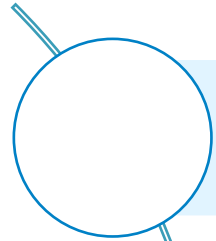


AM Best's Insurance Market Briefing

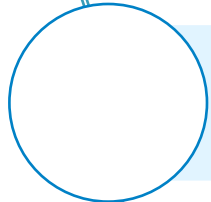
Greg Williams – Senior Director, AM Best
Greg Dickerson – Director, AM Best

2023 APCA Annual Meeting
November 6, 2023

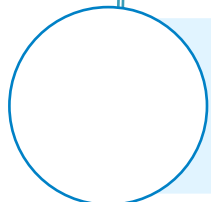
Agenda



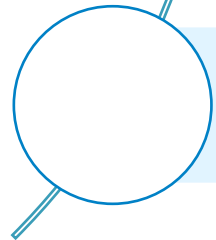
Market Segment Outlooks



Property/Casualty Financial Results



State of the Global Reinsurance Industry



Q&A

Market Segment Outlooks

Market Segment Outlooks

- Outlooks consider:
 - Current and forecasted economic conditions
 - Regulatory environment
 - Line of business developments: rates, terms & conditions, loss development
 - Competitive issues
- Outlooks can be positive, negative or stable
- Market segment outlooks not directly connected to rating outlooks

Market Segment Outlooks – Personal Lines

Personal Lines Outlook Remains Negative

- Rising loss cost severity, driven by inflationary pressures – challenging rate adequacy
- Elevated reinsurance costs & tightened terms and conditions; higher overall retention and co-participation on property lines
- Heightened catastrophic loss volatility; increased “secondary” peril activity
- Aggressive push for rate adequacy; some easing of regulatory hurdles
- Solid risk-adjusted capitalization with sufficient liquidity; however, the capital cushion has eroded for some insurers

Market Segment Outlooks – Commercial Lines

Commercial Lines Outlook Remains Stable

- Though past its peak, positive pricing momentum in most classes of business, with some notable exceptions
- Sustained strong underwriting performance amidst substantial economic and capital markets volatility
- Rising loss cost severity, driven by both social (tort) and economic inflationary pressures
- Potential for large-scale cat event remains a challenge for property lines; Continued vigilance on emerging classes of potential litigation

Market Segment Outlooks – Commercial Lines

Commercial Lines Segment	Outlook
Commercial Auto	Negative
Commercial Property	Stable
Excess & Surplus Lines	Positive
General Liability	Negative
Medical Professional Liability	Negative
Private Mortgage Insurers	Stable
Professional Liability	Negative
Surety	Stable
Title	Negative
Workers' Compensation	Stable

Commentary

- Favorable pricing continues in both property and casualty lines, but at a more moderate pace; Workers Comp the exception
- Continuation of strong submission flow and growth in the E&S market
- Sharply higher fixed income re-investment rates have begun to bolster operating profitability, especially in in long-term casualty
- Social inflation continues to affect casualty lines; driven by societal shifts, litigation funding, highly coordinated plaintiff's bar

