

Note: This session has live audience polling

Review & Preview

AM Best's 31st Annual *Review & Preview* Conference
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Property/Casualty Review & Preview

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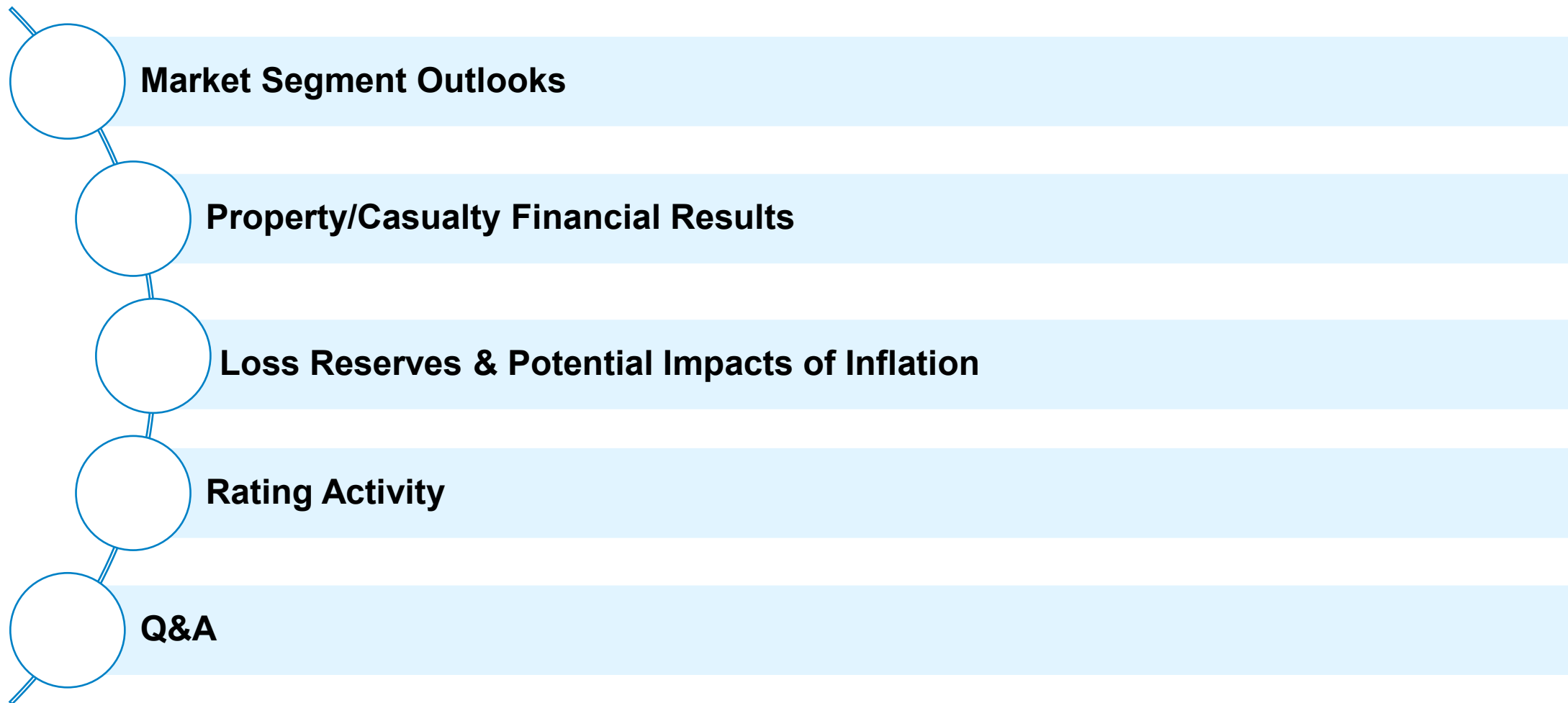


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This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar



Agenda



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

Personal Lines Outlook

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

Polling Question #1

What do you see as the most challenging component impacting the personal lines segment for primary carriers?

