



Property & Reinsurance Market Update

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Federal Advisory Committee on Insurance

Agenda



Market Segment Outlooks – Personal & Reinsurance

Under Pressure: Mounting Losses Facing the Property Insurance Market

Rising Costs, Reinsurance Retentions & Rate Adequacy

Rating Implications

Carrier Responses

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, issued in September 2022, for the US personal lines segment, 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
- Heightened catastrophic loss volatility; increased secondary peril activity

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 – Global Reinsurance

AM Best is maintaining its Stable outlook for the Global Reinsurance segment, based on the following positive factors:

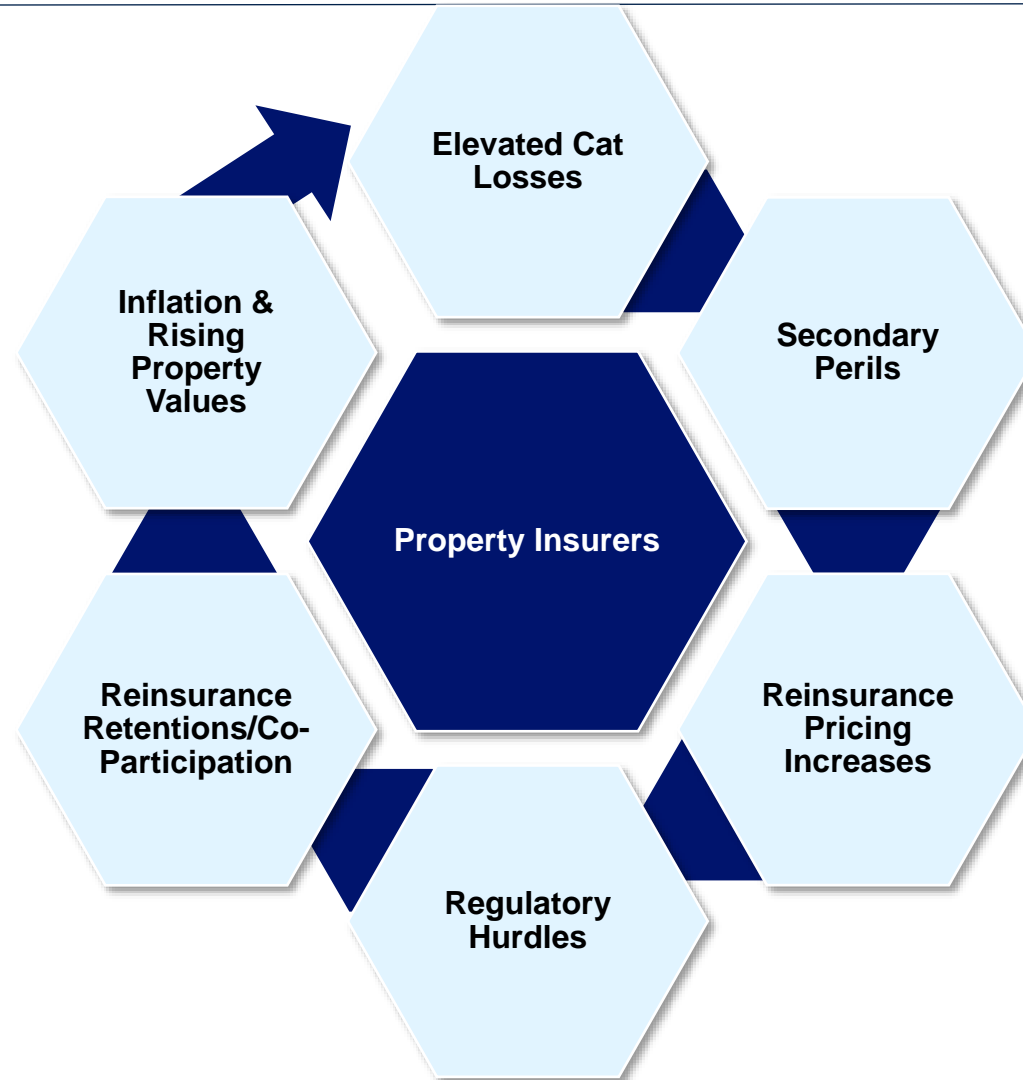
- Renewals maintained favorable pricing, terms and conditions
- Increased demand for coverage due to catastrophic loss activity but supply remains disciplined
- Strong demand for life and annuity reinsurance
- Rising investment income
- Available capital ≠ Deployed capacity