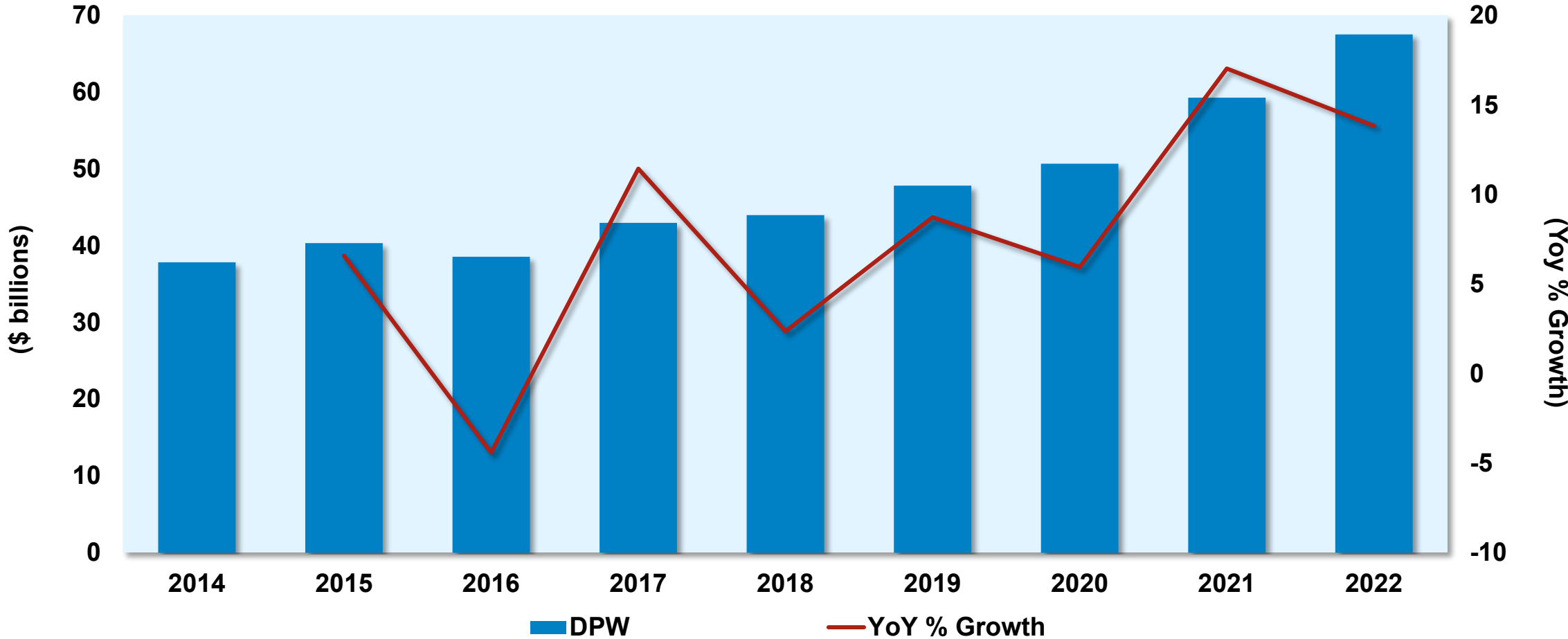
Market Segment Outlooks – Global DUAЕ

Global DUAЕ Outlook Assigned Positive Outlook

- Growth driven by technology, talent and diverse sources of capital
- Ability to address underserved and emerging risks
- Profit sharing structures have grown notably, reinforcing contractual alignment of interests
- Continued strong interest in fronting market interest remains despite a few incidents
- Elevated reinsurance costs and capacity constraints in pockets

US P/C Industry

MGA Direct Premiums Written, 2014-2022



Published Performance Assessments

AMB#	Company	Assessment (Category)	Outlook	Effective Date	Description
41025	Excess Reinsurance Underwriters Inc.	PA-2 (Excellent)	Stable	08-Sep-23	Initial Assessment
41006	Delta Insurance New Zealand Limited	PA-2 (Excellent)	Stable	08-Sep-23	Update
41007	Delta Underwriting Private Limited	PA-2 (Excellent)	Stable	08-Sep-23	Update
41002	Corin Underwriting Limited	PA-3 (Strong)	Stable	16-Aug-23	Initial Assessment
41023	Corin Unwriting (Europe) GmbH	PA-3 (Strong)	Stable	16-Aug-23	Initial Assessment
41002	First Indemnity Insurance Agency, Inc.	PA-3 (Strong)	Stable	12-May-23	Update
41000	Cargo Risk Corporation	PA-3 (Strong)	Stable	21-Apr-23	Update
41001	Castel Underwriting Agencies Limited	PA-2 (Excellent)	Stable	20-Apr-23	Update
41009	Castel Underwriting Europe B.V.	PA-2 (Excellent)	Stable	20-Apr-23	Update
41016	American Equity Underwriters, Inc.	PA-1 (Exceptional)	Stable	02-Nov-23	Update
41014	Amwins Access Insurance Services	PA-1 (Exceptional)	Stable	02-Nov-23	Update
41015	Amwins Digital Insurance Services, LLC	PA-1 (Exceptional)	Stable	02-Nov-23	Update
41017	Amwins Program Underwriters, Inc.	PA-1 (Exceptional)	Stable	02-Nov-23	Update
41018	Amwins Special Risk Underwriters, LLC	PA-1 (Exceptional)	Stable	02-Nov-23	Update
41020	Amwins Specialty Casualty Solutions, LLC	PA-1 (Exceptional)	Stable	02-Nov-23	Update
41019	Amwins Transportation Underwriters, Inc.	PA-1 (Exceptional)	Stable	02-Nov-23	Update

