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MAY 4-7
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1950 **75** 2025
YEARS

Heightened Pressures Facing US Property Insurers

Sridhar Manyem – Senior Director, AM Best

Biography



Sridhar Manyem is senior director, industry research, analytics and public relations at AM Best. Sridhar is the head of the industry research team, and his responsibilities include publishing AM Best's perspectives of topical issues relating to the insurance industry and possible implications to Best's Credit Ratings.

Prior to joining AM Best in 2017, Sridhar was at The World Bank as a senior credit officer responsible for implementing reinsurance credit risk framework at MIGA (Multilateral Investment Guarantee Association). Before the World Bank, Sridhar was a director at Standard & Poor's, and was responsible for a portfolio of insurers, as well as a lead enterprise risk management (ERM) specialist reviewing ERM and ECM frameworks for a portfolio of (re)insurers and multiline insurers.

Sridhar worked at Nationwide Insurance's ERM function, where his areas of responsibilities included strategic asset allocation, asset-liability management and risk modeling. He has taught basic economics and finance courses at the graduate level and undergraduate level at Ohio Dominican University and serves on the adjunct faculty at Rowan University teaching courses on finance, insurance and risk management.

Sridhar graduated with an MBA from the University of Chicago's Booth School of Business and has an undergraduate in computer science and engineering from the Indian Institute of Technology, Bombay.

Agenda



Introduction to AM Best and Credit Ratings Process

Challenges Facing Homeowners Market

Rating Implications

Insurer Responses

AM Best and the Credit Rating Process

AM Best at a Glance

- AM Best is the oldest and most widely recognized insurer-focused credit rating agency.
- It remains the only global rating agency with a specialist focus on the insurance and reinsurance sectors, publishing nearly 4,000 ratings on companies in more than 100 countries.
- The company was established in the US in 1899 and pioneered the concept of financial strength ratings in 1905.
- Today, in addition to our worldwide headquarters in the US, AM Best has regional offices in:
 - London
 - Amsterdam
 - Hong Kong
 - Singapore
 - Mexico City
 - Dubai*

*Regulated by the Dubai Financial Services Authority as a credit rating agency.

Why Best's Credit Ratings?

AM Best credit rating services assesses the creditworthiness of and/or reports on over 16,000 insurance companies worldwide.

- Our credit ratings provide an **independent**, third-party opinion of an insurer's ability to meet ongoing insurance and senior financial obligations.
- Our rating opinions are **indicative** of an insurance company's ability to pay claims, debts and other financial obligations in a timely manner.
- The **interactive** rating process serves as a roadmap for practicing sound risk management and effective business strategy.
- AM Best is the only global credit rating agency focused exclusively on insurance. Our analysts' diverse financial, operational, claims, underwriting and actuarial backgrounds equip them to deliver rating insights and research that help insurers, financial professionals and consumers make informed decisions.

Best's Credit Rating Process Overview

1

Compile Information

The assigned analyst collects public and proprietary financial information and data to develop a tailored meeting agenda.

2

Perform Analysis

AM Best incorporates a host of qualitative and quantitative measures to evaluate the organization's financial health.

3

Determine Best's Credit Rating

The AM Best rating committee ensures rating consistency and maintains the integrity of the rating process and methodology.

4

Disseminate Best's Credit Rating

If the initial Best's Credit Rating is accepted, it is distributed via the AM Best website, press releases and a number of print and digital publications.

5

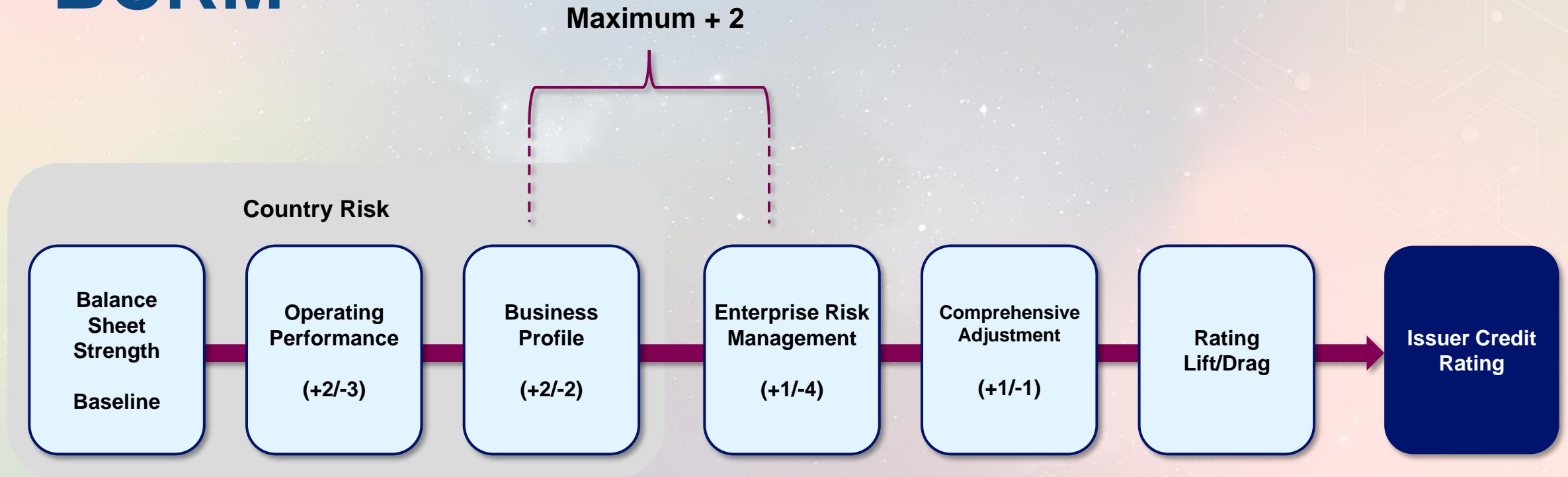
Monitor Best's Credit Rating

AM Best regularly monitors the rating by continually analyzing the organization's creditworthiness.

