AM Best's Insurance Market Briefing

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Agenda

- Market Segment Outlooks – Personal and Commercial
- Property/Casualty Financial Results
- Global Reinsurance Market
- Q&A

Market Segment Outlooks

Market Segment Outlooks

- Outlooks consider:
  - Current and forecast economic conditions
  - Regulatory and legislative environment and potential changes
  - Lines of business developments: rates, terms & conditions, loss development
  - Competitive issues
- Outlooks can be Positive, Negative or Stable
- Market segment outlooks are not directly connected to rating outlooks

Market Segment Outlook – US Personal Lines

AM Best is maintaining its Negative outlook, based on the following negative factors:

- Ongoing volatility in reported results for both the personal auto and homeowners' lines of business
- Rising loss cost severity, driven by inflationary pressures
- Challenges maintaining rate adequacy
- Restrictive regulatory environment in various states
- Elevated reinsurance costs, coupled with tighter terms and conditions
- Greater frequency of weather events

Market Segment Outlook – US Personal Lines

Positive factors countering these negatives include the following:

- Solid risk-adjusted capitalization with sufficient liquidity; however, capital cushion eroding for some insurers
- Aggressive push for rate adequacy, with some jurisdictions showing more accommodative behavior of late
- Improving investment yields due to rising interest rate environment
- Acceleration of digital transformation/technology adoption
- Improving catastrophe risk management practices

Market Segment Outlook – US Commercial Lines

AM Best is maintaining its Stable outlook, based on the following positive factors:

- Pricing remains strong across most major lines, with notable exceptions
- Segment carriers remain diligent on risk selection, terms & conditions, and capacity deployment, as evidenced by strong submission flow and growth in the E&S market
- Balance sheets, liquidity, and performance remain strong despite continued uncertainty over macroeconomic environment and inflation (esp. social inflation)
- Interest rates remaining higher for longer

Market Segment Outlook – US Commercial Lines

Negative factors countering these positives include the following:

- Rising loss cost severity, driven by both social (tort) and economic inflationary pressures
- Uncertainty over loss reserve adequacy, especially long-tail casualty lines, with an expectation of continued trend of lower amounts of favorable prior year development
- Increase in frequency and severity of weather related-events remain a challenge for property lines
- Continued macroeconomic and geopolitical uncertainty

Market Segment Outlooks – Commercial Lines

Commercial Lines Segment	Outlook
Commercial Auto	Negative
Commercial Property	Stable
Directors & Officers (D&O) Liability	Negative
Excess and Surplus Lines	Positive
General Liability	Negative
Medical Professional Liability	Stable
Private Mortgage Insurers	Stable
Surety	Stable
Title	Negative
Workers' Compensation	Stable

Commentary

- Generally favorable pricing continues in both property and casualty lines, but at a more moderate pace with a few exceptions
- Social inflation continues to affect casualty lines; driven by societal shifts, litigation funding, highly coordinated plaintiff's bar
- D&O pricing being driven downward by new competition just as exposures are growing
- E&S continues to operate efficiently as safety valve for pockets of declining capacity; buoyed by DUAE market
- Inflationary pressures – Commercial Auto and Commercial Property most affected; reflecting materials and labor costs

Property/Casualty Financial Results

Property/Casualty Financial Results

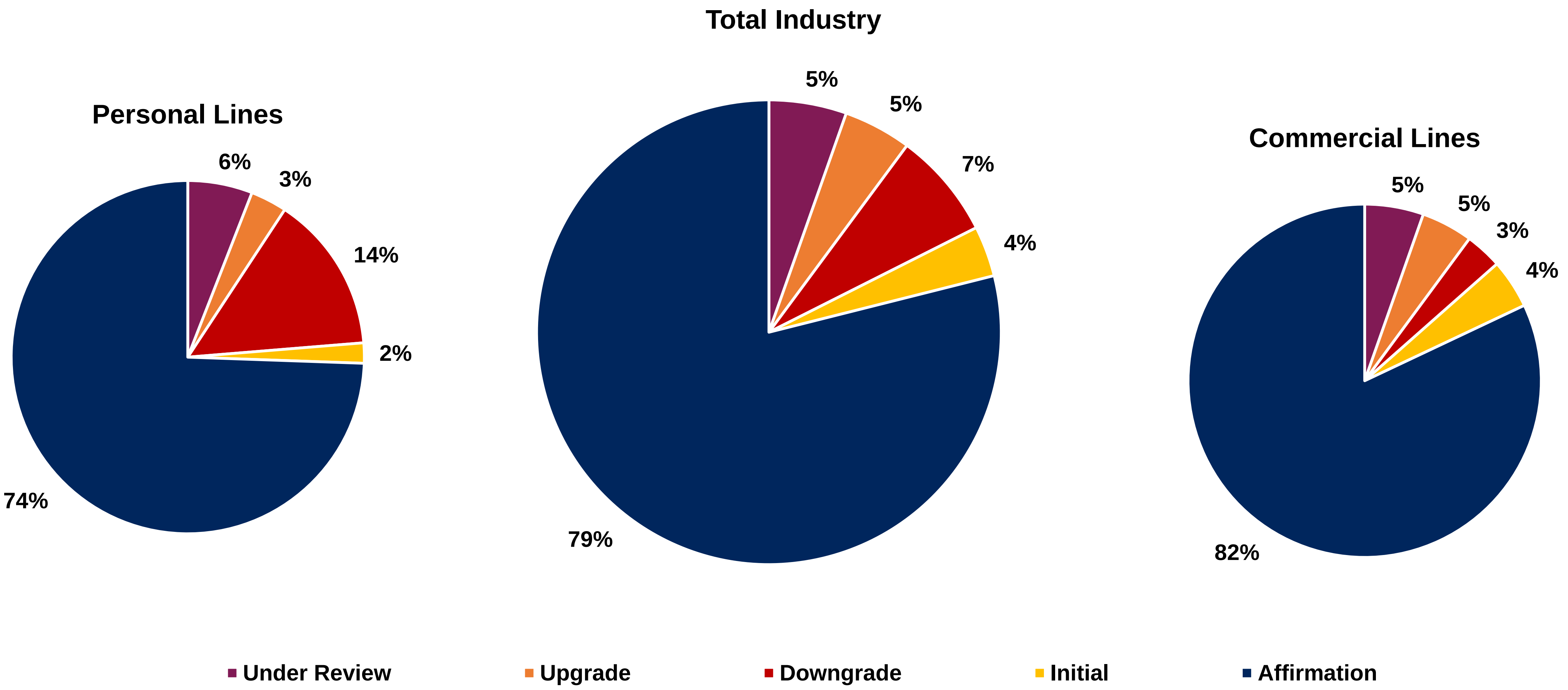
	Actual				
	2020	2021	2022	2023	1H2024
Change in NPW (%)	2.5	9.4	8.8	10.5	9.1
Combined Ratio (Reported)	98.8	100.0	103.2	101.9	97.9
Less: U.S. Catastrophe Losses	7.7	7.5	6.7	7.8	7.4
Less: A&E Losses	0.3	0.2	0.2	0.2	0.1
Combined Ratio (Normalized)	90.8	92.3	96.3	93.9	90.4
Net Investment Yield (%)	2.8	2.6	3.3	3.2	3.5
Pre-tax Return on Net Premiums Earned (ROR) (%)	9.1	7.5	5.6	5.9	10.3
After-tax Return on Surplus (ROE) (%)	6.8	6.1	3.8	8.7	13.7