Property/Casualty Financial Results

Property/Casualty Financial Results

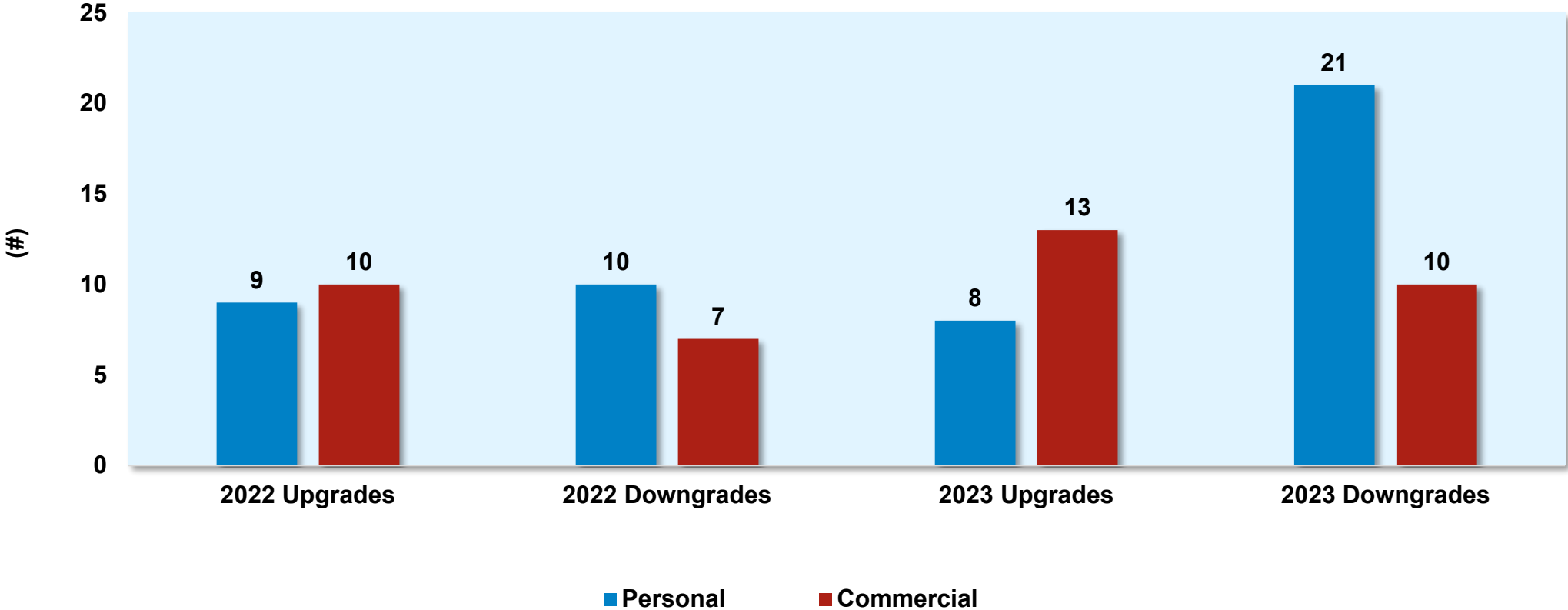
	Actual				
	2019	2020	2021	2022	1H2023
Change in NPW	3.4	2.5	9.3	8.6	9.4
Combined Ratio (Reported)	98.8	98.4	99.7	102.6	104.5
Less: US Catastrophe Losses	4.2	7.9	7.7	6.8	9.6
Less: A&E Losses	0.3	0.3	0.3	0.2	0.1
Combined Ratio (Normalized)	94.3	90.2	91.7	95.5	94.8
Net Investment Yield	3.1	2.8	2.6	3.2	
Pretax Return on Net Premiums Earned (ROR) (%)	9.8	9.3	7.9	6.2	
After-tax Return on Surplus (ROE) (%)	7.7	6.7	6.3	4.1	

Property/Casualty – Segment Indicators

	Personal Lines			Commercial Lines		
	2021	2022	1H2023	2021	2022	1H2023
Change in Net Premiums Written (%)	5.1	8.8	9.3	11.4	10.2	8.0
Combined Ratio (Reported)	102.7	109.2	112.0	95.2	94.3	96.1
After-tax Return on Surplus (ROE) (%)	4.0	-3.4		9.8	8.7	

Property/Casualty – Issuer Credit Rating Activity

US Property/Casualty - Issuer Credit Rating Activity
By Segment, First half of 2023



Source: AM Best data and research



State of the Global Reinsurance Industry

Market Segment Outlooks – Global Reinsurance

Global Reinsurance Outlook Remains Stable

- Capital levels still strong but “available” capital ≠ “deployed” capacity
- More complex and evolving risk environment
- Inflationary pressures, rising interest rates, higher cost of capital
- Widening protection gap, pressure maintain relevance
- Demand remains strong, flight to quality
- Technical results improving, underwriting discipline expected to last
- Reinsurers have shown ability to innovate and re-invent themselves

Why is this Cycle Different?

Leading indicators to historic reinsurance company formations

Single major event:
Hurricanes
Earthquakes
Terrorism

Material capital
erosion

Sharp rates
increase in a short
period of time

New 2023/24 class?