Credit Rating Process



AM Best's Credit Rating Methodology: BCRM



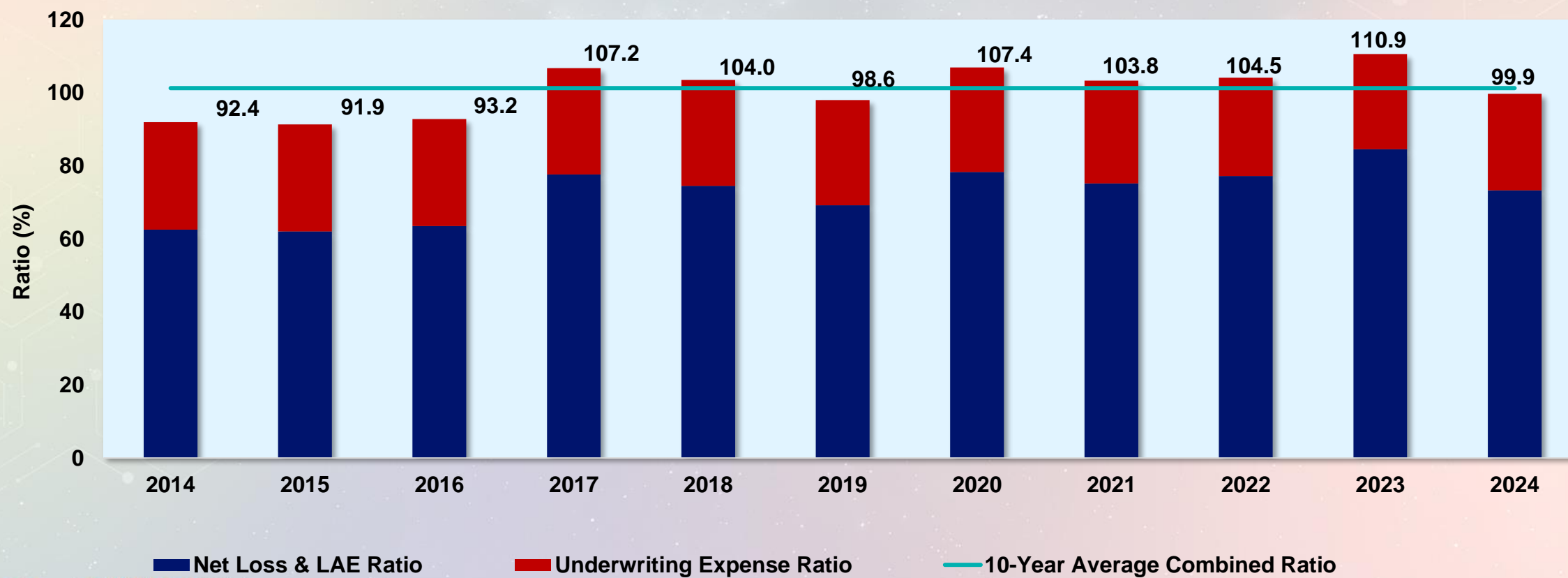
Heightened Pressures Facing US Property Insurers