Property/Casualty – Segment Indicators

	Personal Lines			Commercial Lines		
	2022	2023	1H2024	2022	2023	1H2024
Change in Net Premiums Written (%)	8.9	12.3	17.2	11.1	7.3	5.1
Combined Ratio (Reported)	109.9	106.8	100.5	94.4	96.5	94.8
Combined Ratio (Normalized)	102.4	97.9	93.0	86.9	87.6	87.3
After-Tax Return on Surplus (ROE) (%)	-11.4	3.0	13.0	2.9	11.9	12.1

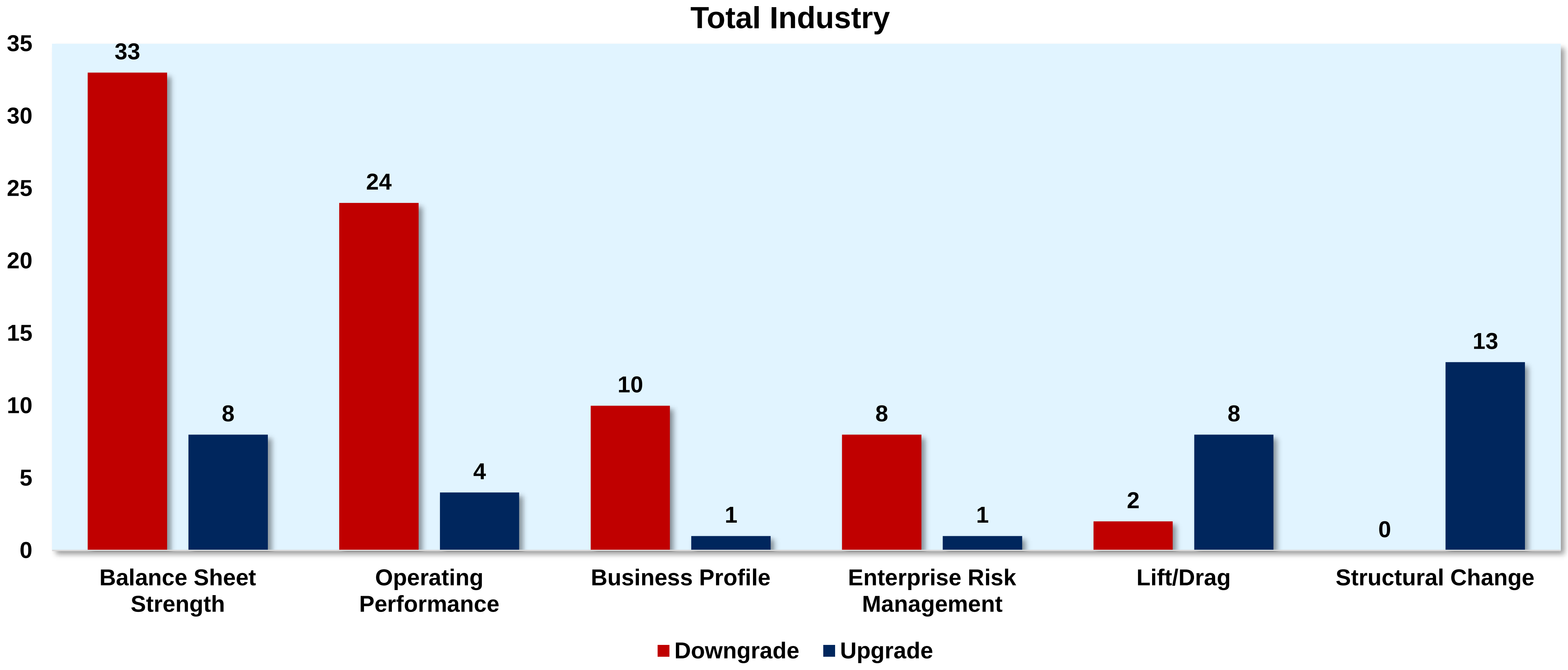
Rating Implications

2023 Rating Activity



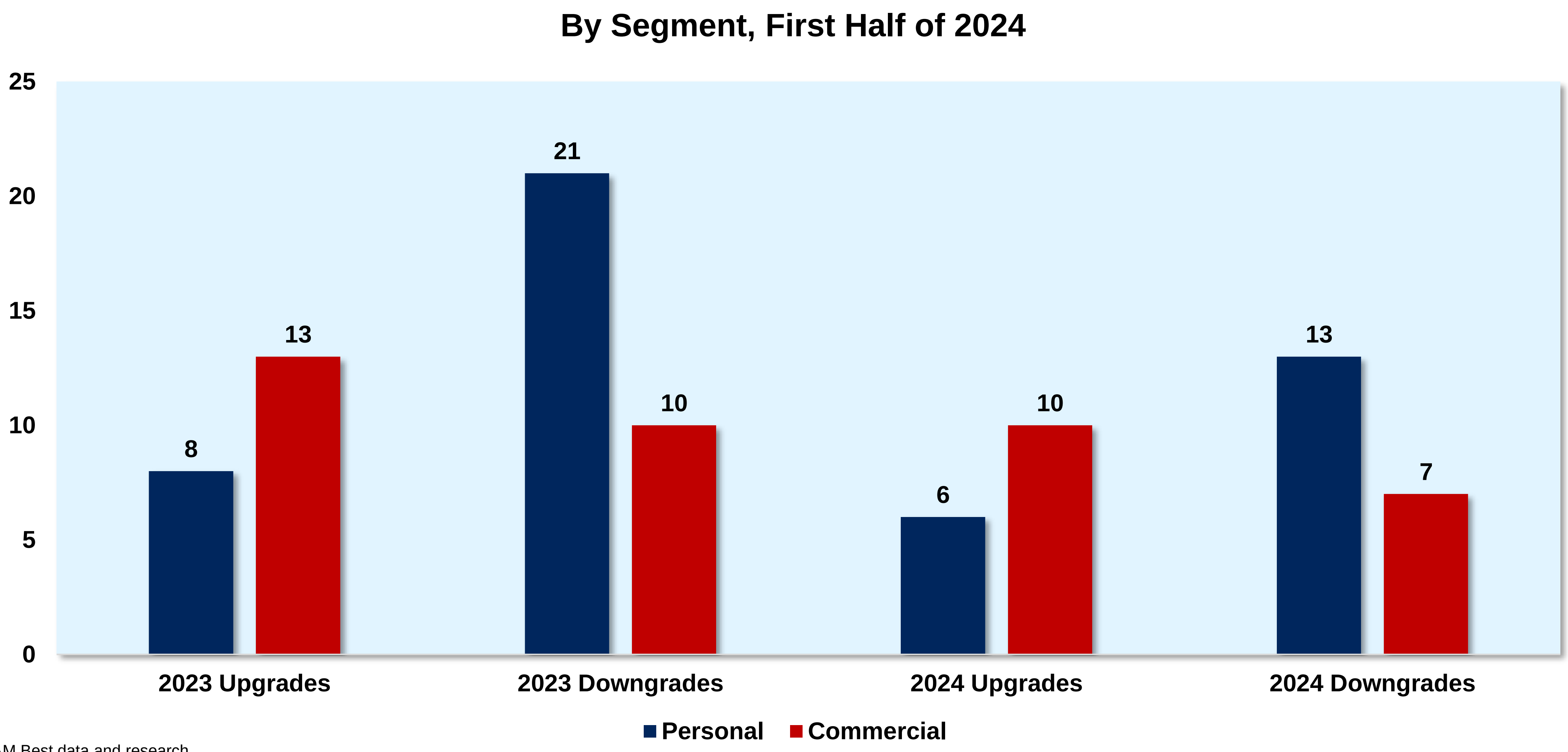
Source: AM Best data and research

2023 Rating Actions



Note: Some rating changes impacted more than one assessment
Source: AM Best data and research