Rising interest rates only
since 2022

Higher cost of opportunity
Gradual rate increases before 1/1/23

Alternative Capital

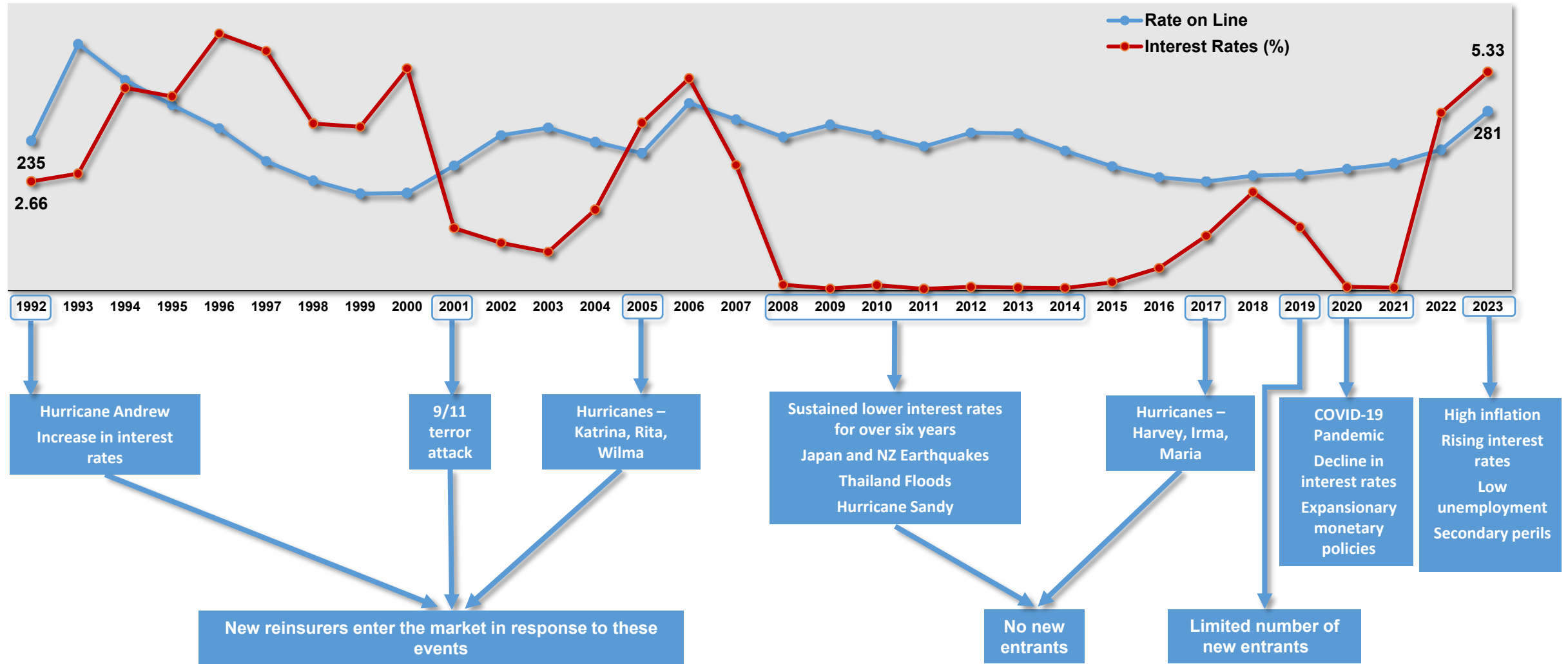
Plateaued since 2018

No single major
catastrophe event

Accumulation of more frequent
secondary perils

Global reinsurers remain
well capitalized

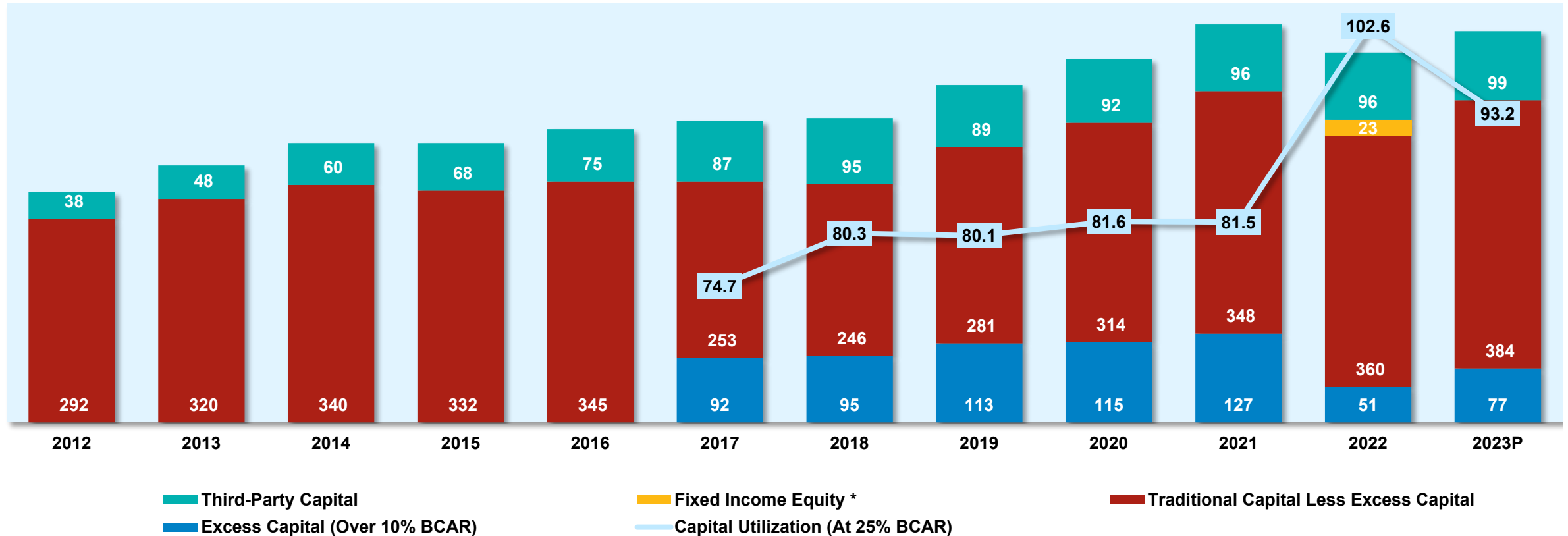
Why is this Cycle Different?