Market Segment Outlook – Global Reinsurance

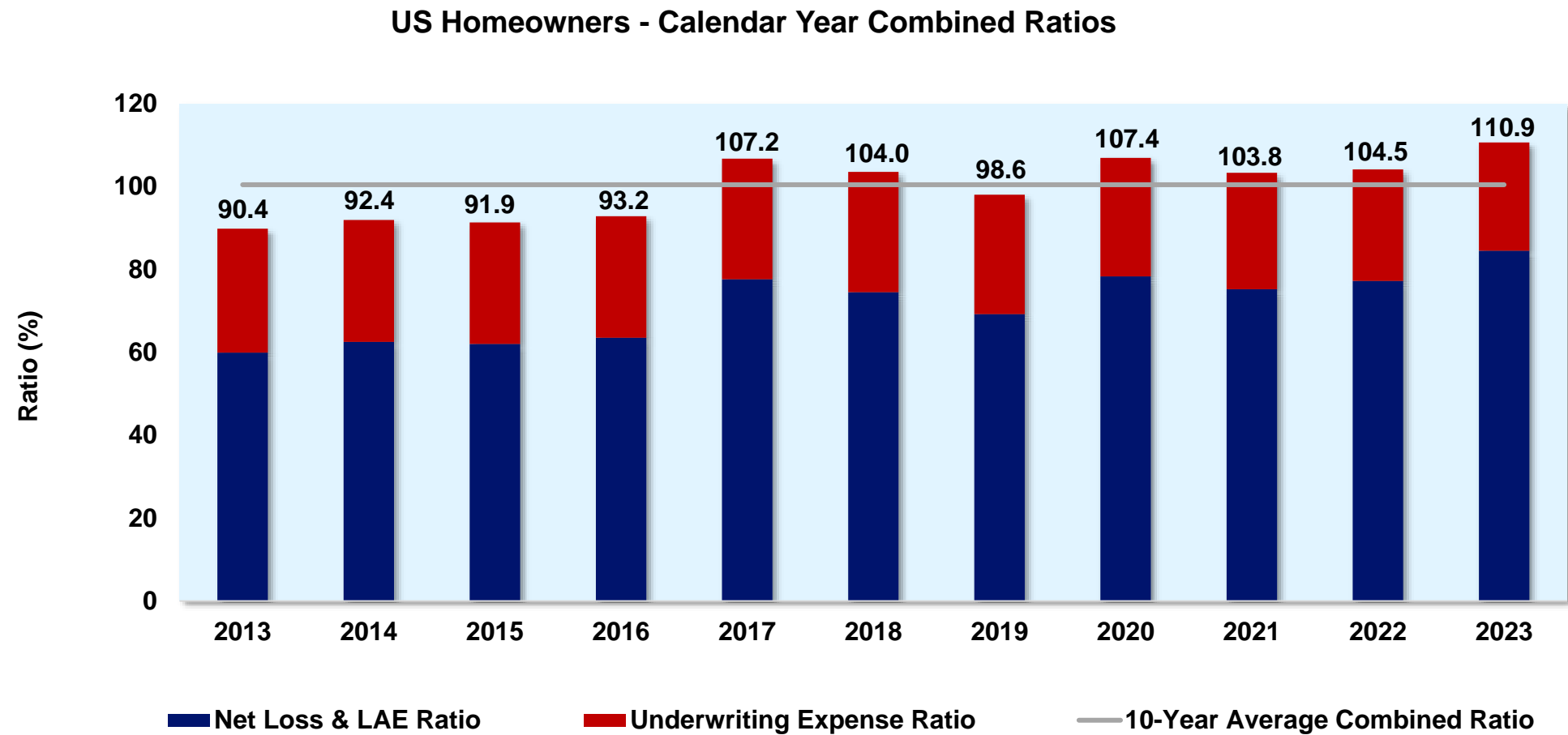
Negative factors countering these positives include the following:

- New capital still hesitant; flight to quality exacerbated
- Reserves strengthening actions on casualty books
- Concerns about economic and social inflation
- Complex and evolving risk environment

Issues Facing Property Insurers – “A Perfect Storm”