- a) Reinsurance pricing
- b) Rate adequacy/regulatory restrictions
- c) Low frequency, high severity weather
- d) High frequency, low severity weather



Commercial Lines Outlook

Market Segment Outlook – US Commercial Lines

AM Best is maintaining its Stable outlook for the US commercial lines segment, 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

Polling Question #2

How many points above general inflation do you believe social inflation is contributing to annual loss severity trends for liability lines?

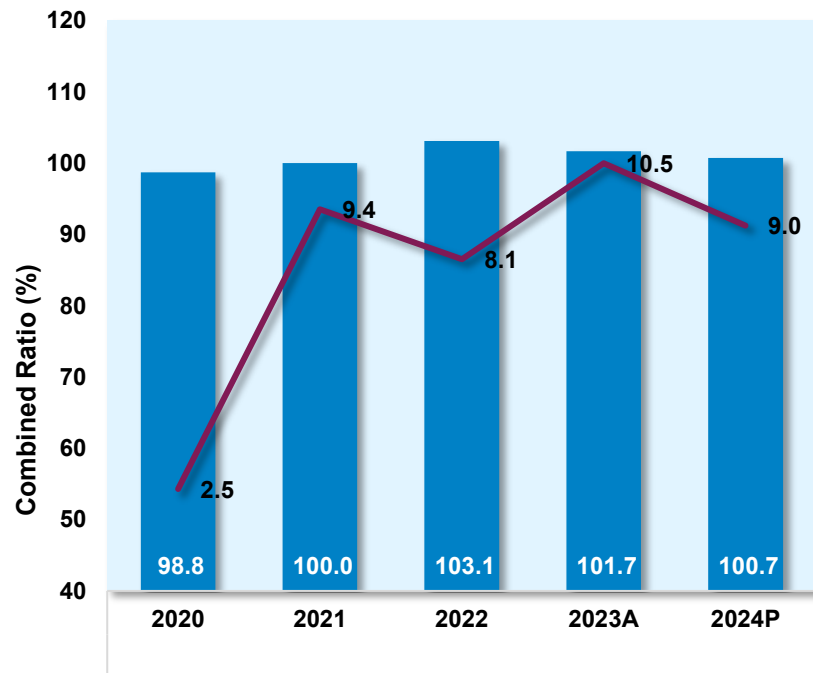
- a) Less than 1%
- b) 1% - 3%
- c) 3% - 5%
- d) Greater than 5%