Sources: Estimates by Guy Carpenter and AM Best

Global Reinsurance Market Capital

Estimate – Total Dedicated Reinsurance Capital (USD Billions)

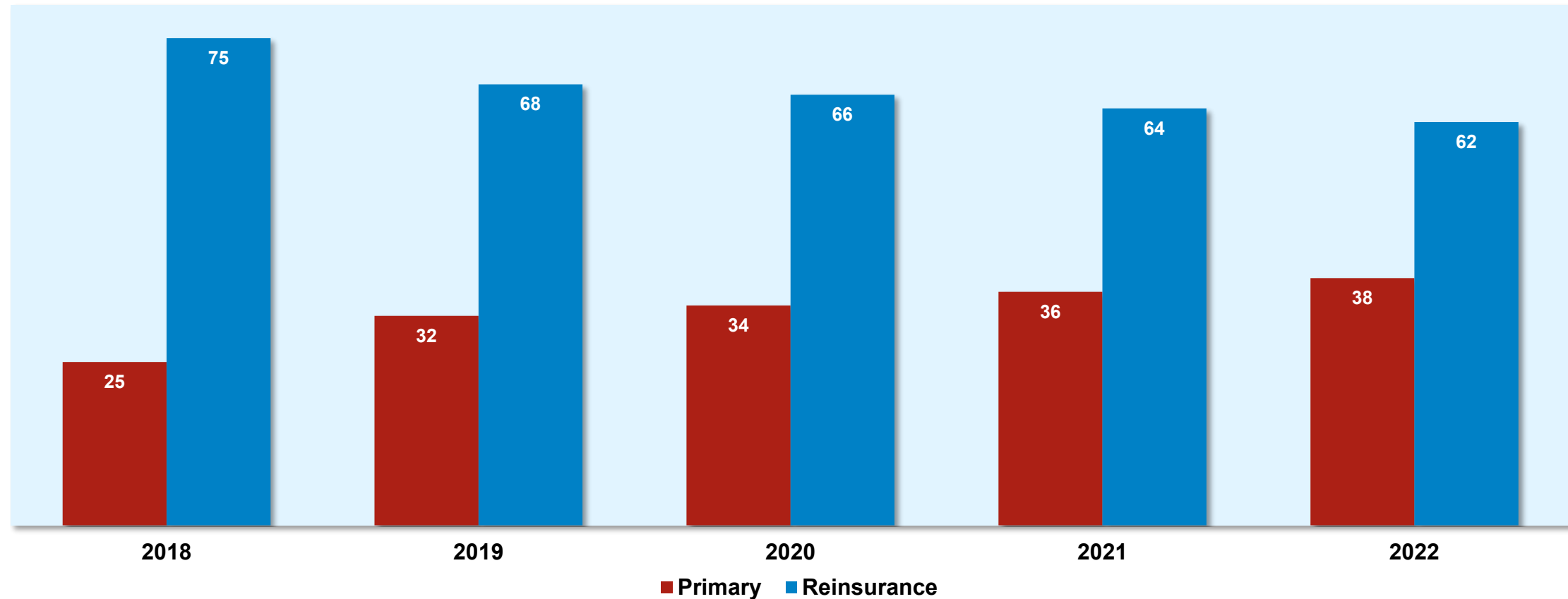


*: For reinsurers that have ample cash liquidity to support their potential shock losses, the “fixed-income equity” adjustment captures the amount of capital that AM Best anticipates will be recovered as bonds mature over time

Notes and Sources: Estimates by Guy Carpenter and AM Best

Global Reinsurance – Primary Insurance vs. Reinsurance

Allocation by Net Premium Written (%)