A Perfect Storm



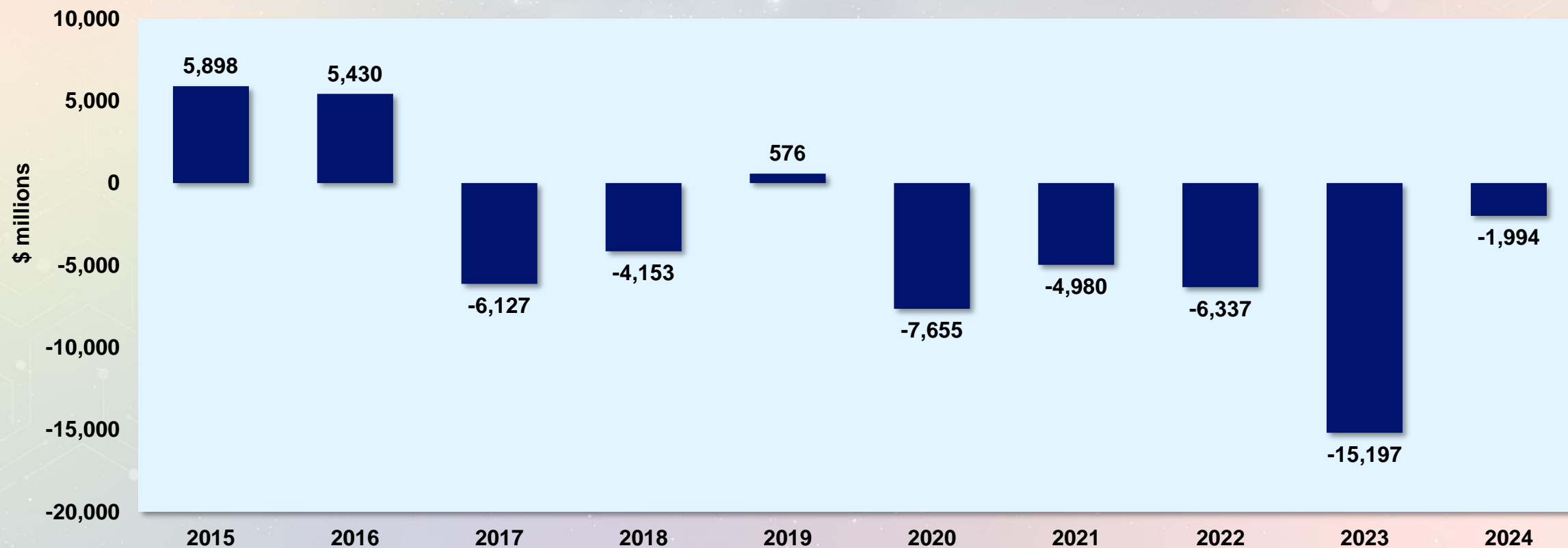
Performance Challenges

US Homeowners - Calendar Year Combined Ratios

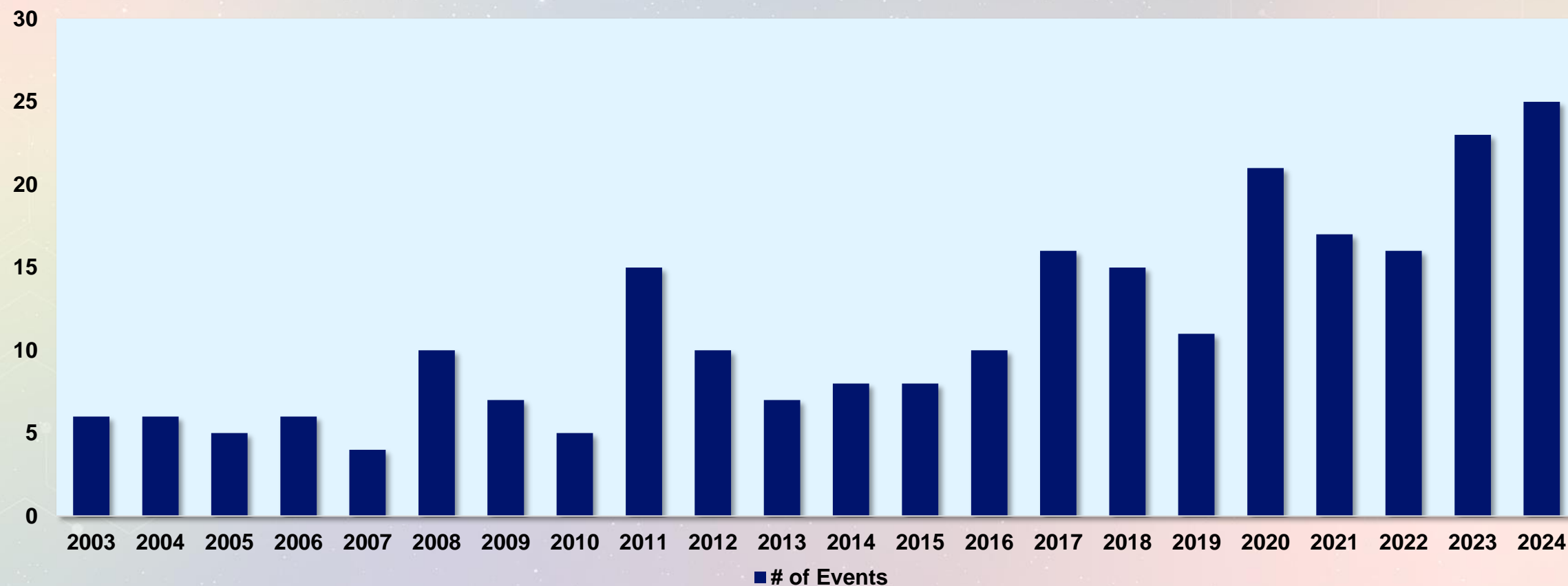


Performance Challenges

US Homeowners – Net Underwriting Income or Loss



Elevated Large Loss Events



2024 U.S. Storm Report – Frequency of Severe Events

Top 10 Costliest Severe Convective Storm Events: Insured Loss (1900 - 2024)

| Date | Event | Location | Insured Loss (Nominal \$ billion) | Insured Loss (2024 \$ billion) |
|-------------------|----------------------------------|-----------------------|--------------------------------------|-----------------------------------|
| August 2020 | Midwest Derecho | United States | 9.2 | 11.0 |
| April 2011 | 2011 Super Outbreak | United States | 7.6 | 11.0 |
| May 2011 | Joplin/SCS | United States | 7.0 | 9.8 |
| May 2003 | United States SCS | United States | 3.3 | 5.7 |
| May 2024 | SCS Outbreak | United States | 5.2 | 5.2 |
| July 2013 | Storm Andreas | Europe | 3.8 | 5.1 |
| March 2023 | United States SCS | United States | 4.9 | 5.1 |
| March 2024 | Central U.S. SCS Outbreak | United States | 4.8 | 4.8 |
| March-April 2023 | Tornado Outbreak | United States, Canada | 4.3 | 4.5 |
| May 2019 | United States SCS | United States | 3.7 | 4.5 |

Hurricane Helene

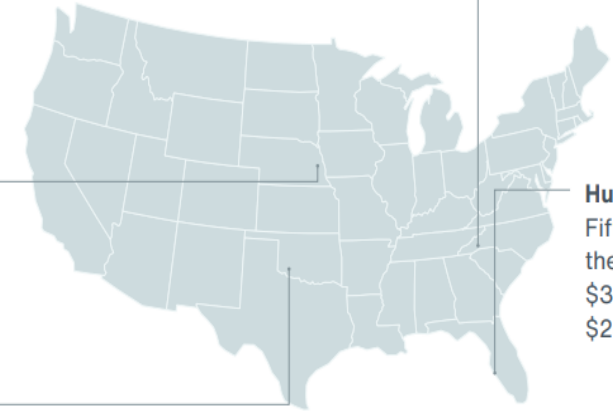
Deadliest mainland U.S. hurricane since Hurricane Katrina (2005)
\$75B economic loss
\$17.5B insured loss
243 fatalities