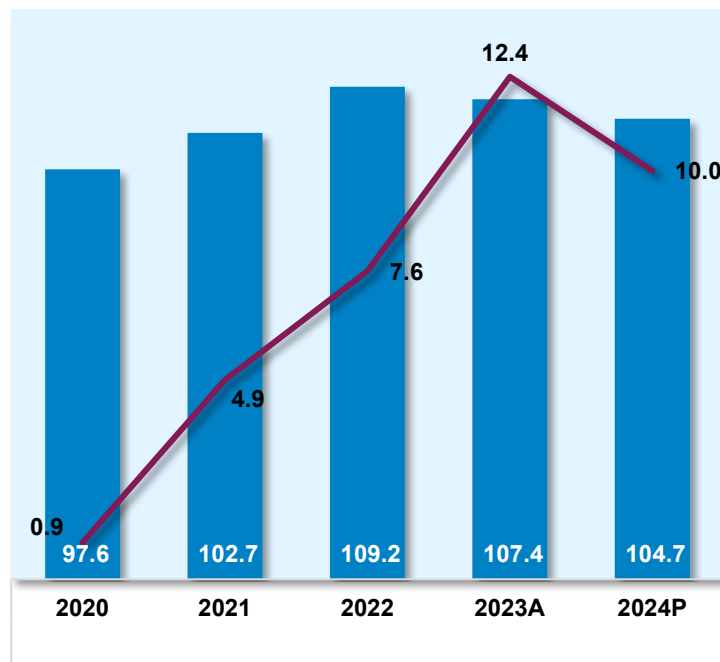
Property/Casualty Financial Results

NPW & Combined Ratio

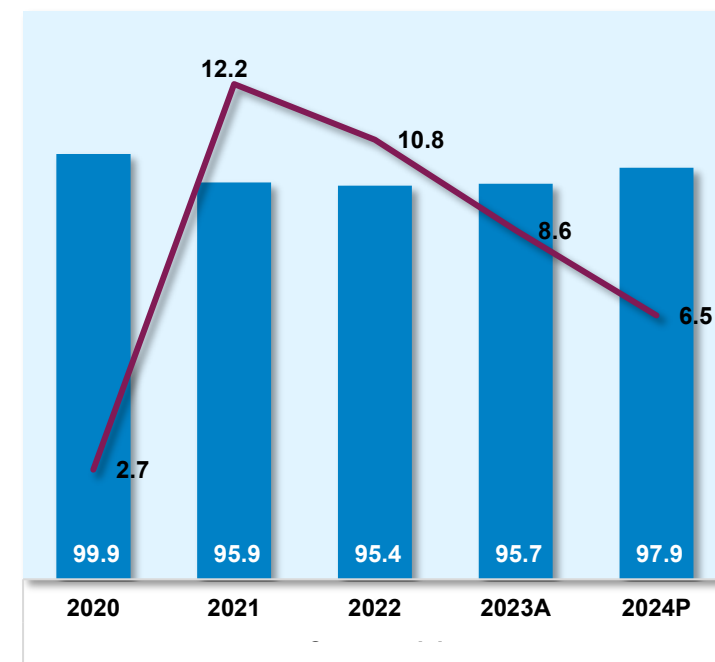