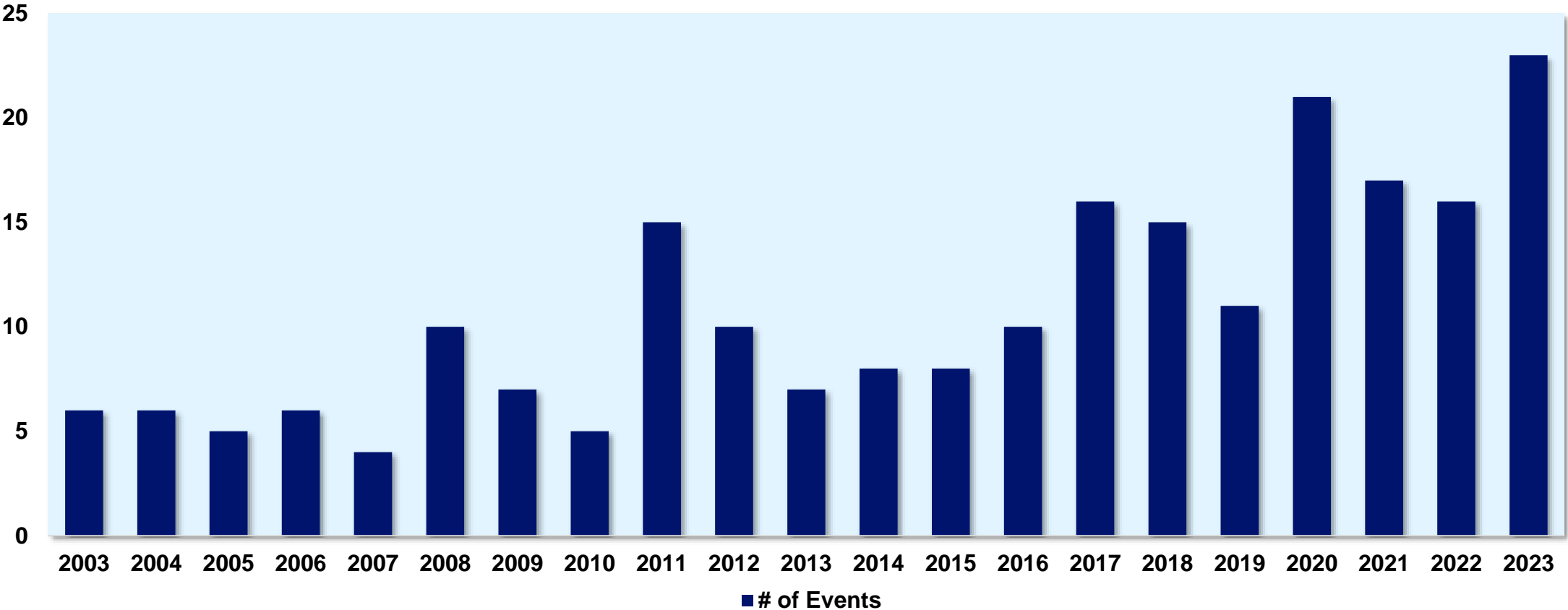
Performance Challenges



Source: AM Best data and research



Elevated Large Loss Events



Source: NOAA



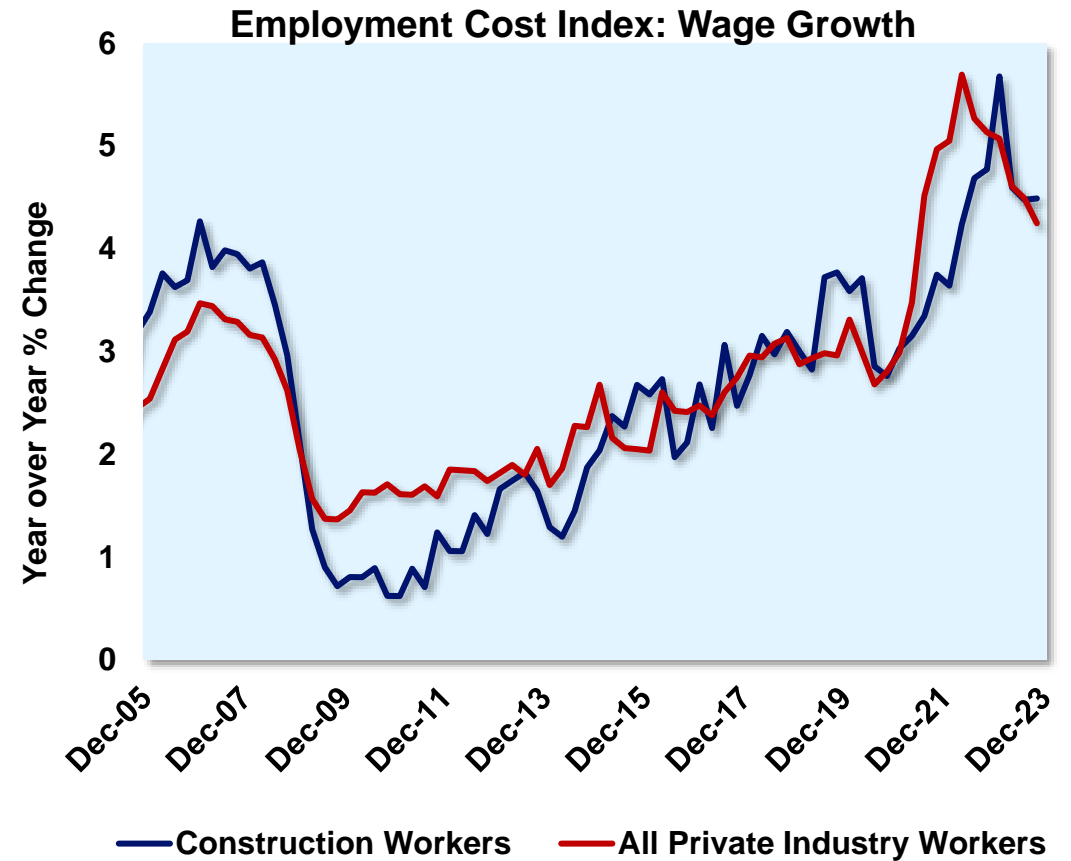
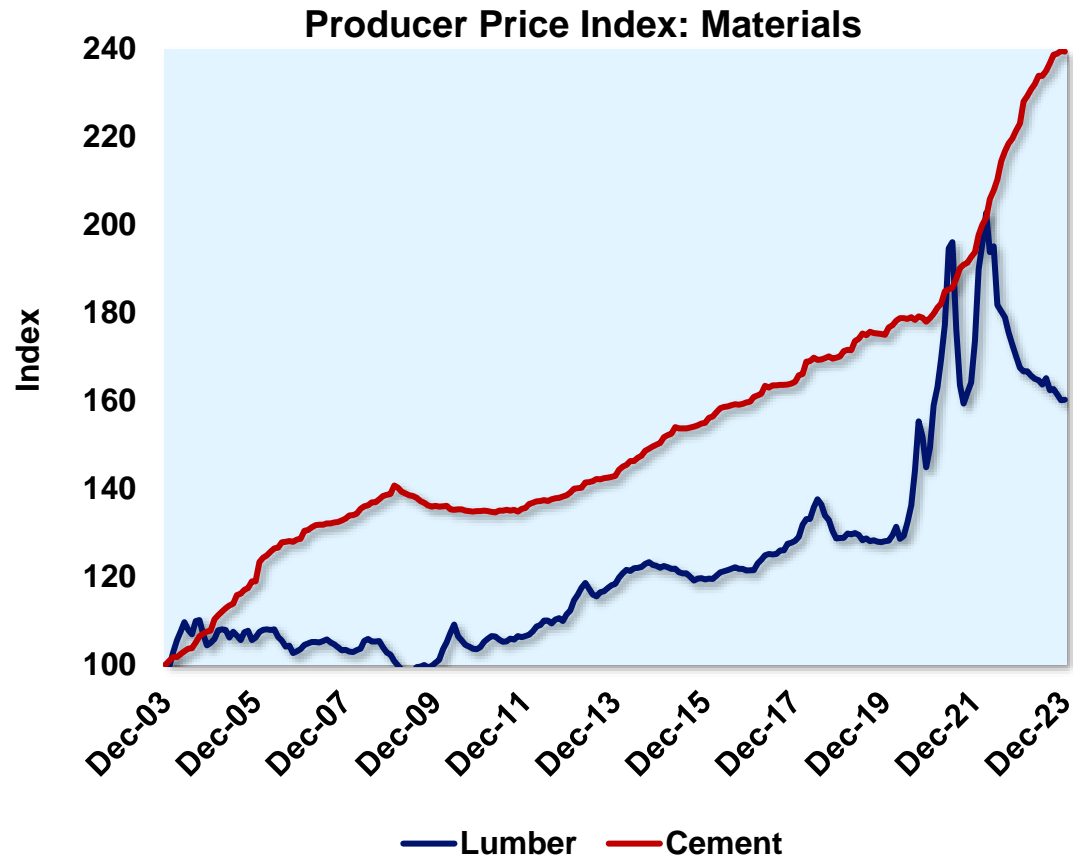
2023 U.S. Storm Report – Frequency of Severe Events