Severe Convective Storms

Second-highest insured loss total on record driven by 17 billion-dollar insured loss events
\$69B economic loss
\$54B insured loss

Agriculture Losses

Large crop insurance payments due to drought, flooding, and SCS
\$6.7B in total

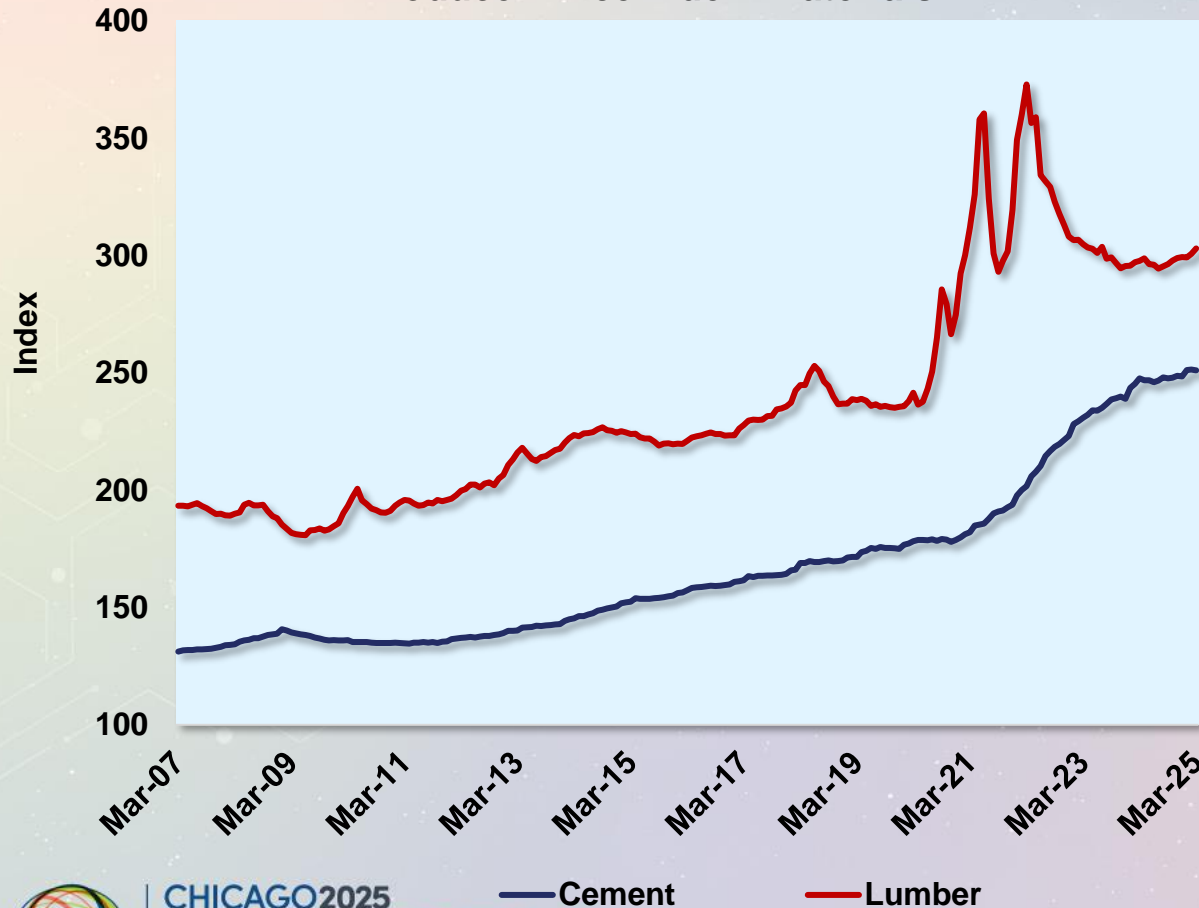


Hurricane Milton

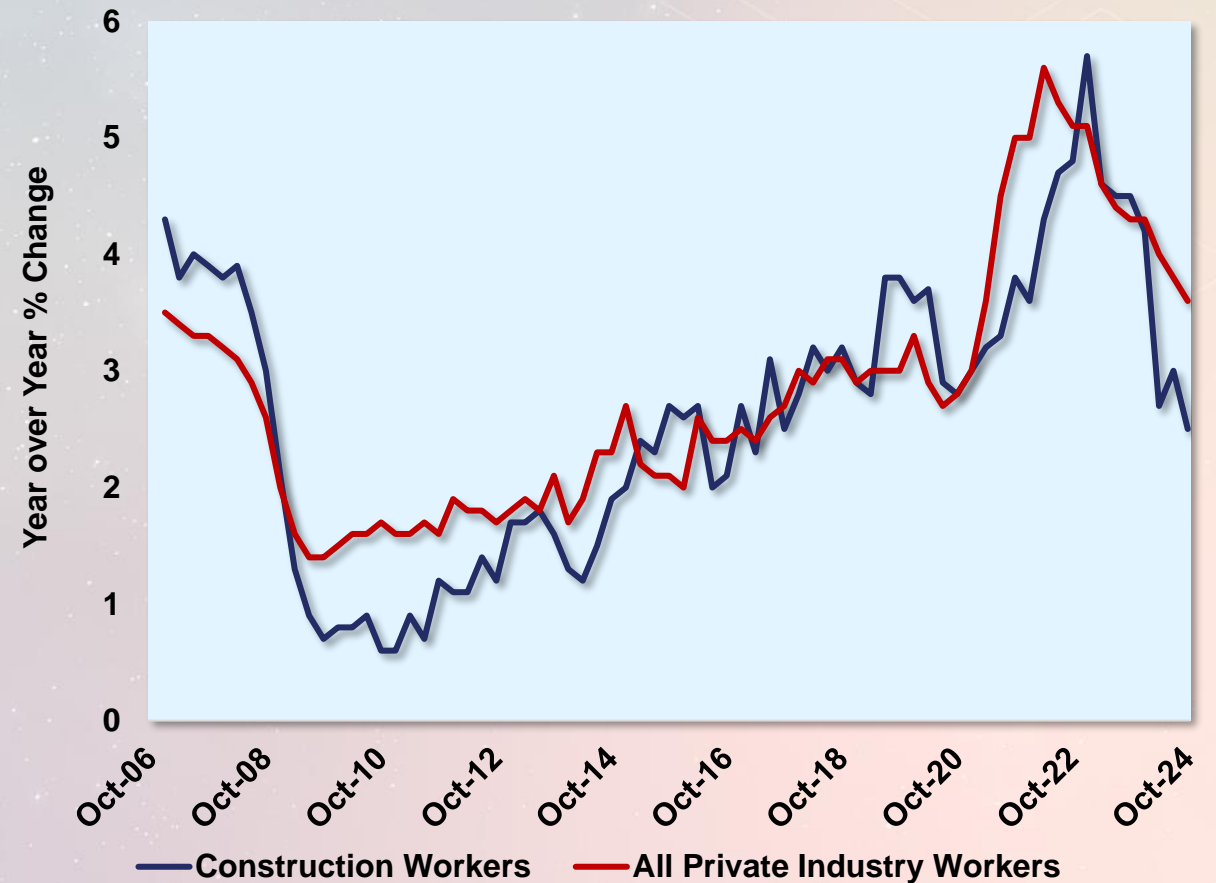
Fifth-strongest hurricane in the Atlantic basin on record
\$35B economic loss
\$20B insured loss