Industry



Personal

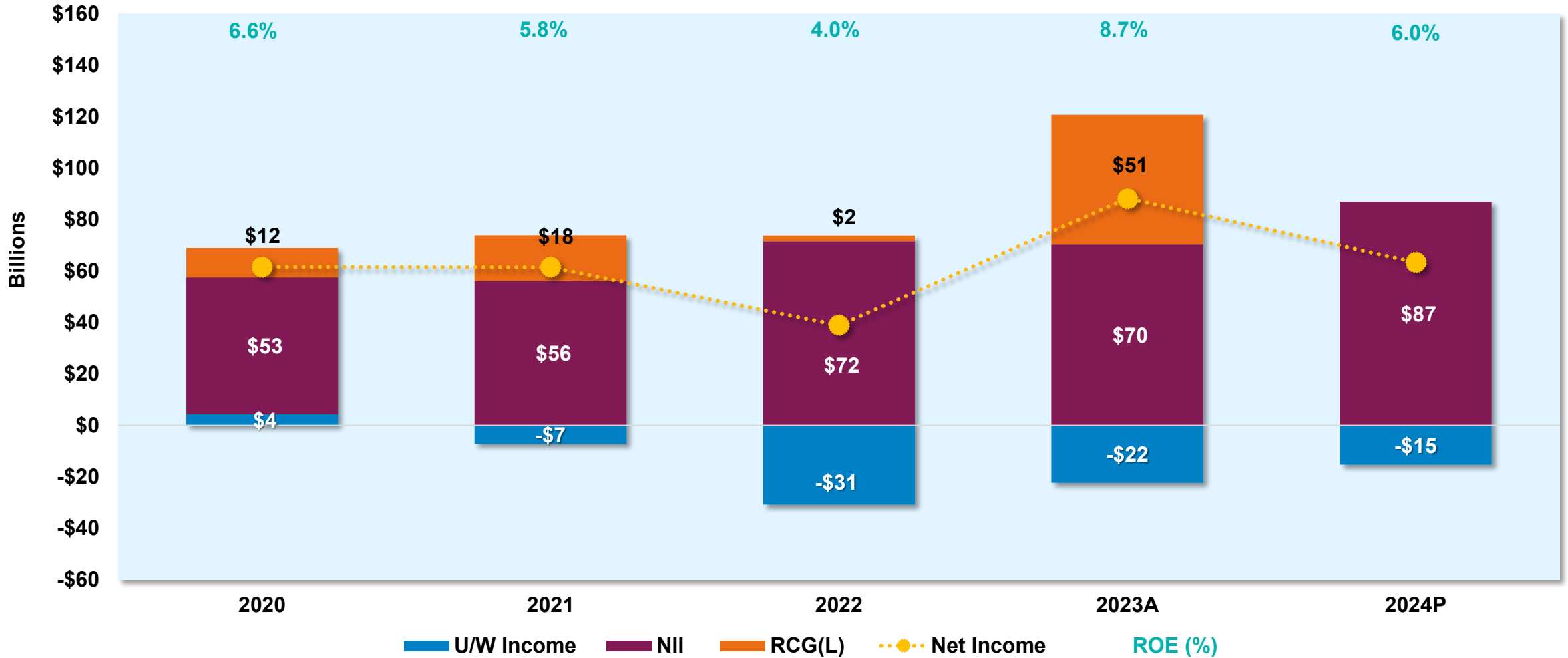


Commercial

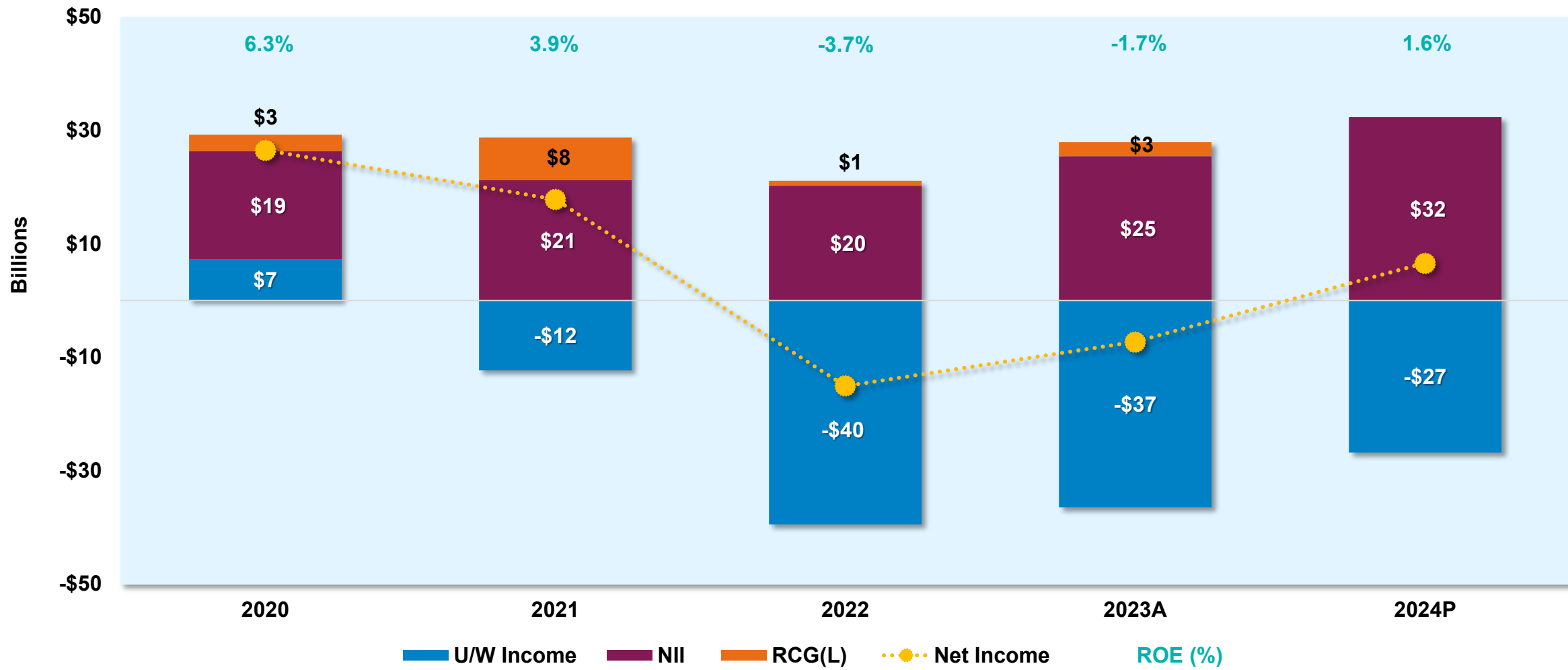


■ Combined Ratio — NPW (%)