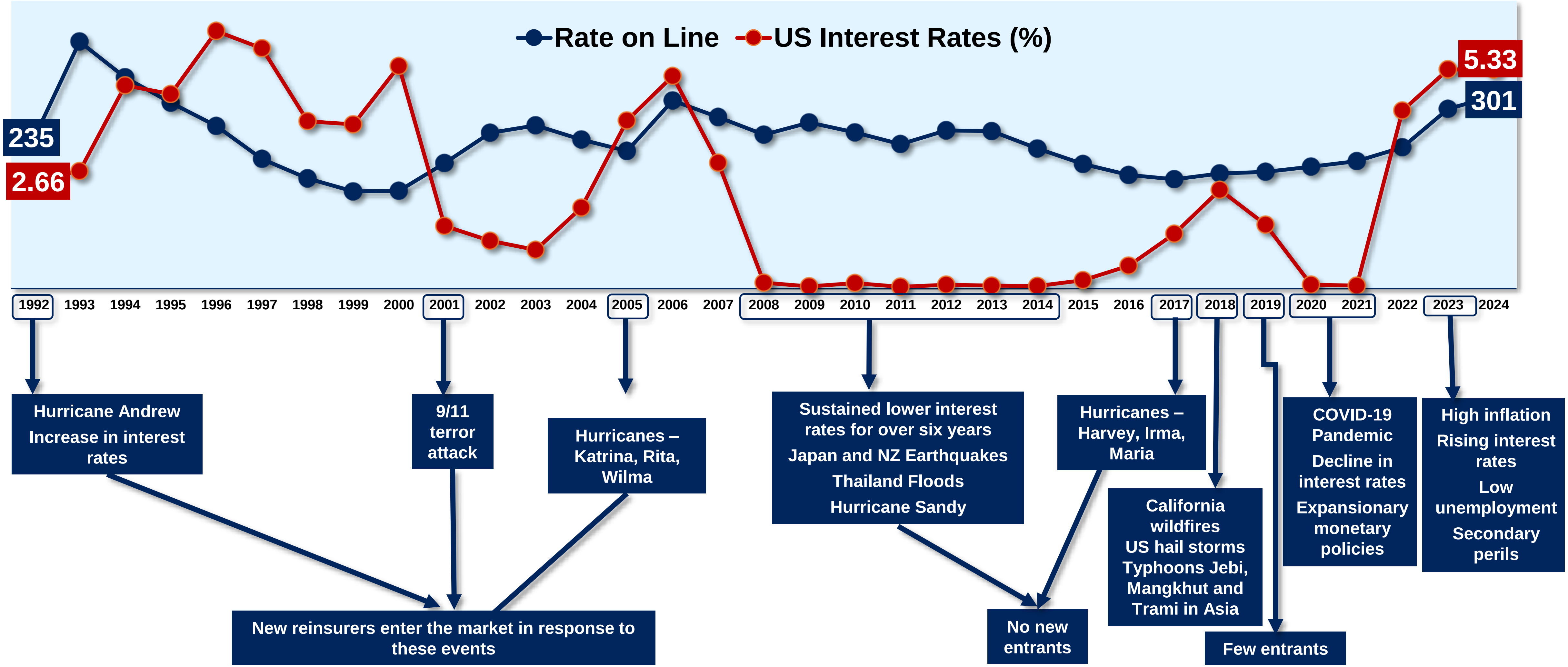
Property/Casualty – Issuer Credit Rating Activity



Source: AM Best data and research

Global Reinsurance Outlook – Positive: A Distinct Type of Hard Cycle

Why is this Cycle Different?



Sources: Estimates by Guy Carpenter and AM Best

AM Best's 2024 Market Segment Outlook – Global Non-Life Reinsurance

Outlook – Revised to Positive

- Not just re-pricing but de-risking
- Sustainable underwriting margins
- Capital protection instead of earnings stabilisers
- No capital depletion
- Claims activity driven by secondary perils. Strong demand
- Investor pressure behind underwriting discipline for longer

BEST'S MARKET SEGMENT REPORT

Our Insight, Your Advantage™

June 12, 2024

Market Segment Outlook: Global Non-Life Reinsurance

The outlook is moving to Positive from Stable, as reinsurers continue to reap the benefits of higher interest rates

AM Best is revising its outlook for the global non-life reinsurance segment to Positive from Stable, driven primarily by the following factors:

- Improved property reinsurance margins, driven by increased rates and attachment points achieved in 2023. These conditions are unlikely to soften through the 2024 cycle.
- More robust investment income, driven primarily by higher new money yields on fixed-income instruments. A slower drop in rates than originally anticipated should support returns over the short term.
- The segment remains well capitalized, with no new players expected to disrupt current market discipline. Consolidation and a flight to quality are more likely.
- Demand for coverage remains high due to elevated loss frequency in property lines and general economic uncertainty.
- Adverse development reported on US casualty business has been mitigated by strong underwriting gains and redundant property reserves.
- Top performers have been able to raise capital to support growth initiatives.

Margins Continue To Improve; Property Cat Risk Realigns with Primary Carriers

In 2023, non-life reinsurers reported their most favorable year of the past five. The realignment of attachment points in the property reinsurance market allowed reinsurers to limit their losses throughout the year, despite active weather patterns. When combined with healthy increases to rate-on-line, the result was an underwriting margin that hasn't been realized since 2014.

Drivers

De-risking

- Realignment of interests
- Shift away from high-frequency layers
- Tighter terms and conditions

Robust Capitalisation

- Hard pricing to last longer
- More efficient capital management
- No capital depletion

No New Class of 2024

- No new company formations despite attractive pricing
- Capital used for opportunistic use or in ILS

Demand for Complex Risk

- Cedents looking to restore risk transfer
- Emerging risks, cyber and AI challenging risk transfer