Top 10 Costliest Severe Convective Storm Events: Insured Loss (1900 - 2023)				
Date	Event	Location	Insured Loss (Nominal \$ billion)	Insured Loss (2023 \$ billion)
August 2020	Midwest Derecho	United States	9.2	10.9
April 2011	2011 Super Outbreak	United States	7.6	10.3
May 2011	Joplin/SCS	United States	7.0	9.5
May 2003	United States SCS	United States	3.3	5.5
July 2013	Storm Andreas	Europe	4.9	5.0
March 2023	United States SCS	United States	4.9	5.0
March-April 2023	Tornado Outbreak	United States, Canada	4.3	4.4
May 2019	United States SCS	United States	3.7	4.4
June 2023	United States SCS	United States	4.3	4.3
April 2016	San Antonio Hailstorm	United States	3.2	4.1

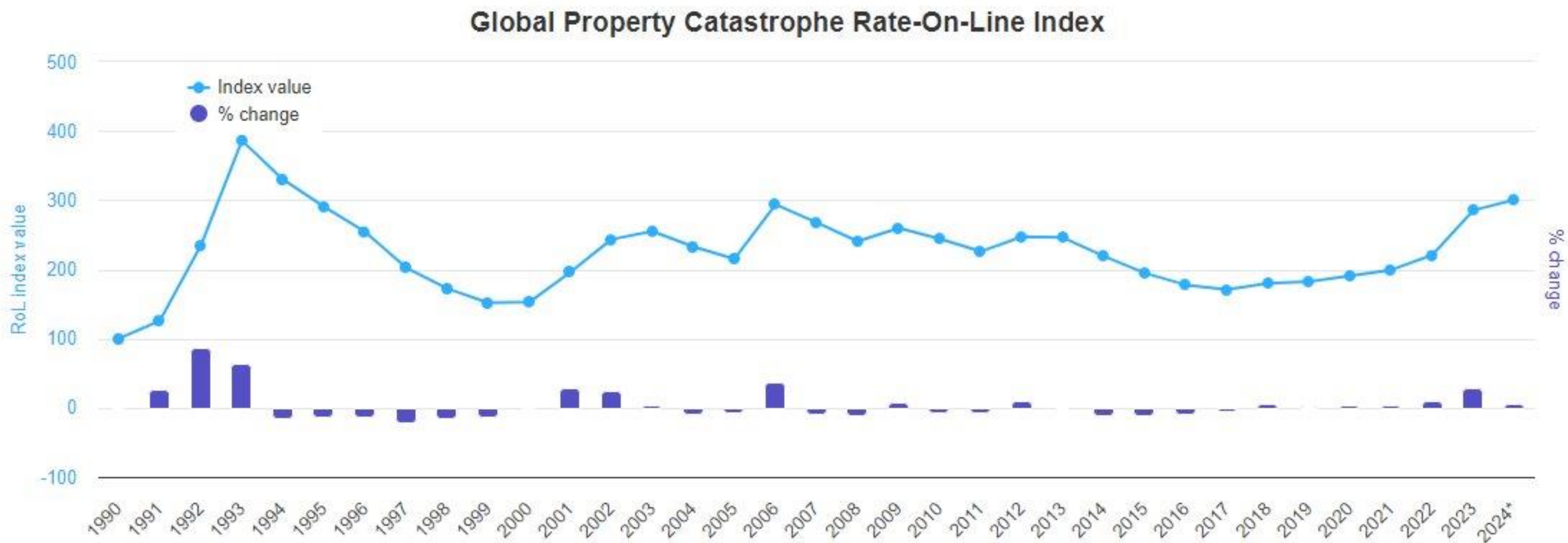
Rising Costs & Retentions

Inflationary Pressures – Materials & Wages



Source: Bureau of Labor Statistics

Significant Increase in Reinsurance Costs



Source: Guy Carpenter, presented by Artemis.com
*Guy Carpenter US Property Rate on Line Index



Reinsurance Market Pressures on Primary Carriers

- 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



Why is this Reinsurance 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 202x class?

