environment as they reinvest their maturing securities into higher-yielding securities while maintaining similar risk profile.
- Our outlook for the global P&C reinsurance market remains positive, despite high natural catastrophe losses and likely lower interest rates globally.

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Overview

Global property and casualty (P&C) reinsurers reported strong earnings with solid premium and investment income growth, benefitting from the ongoing favourable pricing and interest rate environment. Apart from SCOR S.E. (SCOR) and PartnerRe Ltd. (PartnerRe), all of the selected global top P&C reinsurance companies (see Exhibit 1) reported significant net income growth in H1 2024 compared with the prior year. The total aggregated net income increased to $12.9 billion for H1 2024 from $10.3 billion for H1 2023 representing a 25% year-over-year increase. The selected Bermuda-domiciled reinsurers (see Exhibit 1) on our list continue to make strong contributions to the aggregated net income despite slightly slowed growth from both underwriting and investment performance. In addition, while SCOR reported a loss for H1 2024 due to an assumption review of its Life & Health reinsurance business, its P&C reinsurance business reported sound growth. Looking ahead, our outlook for the global P&C reinsurance market remains positive, despite high natural catastrophe losses and likely lower interest rates globally.

Exhibit 1 Combined Ratio, Total Investment Income, and Net Income to Common Shareholders of Top Reinsurers

	Combined Ratio (%) (P&C Reinsurance Segment)			Total Investment Income* ($ millions)			Net Income (Loss) to Common Shareholders (USD Millions)		
	H1 2022	**H1 2023**	**H1 2024**	**H1 2022**	**H1 2023**	**H1 2024**	**H1 2022**	**H1 2023**	**H1 2024**
Munich Reinsurance Co.	90.5	83.5	77.5	872	2,387	3,927	1,505	2,625	4,069
Swiss Re Ltd.	98.5	81.8	84.5	999	1,614	2,228	157	1,778	2,088
Hannover Re	99.0	91.7	87.8	1,071	920	1,091	709	1,070	1,254
SCOR S.E.	107.7	86.9	87.0	251	456	445	(261)	543	(121)
Everest Re Group Ltd	91.6	89.4	89.6	79	627	961	420	1,035	1,457
PartnerRe Ltd	81.9	83.5	97.9	(1,543)	484	347	(1,146)	821	370
AXIS Capital Holdings Limited	94.2	92.4	92.5	(84)	226	296	169	316	592
Arch Capital Group Ltd.	86.0	83.1	78.4	(372)	335	880	580	1,366	2,369
RenaissanceRe Holding Ltd.	82.4	79.2	79.5	(1,136)	604	460	(325)	755	860
Average Combined Ratio/ Aggregated Income	**92.4**	**85.7**	**86.1**	**137**	**7,652**	**10,635**	**1,808**	**10,319**	**12,938**
Average Combined Ratio/ Aggregated Income for Bermuda Reinsurers**	**87.2**	**85.5**	**87.6**	**(3,056)**	**2,276**	**2,944**	**(301)**	**4,293**	**5,648**

*Includes realized and unrealized investment gains/losses recorded in net income.
**The selected Bermuda-domiciled reinsurers include Everest Re Group Ltd, PartnerRe Ltd, AXIS Capital Holding Limited, Arch Capital Group Ltd, and RenaissanceRe Holding Ltd.
Sources: Morningstar DBRS and company documents.

While the selected reinsurers experienced low natural catastrophe losses in Q1 2024, the frequent midsized natural catastrophe events in Q2 2024 resulted in modestly higher, albeit still low, average combined ratio for the group relative to H1 2023. Judging by the historical trend and the expectation of an active Atlantic hurricane season, we believe that natural catastrophe losses will trend higher in H2 2024. However, reinsurers' performance will likely remain relatively unscathed because of their robust capital reserves and previous exposure reductions and higher pricing actions. In addition, global reinsurers will likely continue to benefit from still higher fixed-income yields, generating strong investment income even with expected interest rate cuts globally.

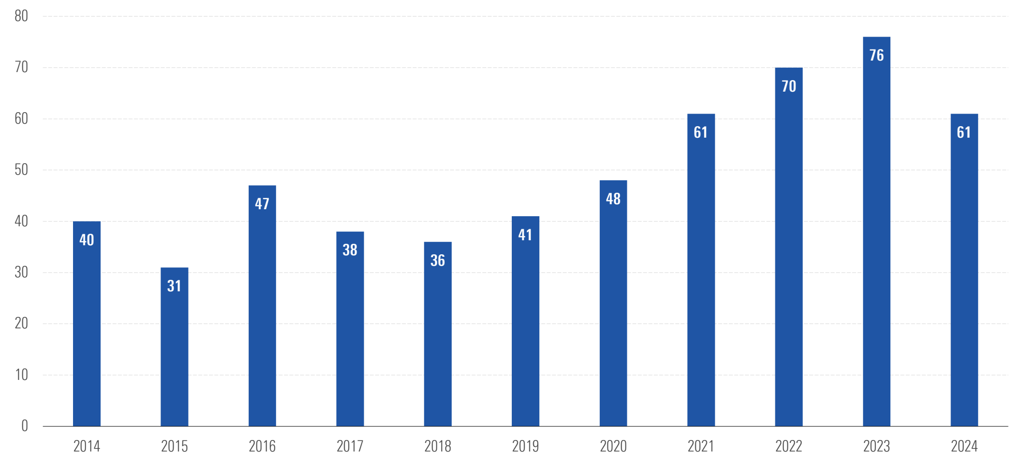
Favorable Pricing Environment Underlines Solid Top-Line Growth for Global Reinsurers