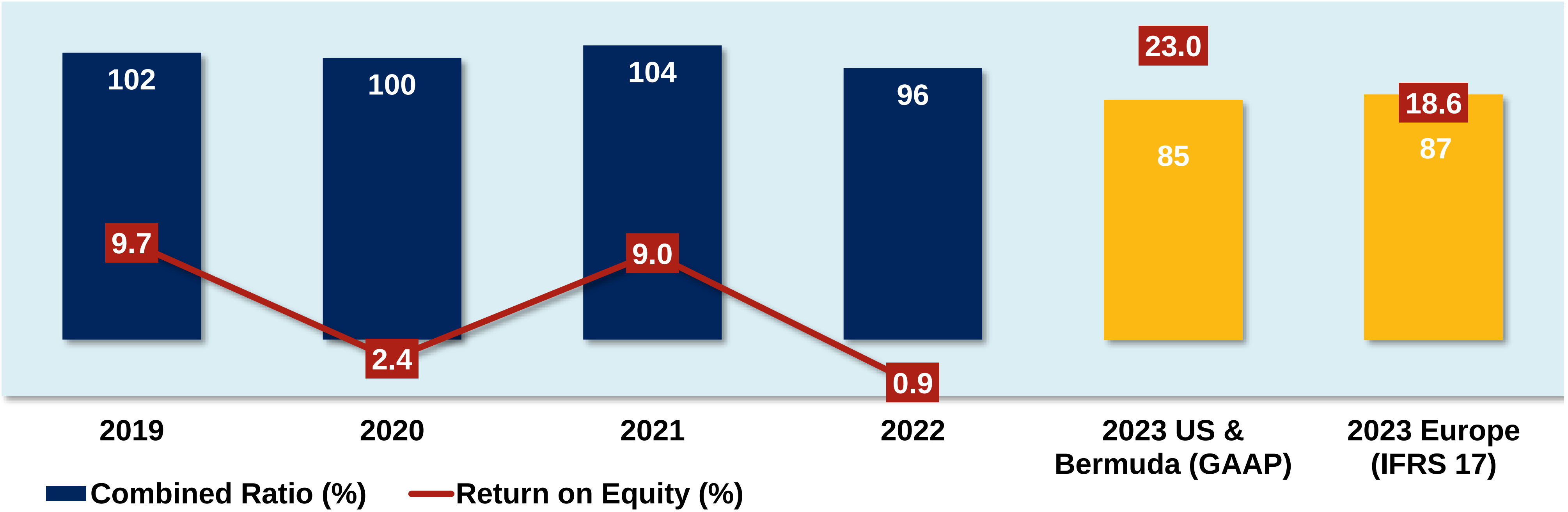
Role of Interest Rates

- Not as impactful as in prior cycles

Return on Equity and Combined Ratio

Tighter terms and conditions → **Shift away from high-frequency layers** → **Higher profits**

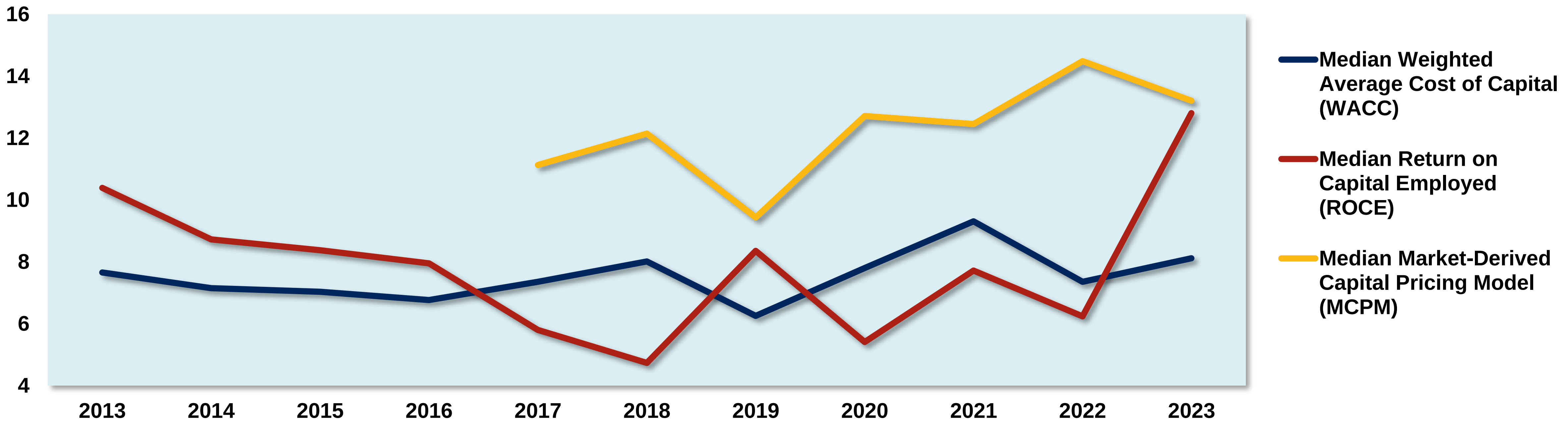
Global Reinsurance Market 2019-2022 with 2023 Split – US & Bermuda (GAAP) and Europe (IFRS 17)



Return on equity and combined ratios are global through to 2022.
US & Bermuda represents a composite of seven large reinsurers.
Europe represents composite of large reinsurers that filed under IFRS 17 at year-end 2023.
Source: AM Best data and research

