NEWS BRIEF

Provided by: Winters-Oliver Insurance Agency

S&P Expects Inflation Will Push P&C Combined Ratio Over 100% in 2022

In its latest U.S. Property & Casualty Insurance Market Report, S&P Global Market Intelligence predicts inflation will send the property and casualty insurance industry into its first unprofitable year since 2017, with an expected combined ratio above 100%.

In the report, S&P forecasts a combined ratio of 100.4% for 2022 and premium growth of 9.8%—the highest rate in two decades.

S&P projected a return to modest profitability in 2023, with a combined ratio of 99.7%. Next year's profitability will depend on modest economic expansion and P&C insurers implementing "meaningful" rate increases in lines that require them.

"We expect that growth rates in the commercial lines will pull back from 2021's torrid pace of 13.6%, but any retreat will be mitigated by upward pressure on personal lines premiums," S&P said.

The main culprit for this year's projected unprofitability is personal auto, which has been "besieged by the impact of inflation on vehicle repair and replacement costs," according to S&P. Last year, the business line's combined ratio of 101.5% ballooned from 92.5% in 2020, the year it was responsible for keeping the overall industry combined ratio below 100%. Personal auto may account for more than 35% of net premiums written in 2022.

Commercial lines fared better last year and will see favorable results again this year, according to the report. Its combined ratio of 96.1% in 2021 was 3.8 percentage points lower year over year and was the lowest result since 2015. S&P projected a 2022 combined ratio of 96.3% and 10.6% premium growth for commercial lines.

The double-digit premium growth reflects expected expansion in the fire and allied lines as well as multiperil and private crop insurance. Premium growth may lag 2021's pace in certain lines like commercial auto, where growth rates that year reflected a recovery from "artificially depressed" premiums volumes of 2020.

S&P said it expects commercial premium growth to drop further in 2023 to 6.6%, adding, "The direction the U.S. economy takes in the second half of 2022 will have much to say about whether pricing momentum and the demand for coverage in the most susceptible business lines begin to wane."

The outlook assumes a "relatively normal year" for natural catastrophe losses, S&P noted. It also anticipates carriers will raise personal auto rates in California, the country's largest private auto market, after a 26-month period during which regulators did not give approval to proposed pricing increases.

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