Based on the 25 largest reinsurance groups
Source: AM Best data and research

Ratings – Reinsurers Retain Financial Strength

⬇️ Negative Factors

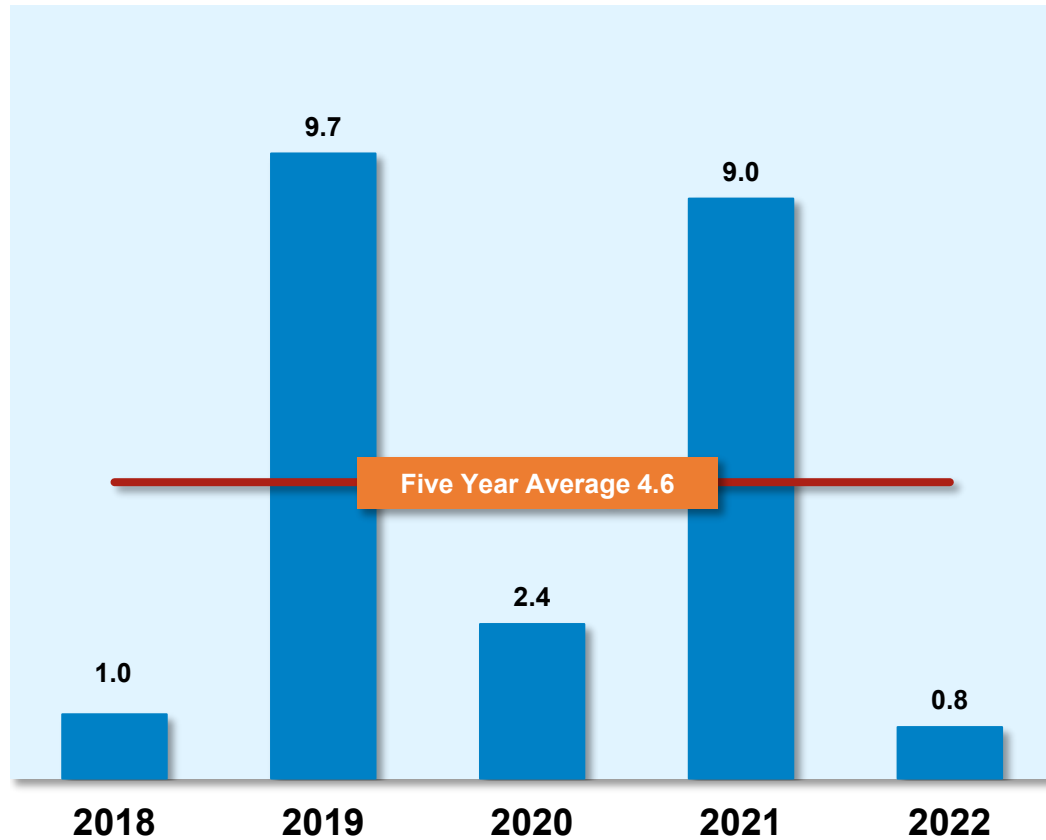
- Fixed-income unrealized investment losses
- Persistent high claims activity
- Weather-related and secondary perils
- Best's Capital Adequacy Ratios declined, but balance sheet strength remains unchanged
- Operating performance impacted

⬆️ Positive Factors

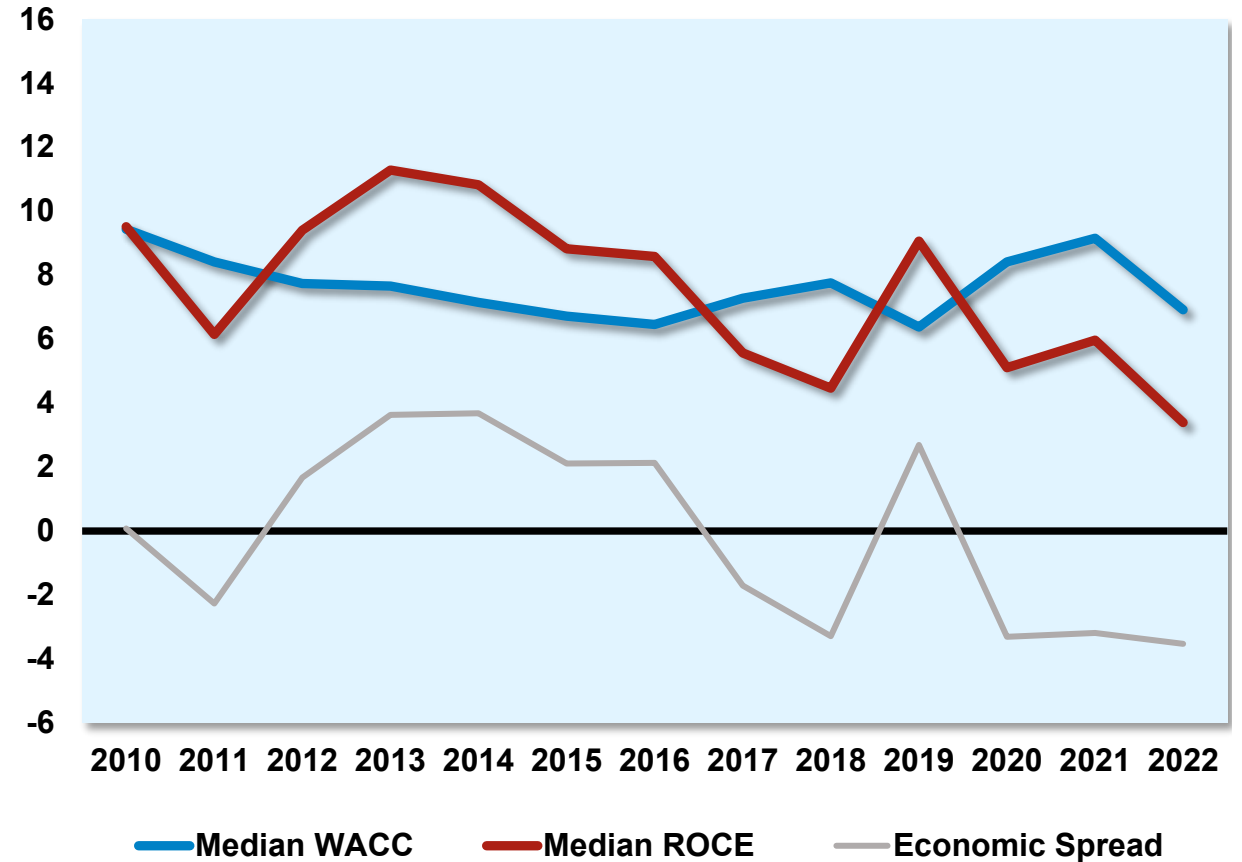
- Capital buffers protection
- Higher interest rates
- Asset Liability Management
- High credit quality of investment portfolios
- Dividend policy / share buybacks unaffected
- Balance sheet strength assessment remains unchanged
- Underwriting discipline