The selected group of reinsurers, except Swiss Re and PartnerRe, have reported solid top-line growth in H1 2024 for their respective P&C reinsurance businesses as a result ofthe ongoing favourable insurance pricing environment and conservative underwriting terms. The property and specialty businesses remain particularly attractive to reinsurers because of strong market demand and higher pricing power, especially for nature catastrophe risks. In the meantime, some casualty lines have been relatively less attractive because of social inflation, leading to selective underwriting and reserve strengthening from Swiss Re and PartnerRe in Q2 2024. Reinsurers reported modest rate increases and slight volume gains from the existing and new business relationships at the January and April reinsurance renewals.

Reinsurers Reported High Profitability Despite Frequent Midsized Natural Catastrophe Events

The selected reinsurers have maintained strong underwriting profitability, as evidenced by the overall low combined ratios. For H1 2024, the average combined ratio of the selected reinsurers remained relatively stable at 86% relative to H1 2023 as a result of the counterbalanced natural catastrophe losses in Q1 and Q2 2024. Global natural catastrophe losses increased significantly in Q2 2024, from below-average levels in Q1 2024, as a result of several midsized events such as floods in Central Europe and the Arabian Gulf as well as severe convective storm outbreaks in the U.S. The Bermuda reinsurers experienced relatively larger affects from these events, with the averaged combined ratio increasing to 87.6% from 85.5% in H1 2023. Specifically, PartnerRe reported a significant increase of combined ratio (+14.4 percentage points) as a result of a reserve strengthening in U.S. casualty lines and an increased frequency of midsized natural catastrophe events in Q2 2024.

Exhibit 2 Insured Losses Related to Natural Catastrophe Events in the First Half Year, 2014–24



Note: H1 2024 insured losses related to natural catastrophe events are preliminary estimates from Gallagher Re.
Sources: Gallagher Re - Natural Catastrophe and Climate Report: H1 2024.

The preliminarily total global insured natural catastrophe losses were estimated by Gallagher Re at $61 billion for H1 2024, on par with 2021 and ranking as one of the costliest half-year losses in the past decade (see Exhibit 2). Moreover, the four most recent half years have all been materially higher than losses in H1 2014–H1 2020. To mitigate rising natural catastrophe losses, reinsurers have raised premiums and introduced tighter terms and conditions, especially since January 2023. Primary insurers have responded by buying reinsurance at higher attachment points thereby absorbing more losses caused by more frequent midsized natural catastrophe events.

High Market Yields Enhance Reinvestment Opportunities and Investment Income for Reinsurers

For H1 2024, the selected reinsurers have reported strong total investment income, which includes interest and dividend income and gains/losses on investments recorded through profit and loss accounts. The selected reinsurers collectively reported $10.6 billion in total investment income for H1 2024, a sizable increase from $7.6 billion for the prior year. This result is primarily attributed to higher interest income as reinsurers have over time reinvested their matured investments into higher-yielding securities while maintaining similar levels of portfolio risk. While most reinsurers have reported strong year-over-year growth, PartnerRe and RenaissanceRe have experienced 28% and 24% total investment income declines in H1 2024. However, we note that PartnerRe and RenaissanceRe record the majority of their unrealized losses in net income, while most other reinsures record those in equity as other comprehensive income(loss), which significantly increased the stability of their reported earnings.

Reinsurance Industry Outlook for 2024 Remain Positive With Some Potential Headwinds

Our outlook for the global P&C reinsurance industry remains positive as a result of the prevailing favourable pricing environment, disciplined underwriting, and strong reinvestment yields. However, natural catastrophe losses present a potential headwind for global reinsurers for the rest of 2024 especially as the hurricane season is predicted to be severe. Moving into H2 2024, there have already been several severe-weather events in July and August, such as Hurricane Beryl, Hurricane Debby, and wildfires in the U.S. and Canada. While these events are unlikely to affect the capital positions of the reinsurers, we believe they will add some earning pressures on the industry in H2 2024 once the claims from these events are reflected in the earnings.

The favourable pricing and investment environment will likely continue to benefit the global reinsurers for the rest of the 2024. Although interest rates and fixed income yields are currently still at relatively high levels in a multiyear comparison, global reinsurers should prepare to navigate the potential shift in the interest rate environment. Several central banks have already begun cutting interest rates, including the Bank of Canada and the European Central Bank, while other major central banks, including the Federal Reserve, have indicated that they may follow the same path soon.

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Note: All figures are in U.S. dollars unless otherwise noted.

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