Robust Operating Results – Global Benchmarks Clouded by IFRS 17 Adoption

Cost of Capital and Realignment of Risk

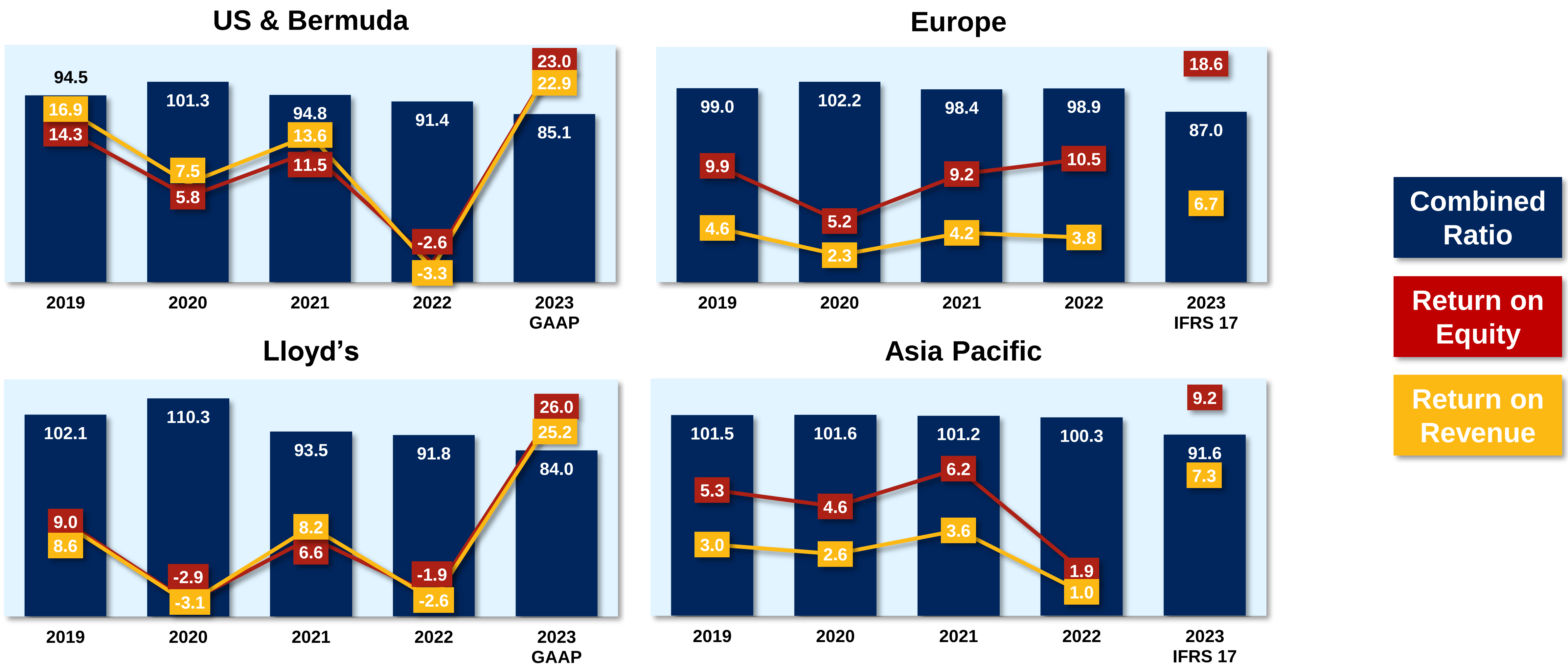


Reinsurers Meeting Cost of Capital

- **Profits** → Improved technical profitability
- **Secular factors** → Climate trends
- **Interest rates** → Higher for longer
- **Outlook** → Positive

Market-Derived Capital Pricing Model (MCPM) is based on a smaller sample size and has limited years due to availability of data
Source: Bloomberg

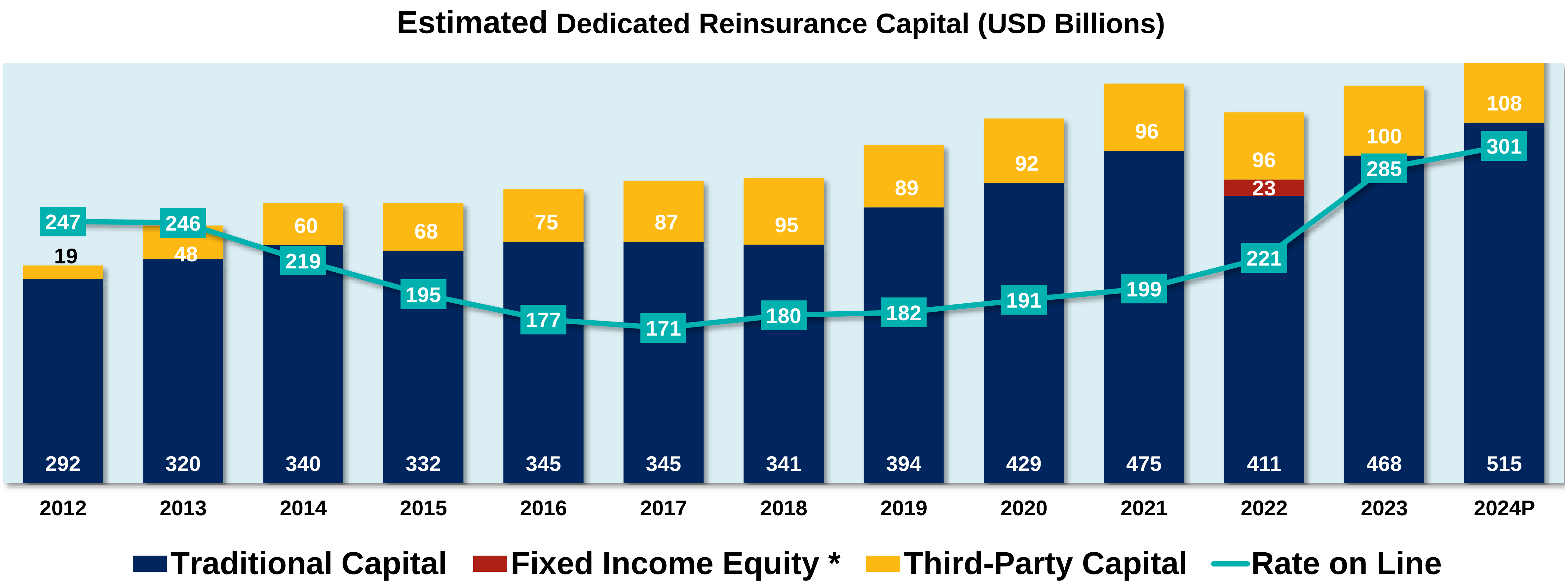
Reinsurers – US & Bermuda, Europe, Lloyd's and Asia Pacific



Sources: Europe IFRS 17 comprises Munich Re, Hannover Re and SCOR.