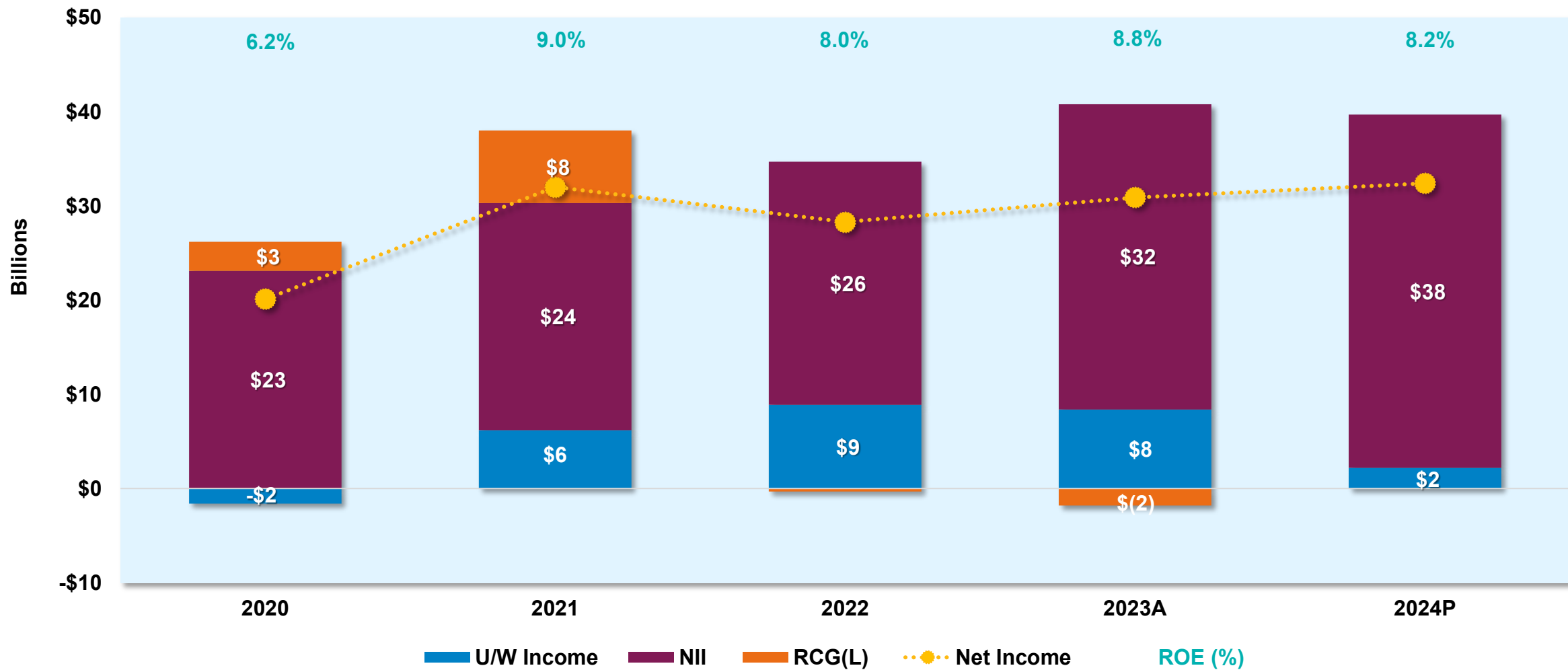
Total Industry – Profitability



Personal Lines – Profitability