Rising interest rates only
since 2022

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

Alternative Capital

Plateaued since 2018

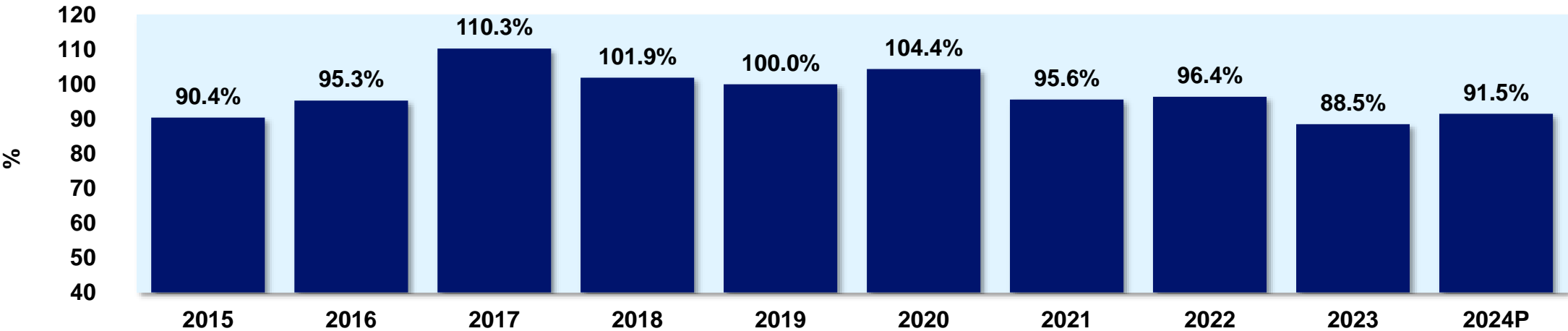
No single major
catastrophe event

Accumulation of more frequent
secondary perils

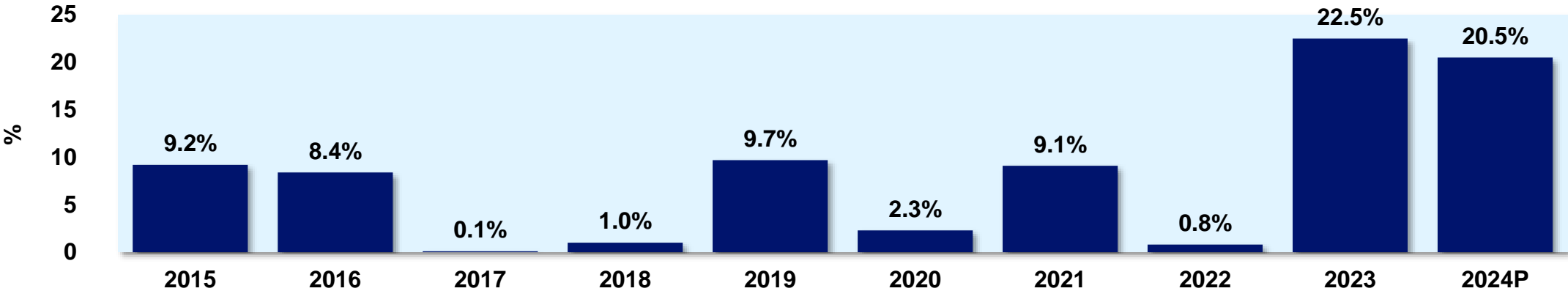
Global reinsurers remain
well capitalized