Inflationary Pressures – Materials & Wages

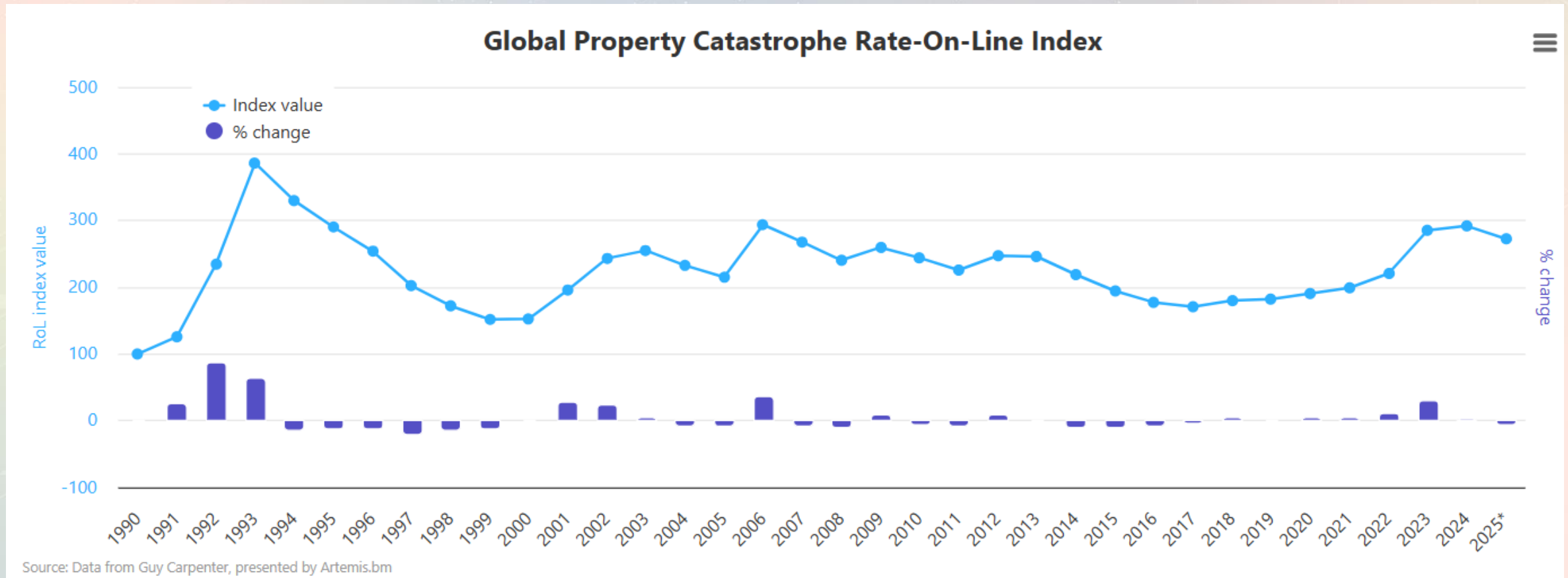
Producer Price Index: Materials



Employment Cost Index: Wage Growth

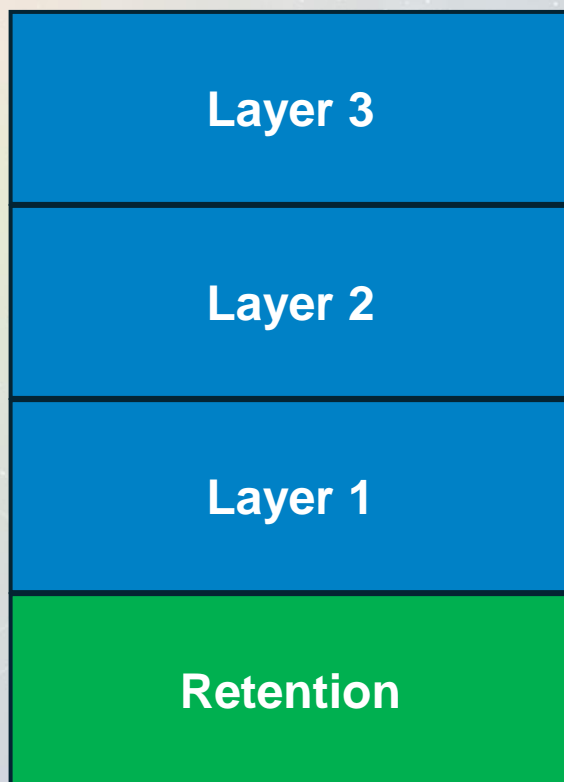


Significant Increase in Reinsurance Costs



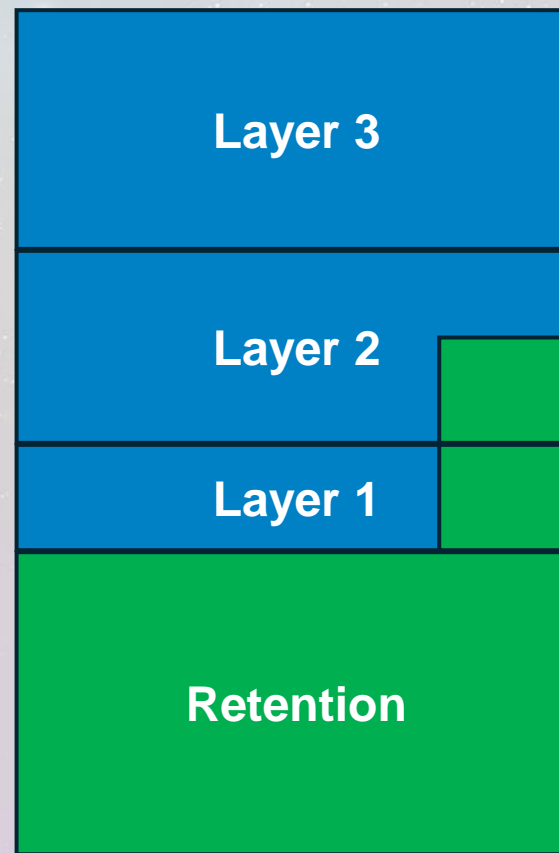
Reinsurance Program Changes – Material Impact

PRIOR REINSURANCE TOWER



TOTAL COST \$10.0 Million

REVISED REINSURANCE TOWER



TOTAL COST \$15.0 Million

CHANGE

In some cases buying more top limit

Co-Participation %

Higher Retention

50% + Price Increase



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Reinsurance Market Pressures

- Reinsurance is a form of capital for cedants
- Capital is no longer “cheap”