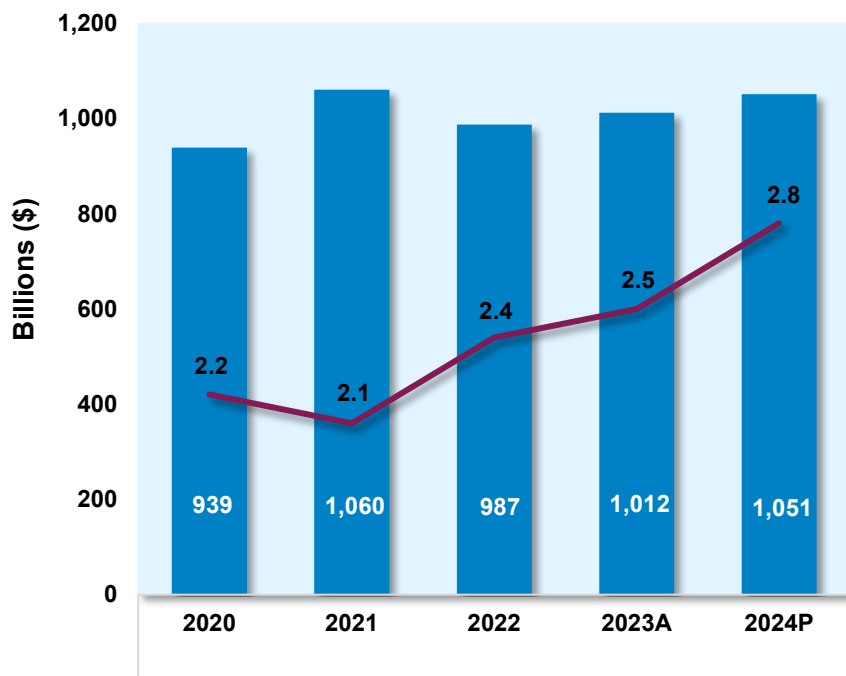


Commercial Lines – Profitability

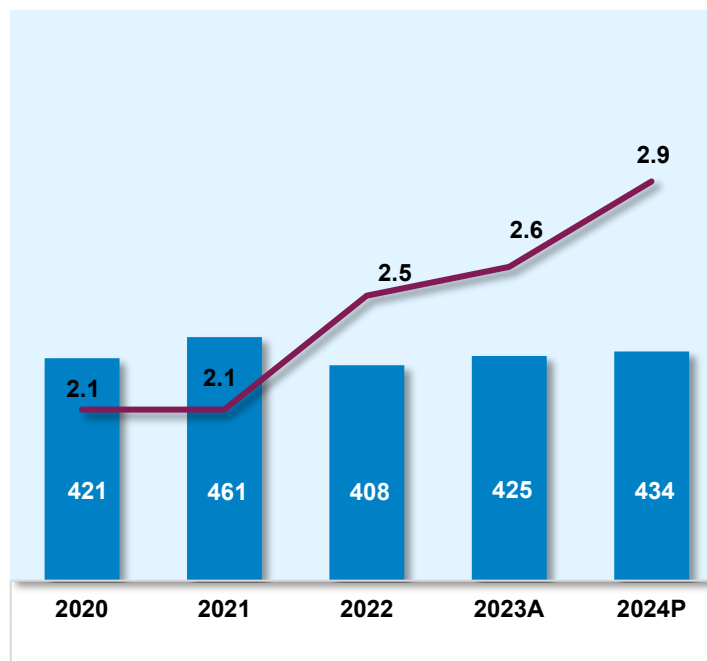