Global Reinsurance Market Trends

Combined Ratio

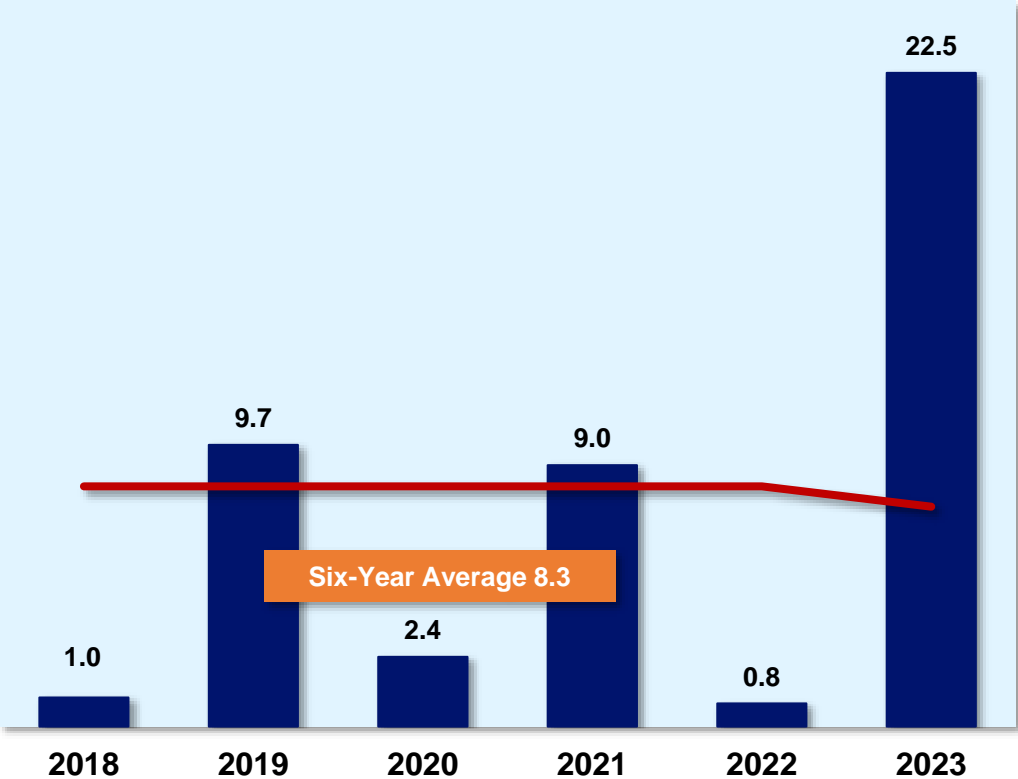


Return on Equity

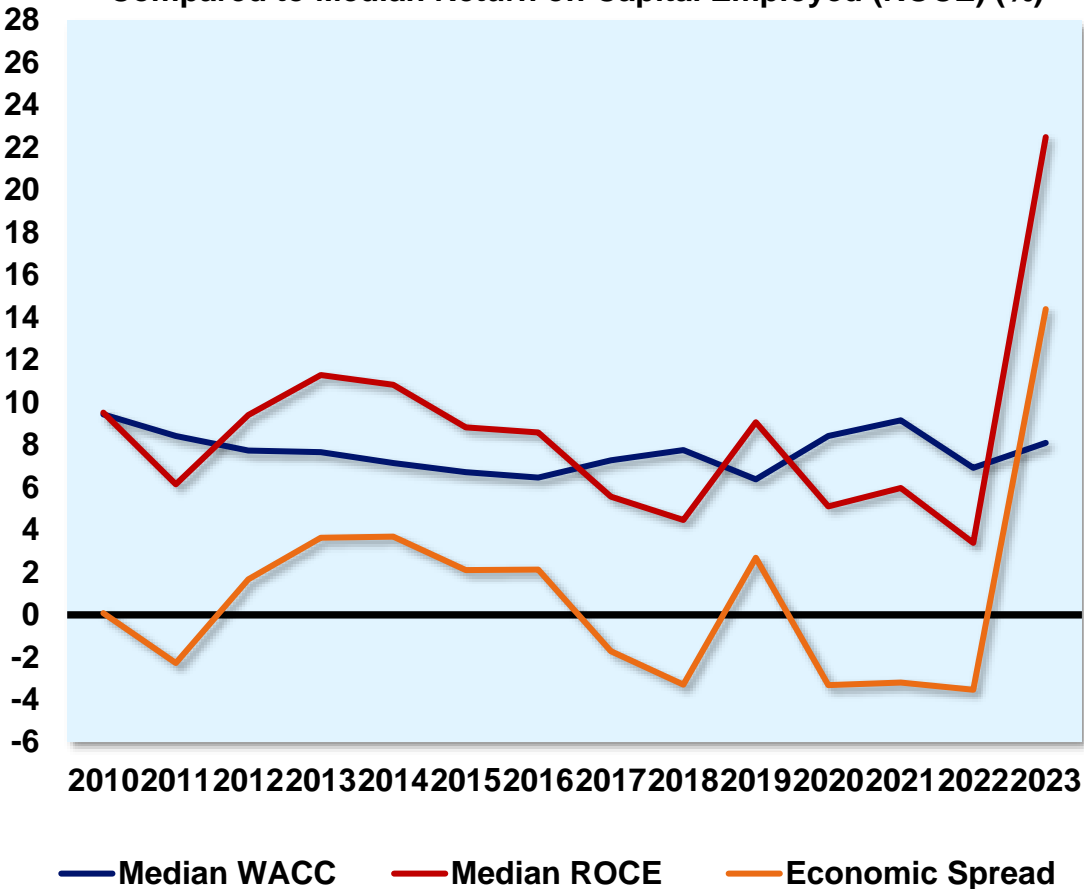


Global Reinsurance Market Performance

Return on Equity (%)



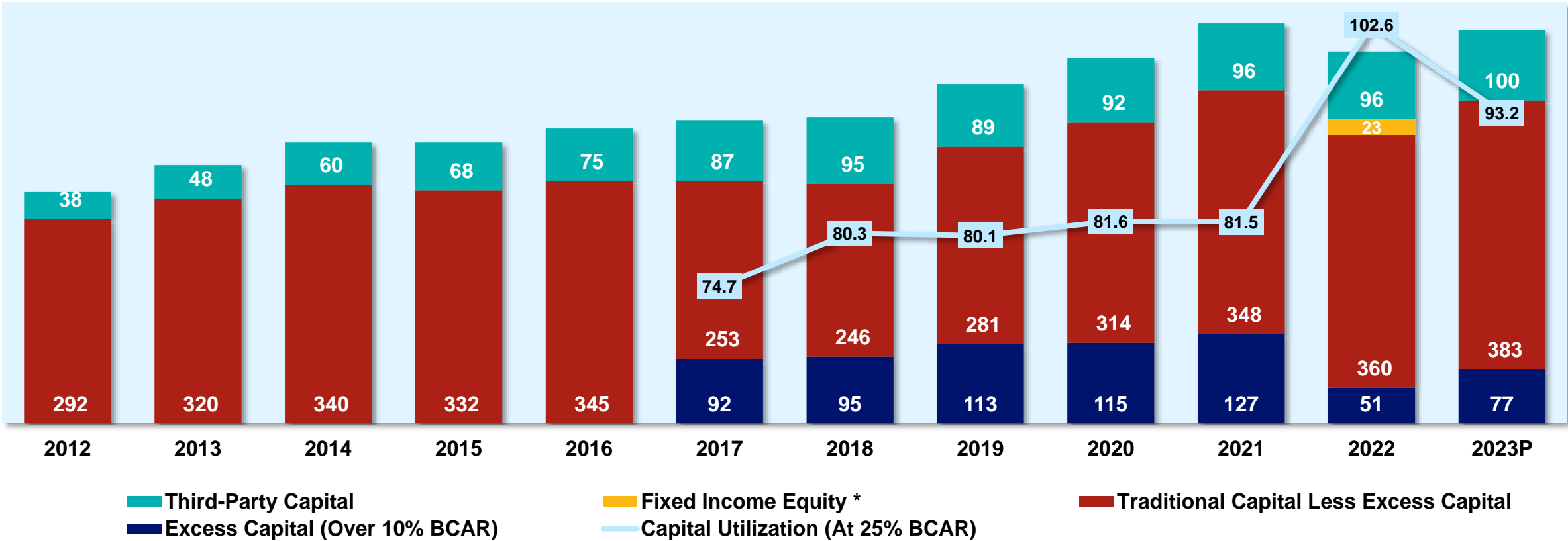
Reinsurers' Median Weighted Average Cost of Capital (WACC) Compared to Median Return on Capital Employed (ROCE) (%)



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



Global Reinsurance Market Capital



*: 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

Global Reinsurance – Looking Ahead

Mid-year renewals: continued underwriting discipline expected

Non-catastrophe lines: growth focused on specialty lines; concerns on development of casualty books

Economic and political backdrop increasingly uncertain

Incoming capital: is there a class of 202x?