Available Capital –
The Class That Never Was

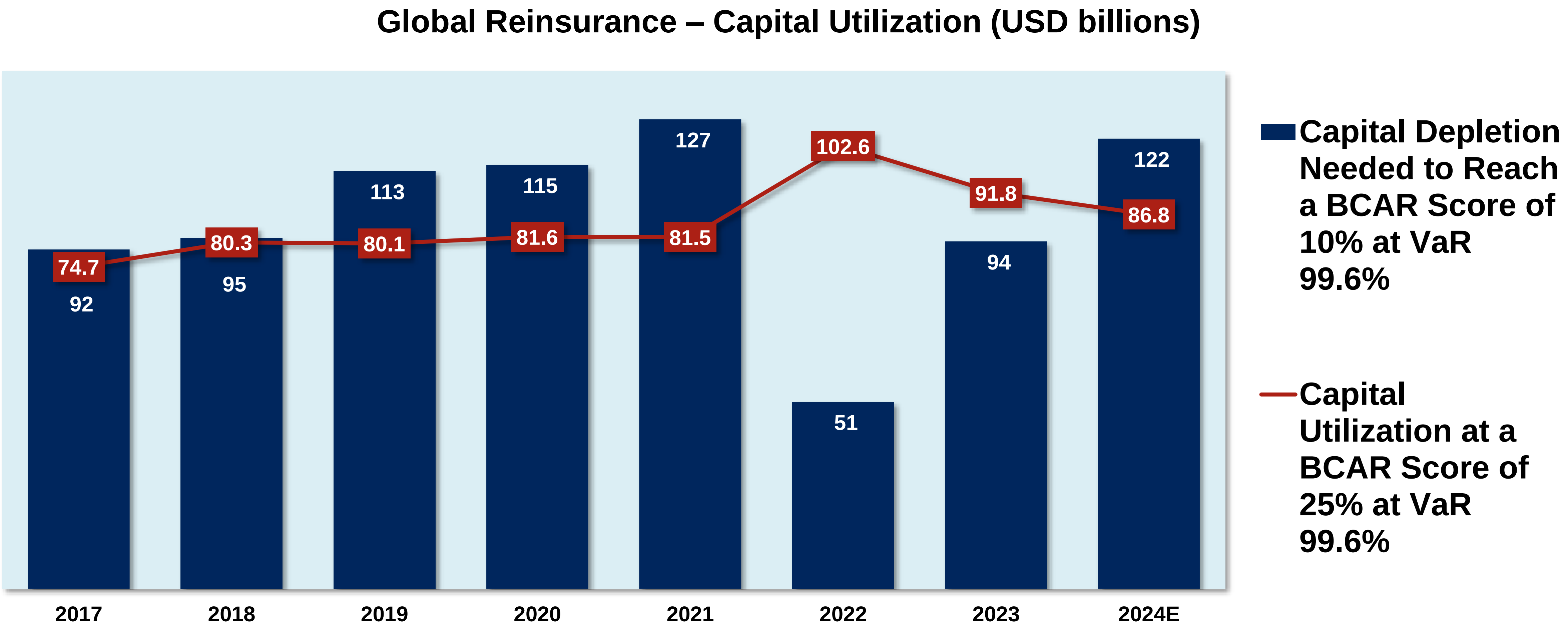
Global Reinsurance Market Capital



* For reinsurers that have ample cash liquidity to support potential shock losses, the fixed-income equity adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time.