Surplus & Net Leverage

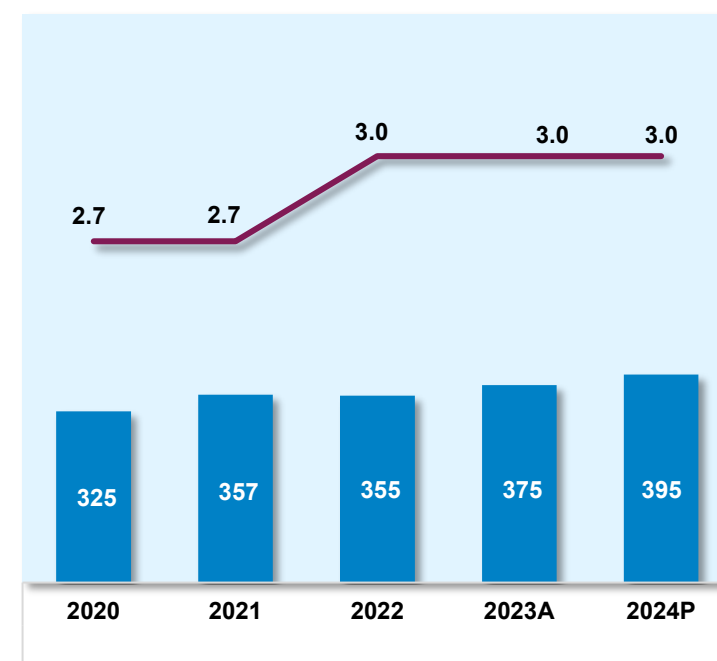
Industry



Personal

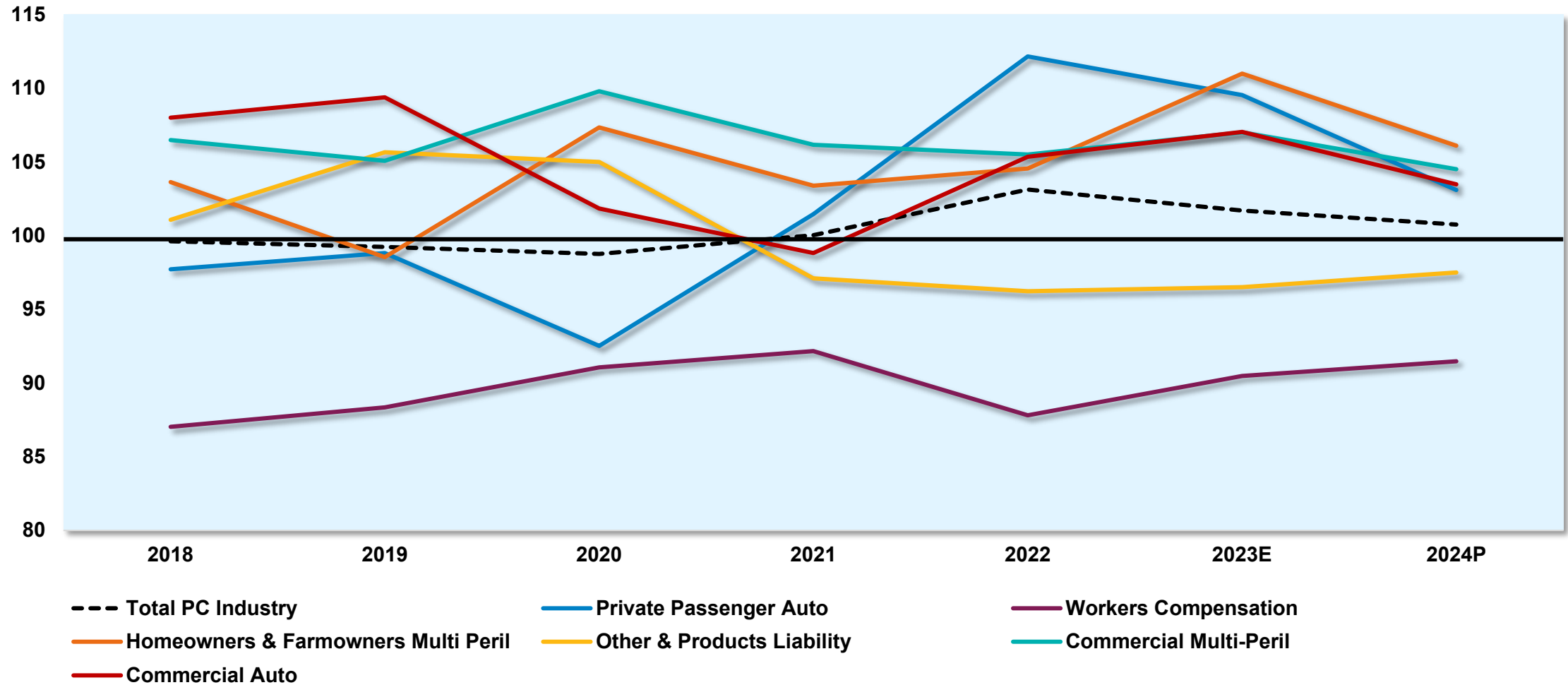