- Higher costs for cedants
- More “skin in the game”
 - Retention & co-participation
- Frequency protection more limited



Accelerated Rate Trend

Homeowner's Insurance Premiums - Annual % Change



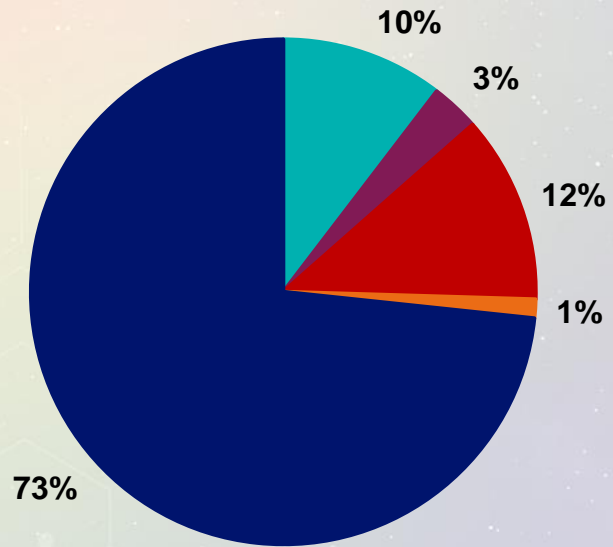
Regulatory/Operational Challenges

- Regulator – balance affordability with coverage availability
 - Increased scrutiny given magnitude & frequency
 - Staffing challenges slows response
- Time lag in identifying rate need vs. approval and implementation
- Earning premium takes time – 12-month property policies
- Companies need to balance frequency/severity of rate change
- Regulatory environment can impact the rating – Business Profile most directly