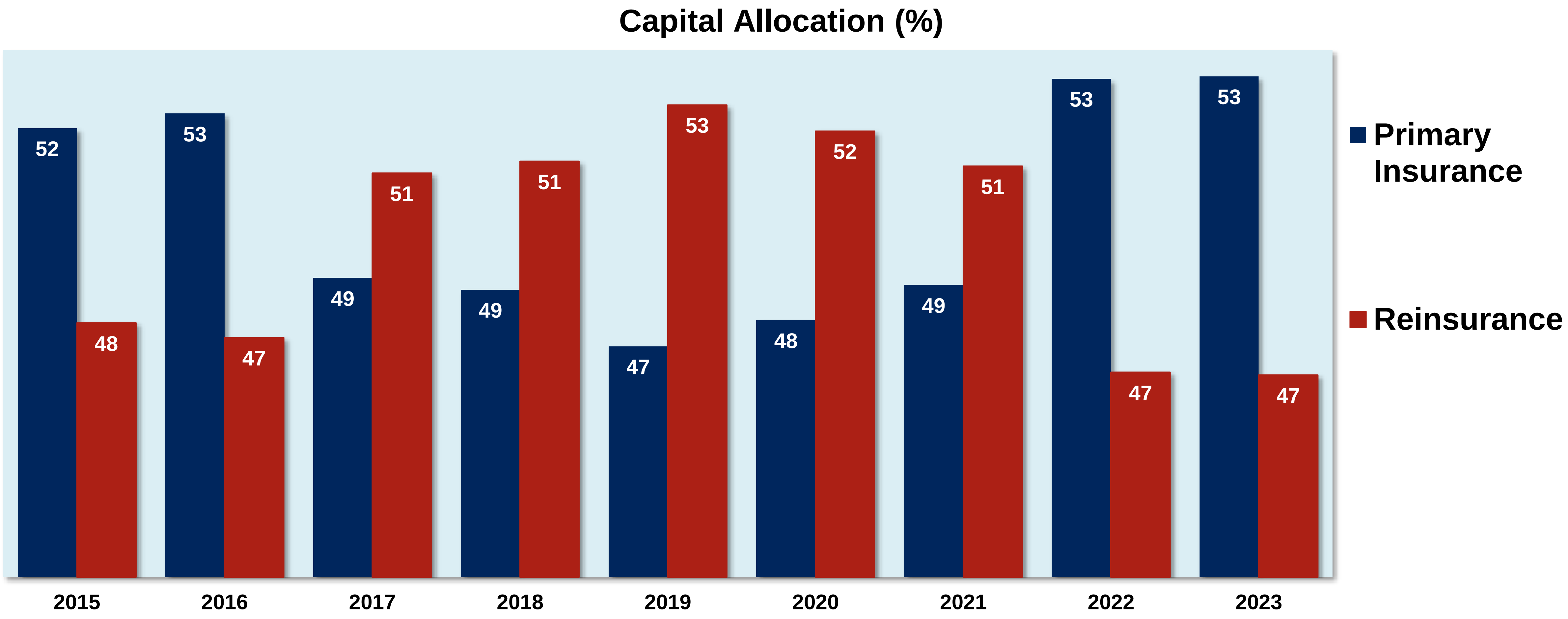
Sources: Guy Carpenter and AM Best

A Hard Cycle With Excess Capital



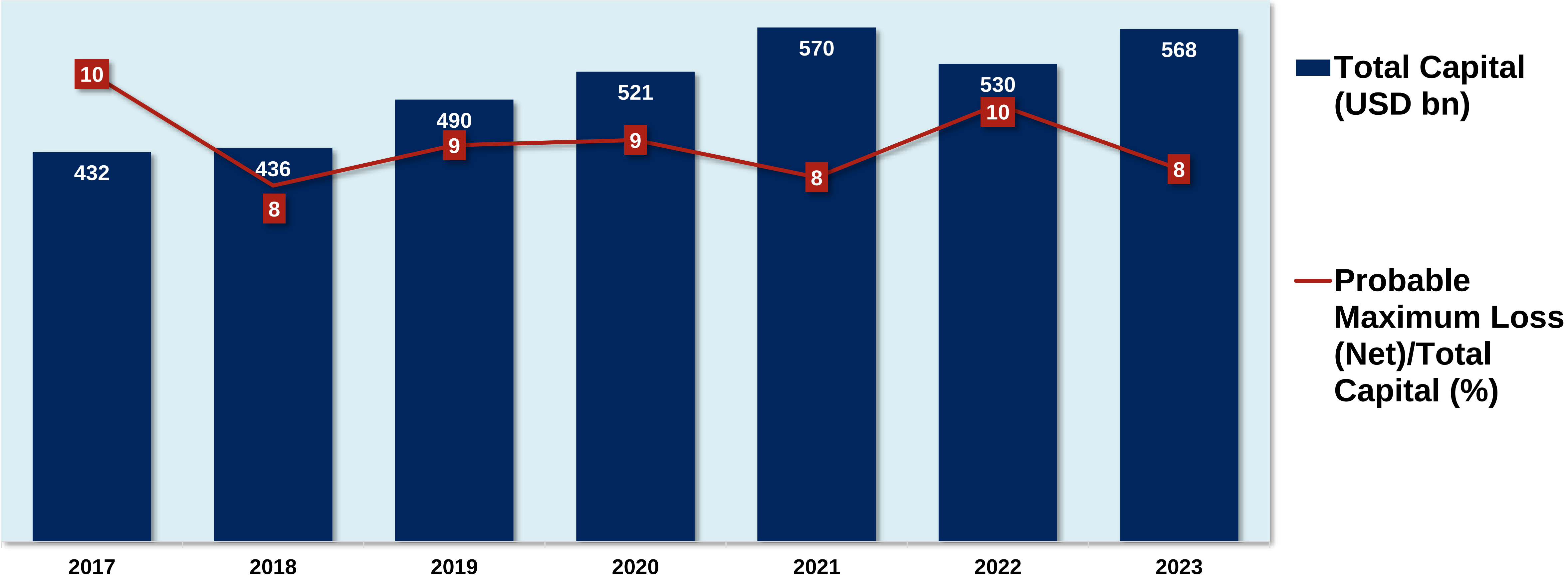
Source: AM Best data and research

Global Reinsurance – Primary Insurance vs. Reinsurance



Source: AM Best data and research

Probable Maximum Loss as a Percentage of Capital



Source: AM Best data and research

Potential Issues – What Challenges Lie Ahead?

Near Term – Potential Concerns

What will the remainder of 2024 be like?

Economic and geopolitical issues

US casualty reserve challenges and social inflation

Longer-Term – Emerging Issues

- Scrutiny of catastrophe models
- Cyber risks
- Artificial intelligence
- PFAS
- Other risks

AM Best's Expectations – Profits: Sustainable for Longer Than in Prior Cycles

AM Best's Expectations – What AM Best Said Last Year

Underwriting profits – to continue

Rate increases – to continue at a slower pace

Disciplined expansion of the reinsurance segment – led by major players

Significant new capital / number of new entrants – unlikely

Inflationary pressures and high interest rates – to remain

Renewed appetite for volatile lines of business – but with tighter terms and conditions

Emerging risks – slow expansion

Higher retentions – here to stay

AM Best's Expectations – The Next 12 Months

Underwriting profits –
slight reductions, but still strong

Rate movements –
modest declines in strong performing risks and higher levels of cover

Retention levels –
minor movements into working layers

Inflationary pressures and interest rates –
Abating and declining, slowly

Significant new capital / number of new entrants –
unlikely

Increased use of Alternative Capital to flex capital needs

Q&A

Thank You

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