Analyzing 3 Insurance Stocks With Buy Potential

The Property and Casualty (P&C) insurance industry's prospects appear promising, thanks to robust demand and rapid digitalization. Moreover, insurance companies benefit from higher interest rates. Thus, quality insurance stocks W.R. Berkley (WRB), CNA Financial (CNA), and Donegal Group (DGICA) could be ideal buys now. Continue reading….

The P&C insurance industry is projected to grow significantly owing to robust demand, driven by rising urbanization and rising awareness about insurance benefits combined with increasing digitalization. Further, a high-interest rate environment positively impacts the profitability of P&C insurers as they realize greater profits due to an increased yield from their underlying bond investments.

Amid this backdrop, it could be wise to invest in fundamentally sound insurance stocks W.R. Berkley Corporation (WRB), CNA Financial Corporation (CNA), and Donegal Group Inc. (DGICA) for potential gains.

Despite several macro headwinds, the Property and Casualty (P&C) insurance industry is expected to witness significant growth and expansion, driven by sustained demand for its offerings. According to a report by Global Market Insights, the P&C insurance market is expected to reach $3.02 trillion by 2032, growing at a CAGR of 5.5% from 2023 to 2030.

As the Gross Domestic Product (GDP) rises, businesses and individuals have more to protect, increasing demand for P&C insurance products, including property, liability, and business interruption coverage. The Commerce Department reported that GDP grew at a 4.9% annualized pace, above the 4.7% estimate and up from an unrevised 2.1% pace in the second

quarter.

In addition, growing urbanization would boost the P&C insurance market’s growth as an increasing concentration of properties and businesses in urban areas drives demand for insurance coverage on properties, homes, commercial enterprises, and automobiles. Also, another primary growth driver is the rising awareness about insurance benefits.

Digital technology is further transforming every aspect of the P&C insurance industry. Insurance companies increasingly leverage technology to enhance customer experiences, streamline operations, and make data-driven decisions.

Some technology trends gaining traction in the industry include Artificial Intelligence (AI), machine learning, the Internet of Things (IoT), Telematics and Usage-Based Insurance (UBI), data analytics and predictive modeling, blockchain technology, digital claims processing, cybersecurity and data protection, robotic process automation (RPA) and mobile applications.

Moreover, a high-interest rate environment positively impacts the insurance industry. Insurers generate revenue by charging premiums in exchange for coverage, with the collected premiums invested in interest-generating assets, which create higher yields when interest rates rise.

The Federal Reserve raised its key rate 11 consecutive times since March 2022 to fight multi-decade high inflation. The central bank’s benchmark interest rate is now in the 5.25%-5.50% range, the highest level in 22 years. At the end of its two-day monetary policy meeting in November, the Fed left interest rates unchanged.

Fed Chairman Powell Jerome recently suggested that keeping the central bank’s benchmark rate for a prolonged period could slow the economy and control inflation. The likelihood of the Fed keeping interest rates higher for longer should bode well

for the insurance company.

Investors' interest in insurance stocks is evident from SPDR S&P Insurance ETF's (KIE) 8.7% returns over the past six months.

Considering these encouraging trends, let's analyze the fundamental aspects of the three best Insurance – Property & Casualty stocks, beginning with the third choice.

Stock #3: CNA Financial Corporation (CNA)

CNA offers commercial property and casualty insurance products internationally. The company operates through Specialty; Commercial; International; Life & Group; and Corporate & Other segments. It serves several professional firms, including architects, real estate agents, and accounting and law firms.

On October 30, CNA declared a quarterly dividend of $0.42 per share, payable on November 30, 2023. Its annual dividend of $1.68 per share translates to a 4.31% yield at the current price level. Over the past five years, the company's dividend payouts have grown at a 5.3% CAGR. Its four-year average dividend yield is 8.19%.

Moreover, CNA has raised its dividends for seven consecutive years.

For the third quarter ended September 30, 2023, CNA's Property & Casualty Operations segment net earned premiums increased 9.1% year-over-year to $2.30 billion. Its net investment income grew 31% from the year-ago value to $553 million. The company's core income came in at $289 million, or $1.06 per share, up 572.1% and 562.5% from the prior year's quarter, respectively.

Analysts expect CNA's revenue and EPS for the fiscal year (ending December 31, 2023) to increase 10.6% and 16.3% year-over-year to $13.36 billion and $4.47, respectively. Also, the

company has surpassed the consensus revenue and EPS estimates in three of the trailing four quarters.

For the fiscal year 2024, the company's revenue and EPS are expected to grow 6.2% and 12.3% from the prior year to $14.19 billion and $5.02, respectively.

CNA's stock has plunged 1.6% over the past month to close the last trading session at $38.96.

CNA's sound fundamentals are reflected in its POWR Ratings. The stock has an overall rating of B, translating to a Buy in our proprietary rating system. The POWR Ratings assess stocks by 118 different factors, each with its own weighting.