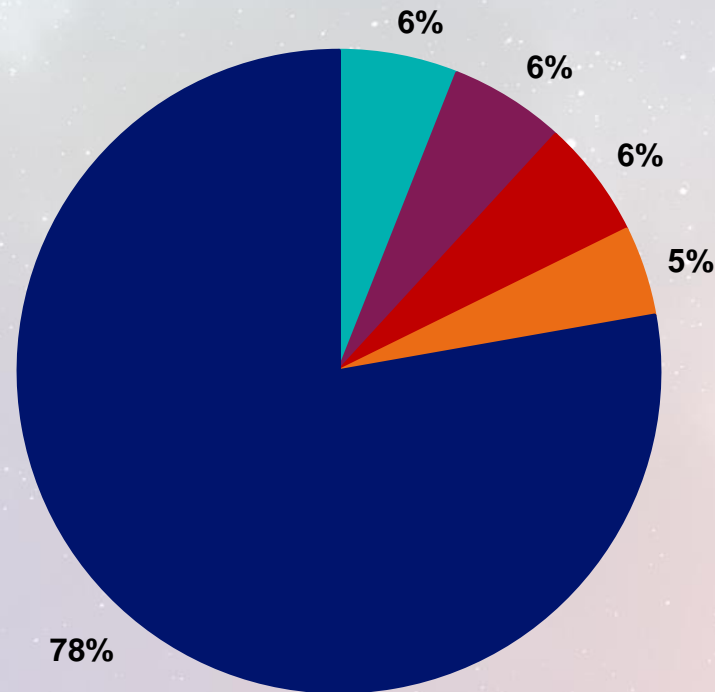
Rating Implications

2024 Rating Activity

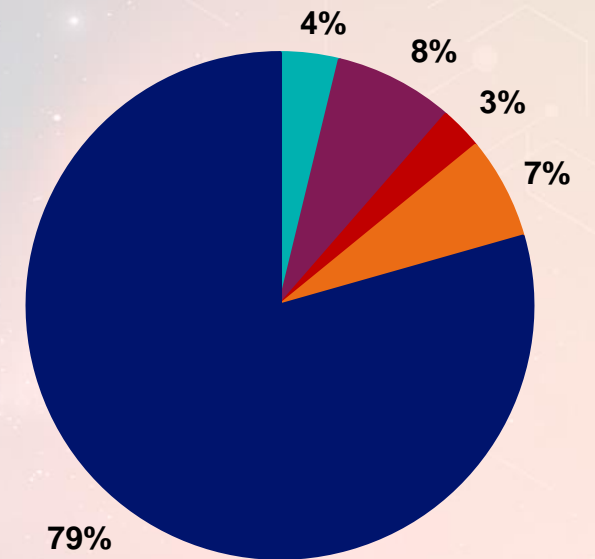
Personal Lines



Total P/C Industry

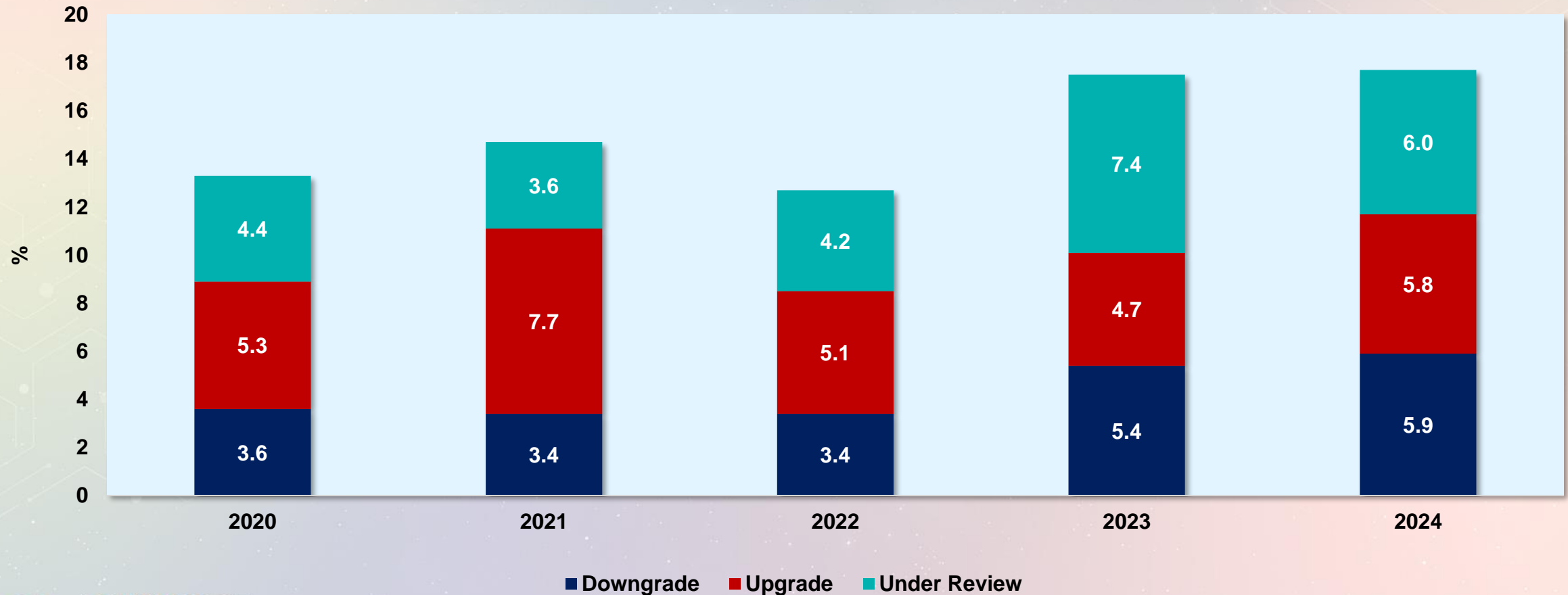


Commercial Lines



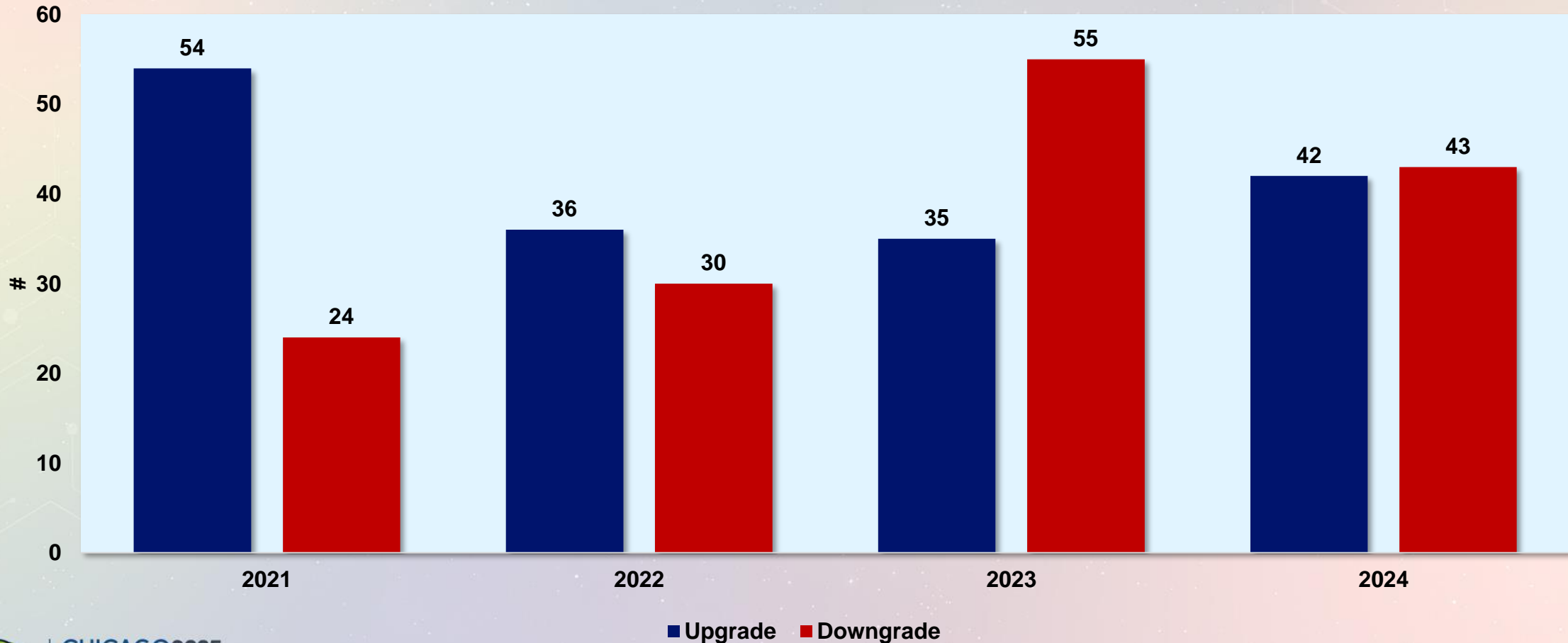
Rating Actions – US Property/Casualty

Rating Actions (excludes affirmations/initial ratings)



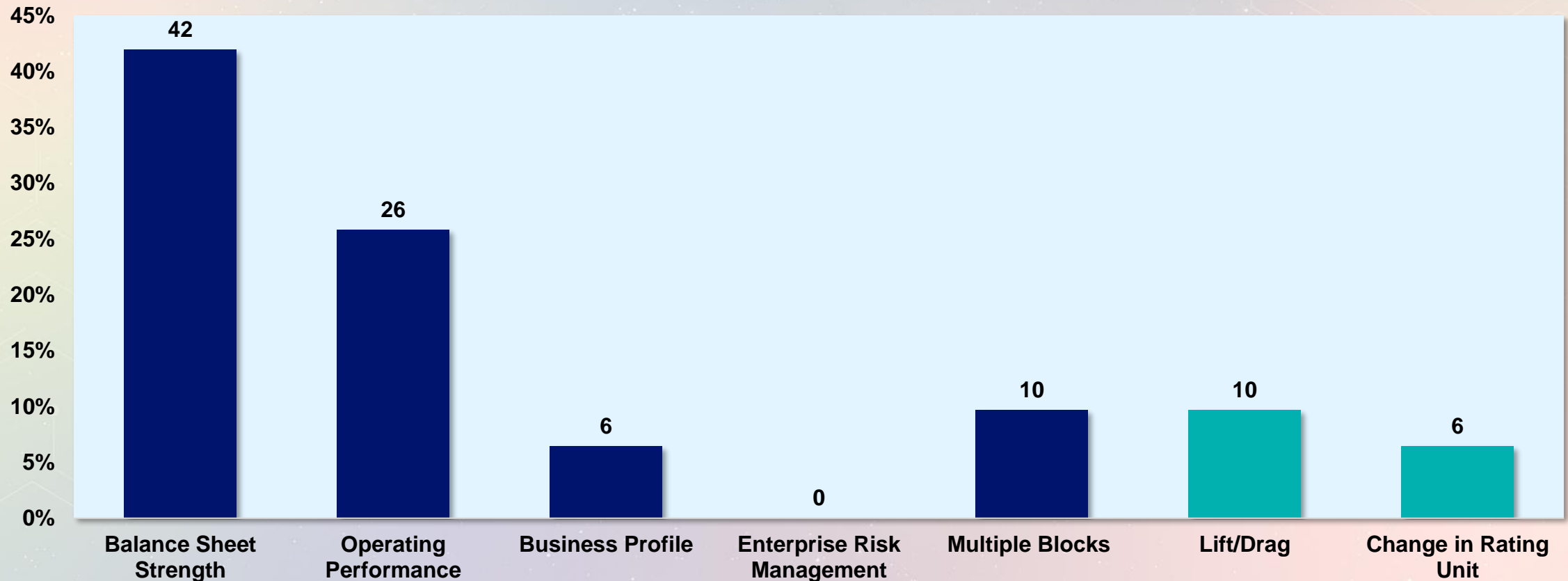
Rating Actions – US Property/Casualty

Downgrades Decelerate



Assessment Category Changes – Property-Exposed Composites (Personal Lines)

Downgrade Assessment Changes



Carrier Responses

Carrier Responses – Balance Sheet Strength



Capital Injection



Sale/Lease Back



Affiliations/Mergers



**Quota Share
Reinsurance**



Surplus Notes

Carrier Responses – Performance, Profile, ERM

Rate & inflation guard factors

Tightened underwriting guidelines

Concentration/exposure refinement

Agent commission changes



Carrier Responses – Performance, Profile, ERM

Exit/scale back exposure

Deductible changes

Bundling with auto (brings its own set of issues)

Shift to small commercial



Light at the End of the Tunnel?

- Perhaps in 2025:
 - Earning of significant rate increases
 - Improving investment yields
 - Tempering of inflation??
 - Technology adoption/data analysis
 - Historically challenging regulatory environments beginning to shift



Q&A

Thank you!

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