Innovation and relevance in a more complex risk environment where insurability may be challenged

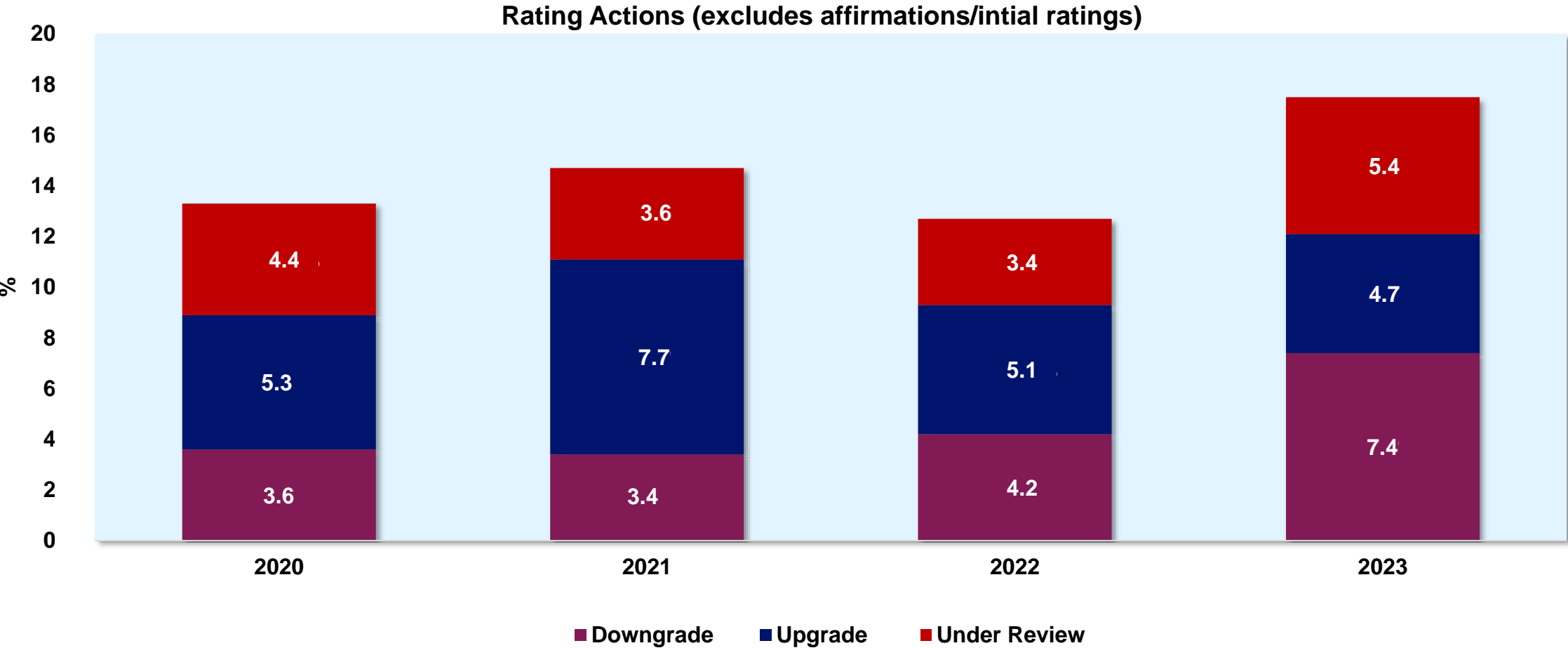
Property Lines Regulation & Rate Adequacy