The stock has an A grade for Stability and Momentum. Within the Insurance – Property & Casualty industry, CNA is ranked #12 out of 56 stocks.

In addition to the POWR Ratings stated above, one can access CNA's Growth, Value, Sentiment, and Quality ratings here.

Stock #2: W.R. Berkley Corporation (WRB)

WRB is a global insurance holding company that operates as a commercial lines writer. It operates in two segments: Insurance and Reinsurance & Monoline Excess. It offers workers' compensation insurance products, accident and health insurance and reinsurance products, insurance for commercial risks, casualty and specialty environmental products, and more.

On October 4, WRB paid a special cash dividend on its common stock of 50 cents ($0.50) per share to stockholders of record at the close of business on September 25. Together with the $0.50 special dividend that was paid on January 24, this will bring special cash dividends paid during 2023 to $1 per share.

Additionally, the company paid a regular quarterly cash dividend of 11 cents ($0.11) per share to its stockholders.

WRB pays a dividend of $0.44 annually, which translates to a yield of 0.65% on the prevailing share price. Its dividend payouts have grown at a CAGR of 10.3% over the past five years. Its four-year average dividend yield is 1.91%.

In addition, the company has raised its dividends for 17 straight years.

In the third quarter that ended September 30, 2023, WRB's net premiums written increased 10.5% year-over-year to $2.85 billion. Its total revenues grew 11.2% from the year-ago value to $3.03 billion. Net income to common stockholders rose 45.7% from the prior year's quarter to $333.59 million. Also, the company's net income per share was $1.23, up 49.4% year-over-year.

Street expects WRB's revenue to increase 9.6% year-over-year to $10.47 billion for the fiscal year ending December 2023. The company's EPS is expected to grow 9.8% year-over-year to $4.81 in the current year. Moreover, WRB topped the consensus EPS estimates in three of the trailing four quarters.

Over the past month, the stock has gained 7% and 16.4% over the past six months to close the last trading session at $68.15.

WRB's POWR Ratings reflect solid prospects. The stock has an overall B rating, which translates to a Buy in our POWR rating system.

WRB has an A grade for Momentum and a B for Stability. Within the Insurance – Property & Casualty industry, WRB is ranked #11 among 56 stocks.

Click here to see the other ratings of WRB for Sentiment, Value, Growth, and Quality.

Stock #1: Donegal Group Inc. (DGICA)

DGICA is an insurance holding company that provides personal

and commercial lines of property and casualty insurance to businesses and individuals across 23 Mid-Atlantic, Midwestern, New England, Southern and Southwestern states. It operates through three segments: Investment Function; Personal Lines of Insurance; and Commercial Lines of Insurance.

On October 19, DGICA's Board of Directors declared a regular quarterly cash dividend of $0.17 per share of the company's Class A common stock and $0.1525 per share of the company's Class B common stock. The dividends are payable on November 15 to stockholders of record as of the close of business on November 1.

DGICA pays an annual dividend of $0.68 per share, which translates to a yield of 0.65% on the current share price. Its dividend payouts have grown at a CAGR of 4.3% over the past three years. Its four-year average dividend yield is 4.30%. Also, the company has increased its dividends for 17 consecutive years.

DGICA's net premiums earned increased 8.9% year-over-year to $224.39 million for the third quarter that ended September 30, 2023. Its net investment income rose 23% year-over-year to $10.54 million. Its total revenues were $233.93 million, up 9.9% from the prior year's quarter.

In addition, the company's non-GAAP operating income was $176 thousand, compared to an operating loss of $8.51 million a year ago.

Analysts expect DGICA's EPS to increase 88.9% year-over-year to $0.17 for the fourth quarter ending December 2024. Its EPS and revenue for the fiscal year 2024 are estimated to grow 228.6% and 4.9% year-over-year to $1.15 and $966.54 million, respectively. Also, the company has surpassed the consensus revenue estimates in three of the trailing four quarters.

Shares of DGICA have gained 2.2% over the past six months to close the last trading session at $14.42.

DGICA’s robust outlook is reflected in its POWR Ratings. The stock has an overall rating of B, which equates to a Buy in our proprietary rating system.

The stock has an A grade for Momentum and Stability. It also has a B grade for Growth. DGICA is ranked #10 in the same industry.

Beyond what is stated above, we’ve also rated for Value, Quality, and Sentiment. Get all DGICA ratings here.

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10 Stocks to SELL NOW! >

WRB shares were unchanged in premarket trading Monday. Year-to-date, WRB has declined -4.22%, versus a 16.49% rise in the benchmark S&P 500 index during the same period.

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Mangeet’s keen interest in the stock market led her to become an investment researcher and financial journalist. Using her fundamental approach to analyzing stocks, Mangeet’s looks to help retail investors understand the underlying factors before making investment decisions.

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