Global Reinsurance Market Performance

Return on Equity (%)



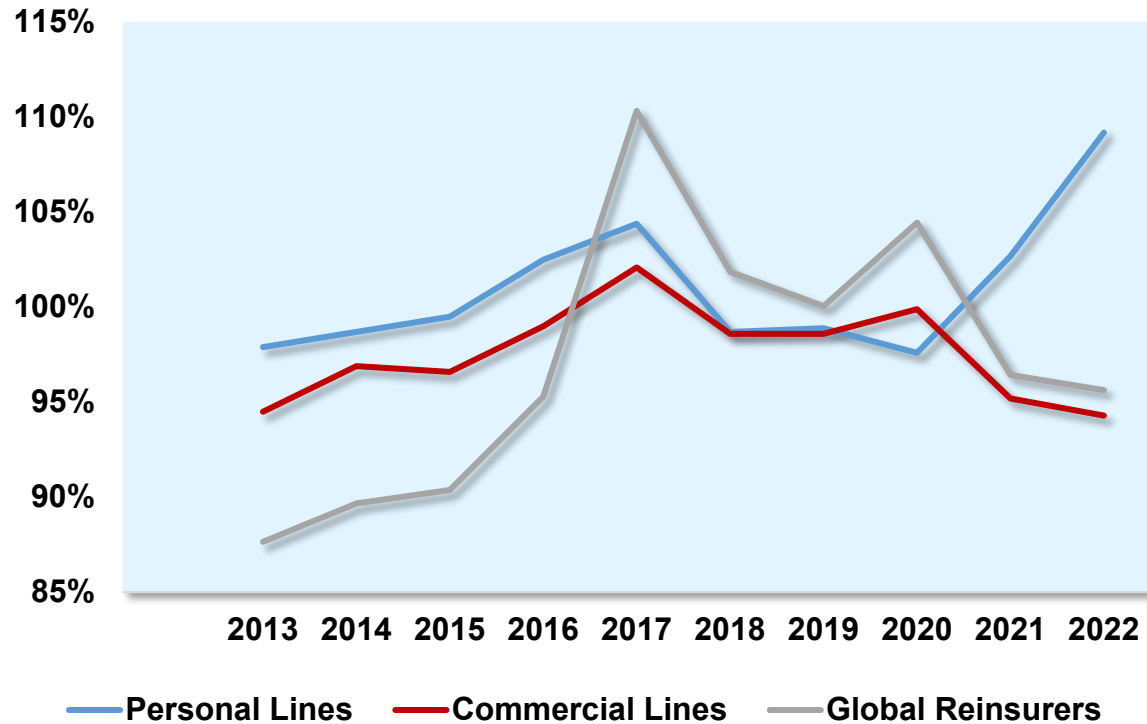
Reinsurers' Median Weighted Average Cost of Capital (WACC) Compared to Median Return on Capital Employed (ROCE) (%)



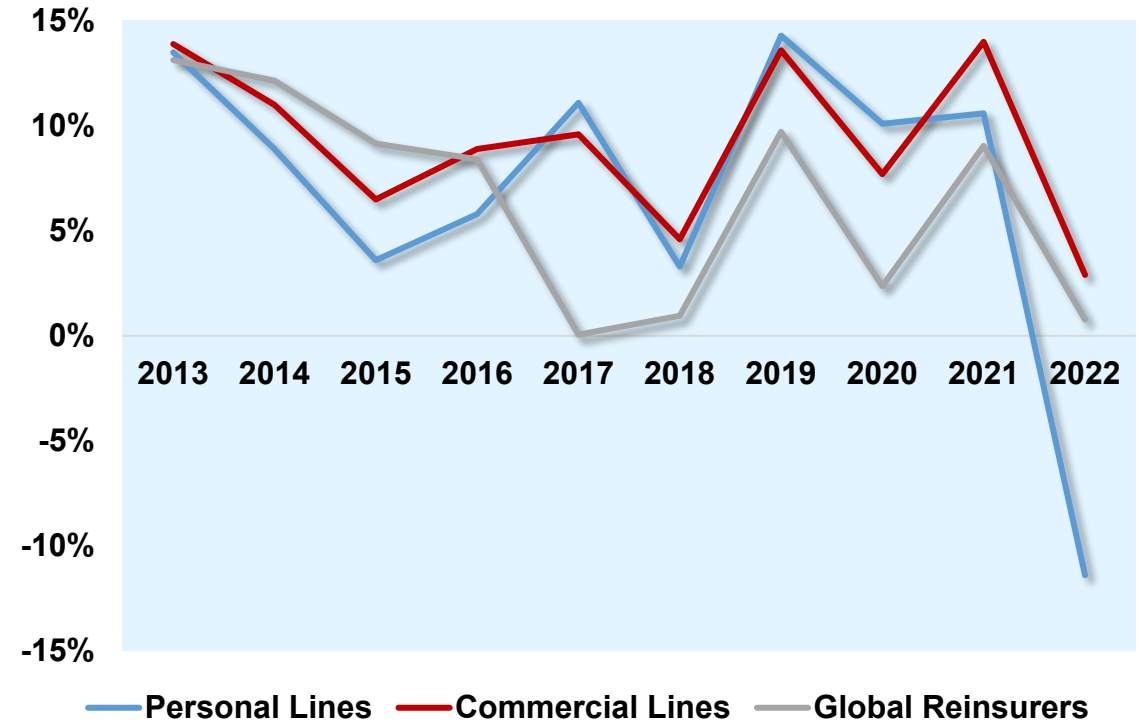
Sources: Return on Equity - AM Best data and research, WACC and ROCE - Bloomberg