Regulatory/Operational Challenges

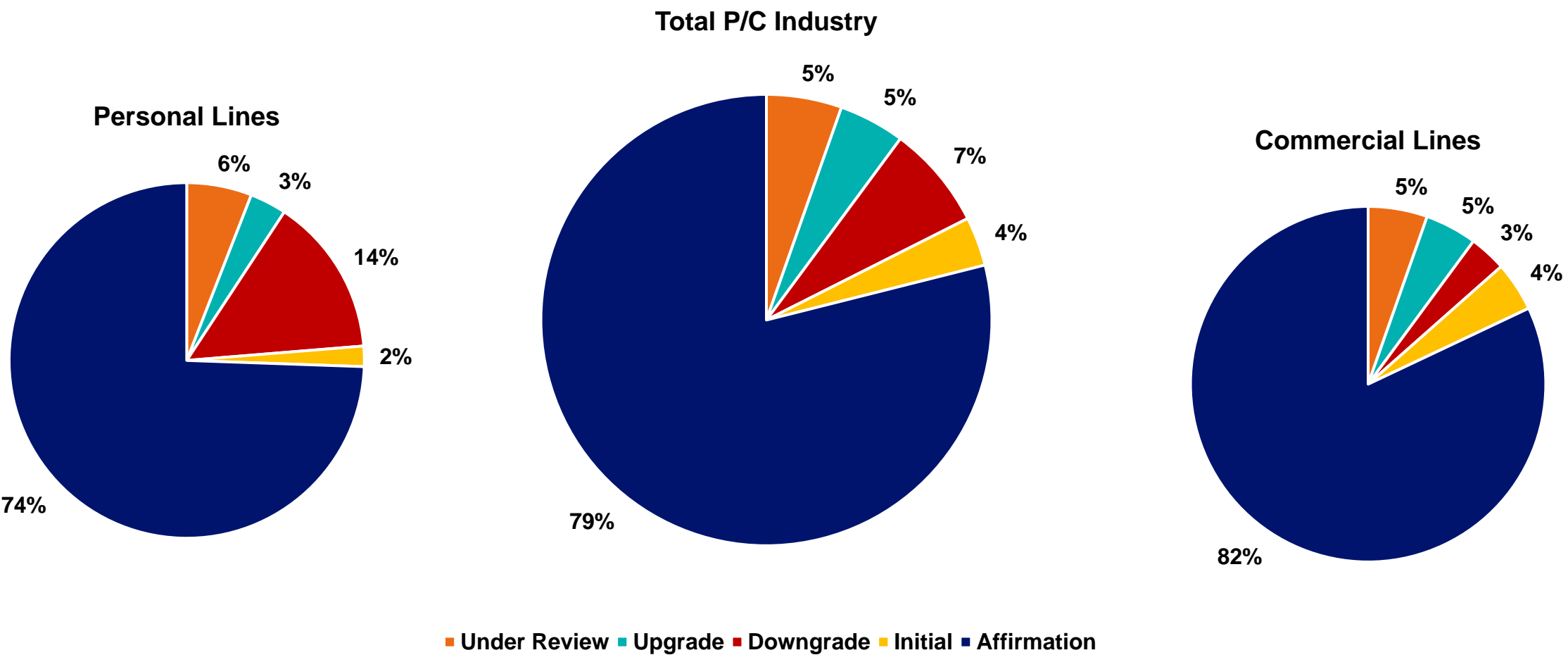
- Regulator – balance affordability with coverage availability
 - Increased scrutiny given magnitude & frequency
 - Staffing challenges slows response
- Time lag in identifying rate need vs. approval and implementation
- Earning premium takes time – 12-month property policies
- Companies need to balance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

Rating Implications

Rating Actions – US Property/Casualty

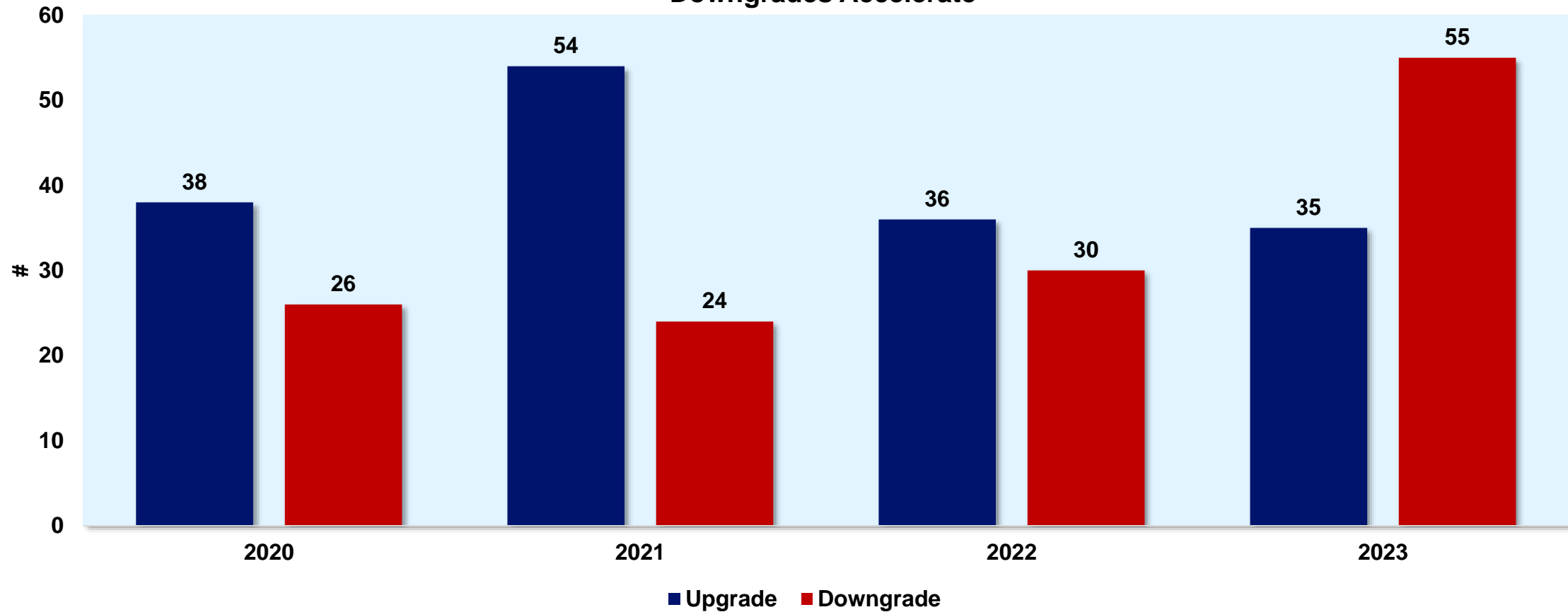


2023 Rating Activity



Rating Actions – US Property/Casualty

Downgrades Accelerate



Carrier Responses

Carrier Responses – Balance Sheet Strength



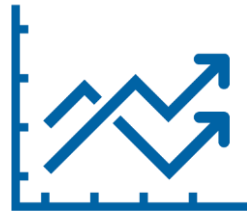
Capital Injection



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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