News Brief

VENBROOK INSURANCE SERVICES

P&C Industry Likely Won’t See a Sub-100 Combined Ratio Until 2025

The challenges that faced the U.S. property and casualty (P&C) insurance industry in 2022 appear to be repeating themselves in 2023, with a new prediction from the Insurance Information Institute (III) and Milliman that the industry will finish 2023 with a combined ratio of 102.2%.

Last year produced a combined ratio of 102.4%, and insurers continue to grapple with the poor underwriting results in personal lines that led to unprofitability in 2022. In a joint report and webinar with Milliman, III forecasted a 109.5% combined ratio for the personal auto market in 2023—down from over 111% last year. The homeowners line will likely come in at 104.8% this year, on the level with the 2022 result.

Homeowners and their insurers bore the brunt of severe weather in the first half of 2023, noted Dale Porfilio, chief insurance officer of the III. He added that rate increases will be the main driver of premium growth for the next two years in the line.

“Catastrophe losses in the first half of 2023 were the highest in over two decades, slightly higher than the record set in the first half of 2021,” Porfilio said. “The good news is that the personal auto net combined ratio is beginning to show incremental improvement.”

Personal auto may also see a boost from inflationary pressures on replacement costs that have decelerated as supply chain backlogs eased and labor disruptions saw some resolution. On the homeowners side, however, the III estimated a cumulative increase of 55% in replacement costs between 2019 and 2022, which colors the sector’s underwriting losses through 2025.

However, the commercial lines market “continues its strong performance,” Porfilio said. However, “hard market conditions continue,” with a projected 7.9% growth in net premiums written for 2023.

“We forecast net combined ratios to incrementally improve each year from 2023 to 2025, with the industry returning to a small underwriting profit in 2025,” Porfilio noted.

Commercial auto marks a slight damper on commercial lines’ overall underwriting gains, the experts said.

“Commercial auto, however, was one commercial line that did not perform well in 2022,” Jason Kurtz, principal and consulting actuary at Milliman, said. “For commercial auto, 2022 saw a return to underwriting losses, as the industry logged a 105.4 net combined ratio, the highest since 2019.”

He added, “We forecast relatively strong commercial auto premium growth of 9% in 2023, 9% in 2024 and 7% in 2025. Underwriting losses have returned and there will be a continued need for rate to improve the combined ratio results.”