Reinsurers' results have lagged primary carriers

Combined Ratios



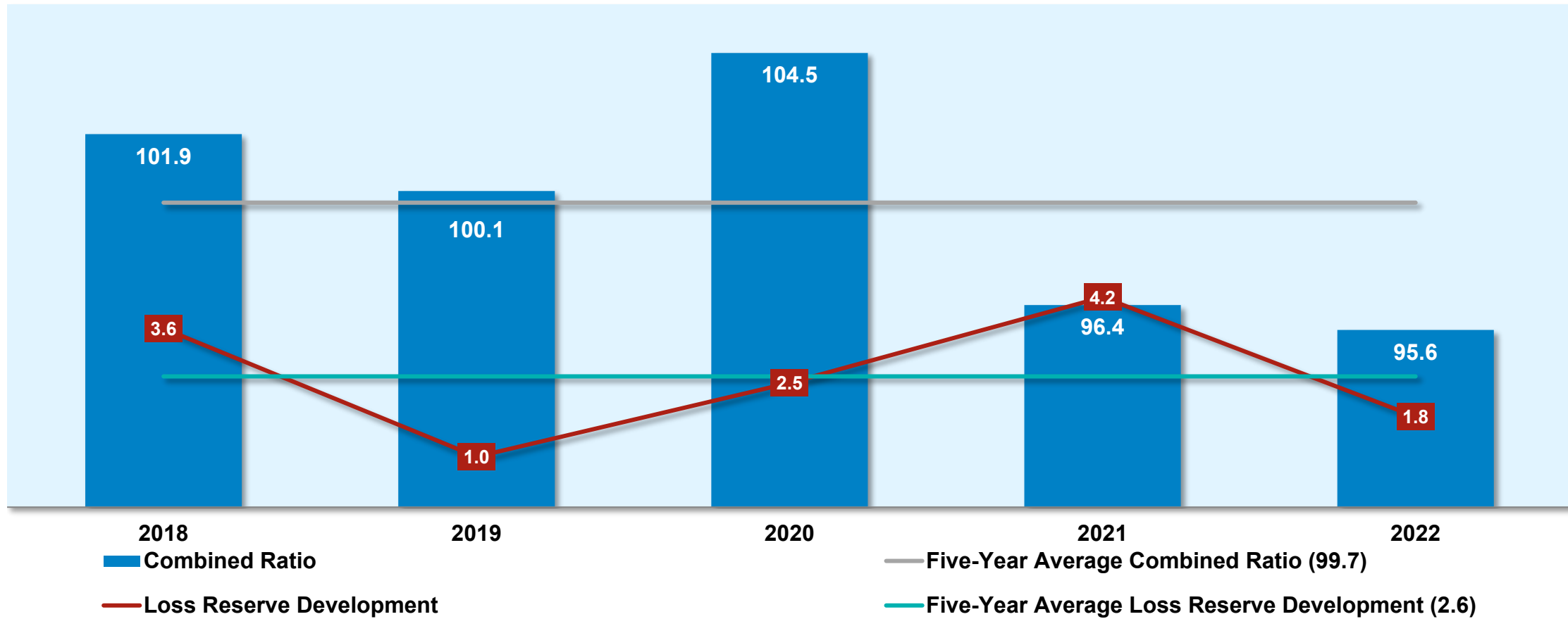
ROE's



Source: AM Best data and research

Global Reinsurance Market Performance

Combined Ratios and Favourable Reserve Development (%)



Source: AM Best data and research

Evolution of Business Models

Investors seem to prefer diversified, flexible companies, with a proven track record

High demand for reinsurance, driven by flight to quality. Financial strength is paramount

Well diversified, nimble and established reinsurers in a strong position

Specialised reinsurers have become rare

Expansion of established players more likely than new entrants

Alternative capital has become more of a partner than a competitor

Evolving distribution models critical to expand business

AM Best's Expectations – The Next 12 Months

**Underwriting profits –
to continue**

**Disciplined expansion of the reinsurance
segment –
led by major players**

**Inflationary pressures and
high interest rates –
to remain**

**Emerging risks –
slow expansion**

**Rate increases –
to continue at a slower pace**

**Significant new capital / number of new
entrants –
unlikely**

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

**Higher retentions –
here to stay**



Key Themes

There is no capital shortage
but deployed capacity is selectively constrained

Results improving
but reinsurers still catching up

Business models evolving
is there a role for the specialist?

Q&A

Thank you!