Commercial



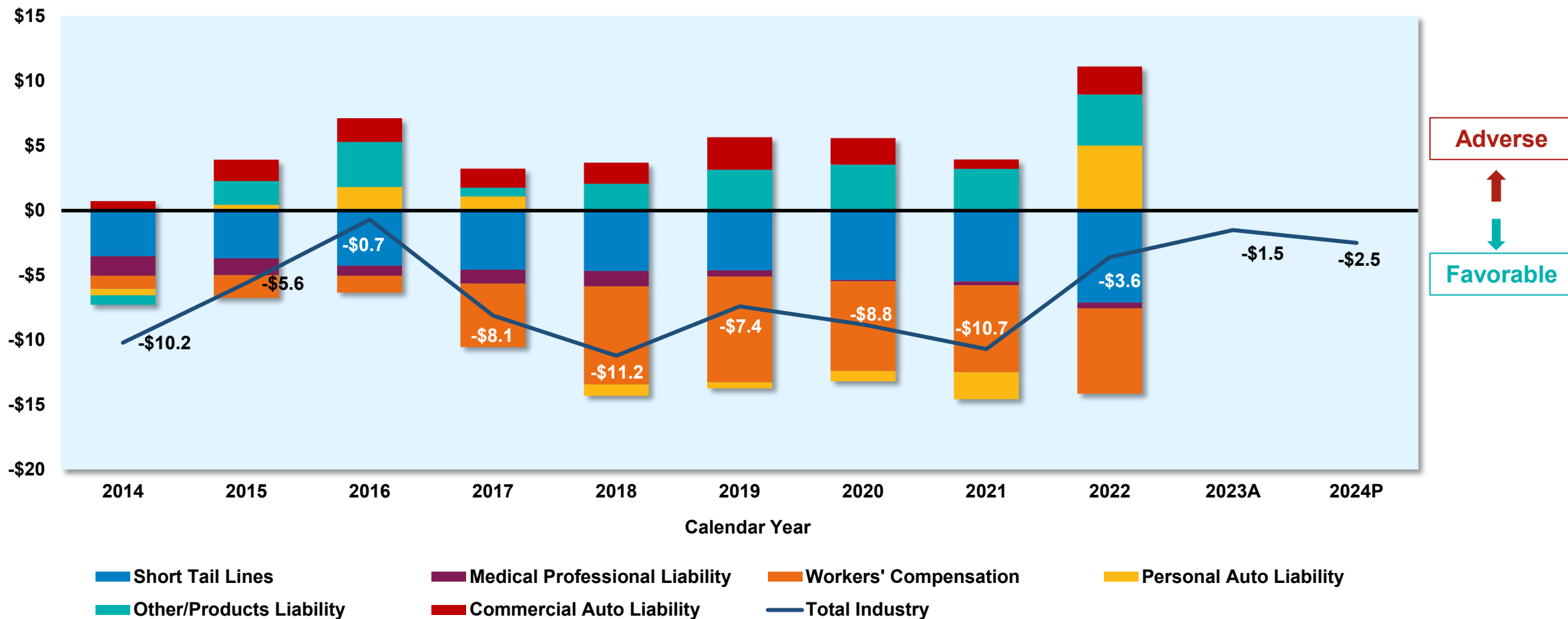
■ PHS ■ Net Leverage

Combined Ratio by Line of Business

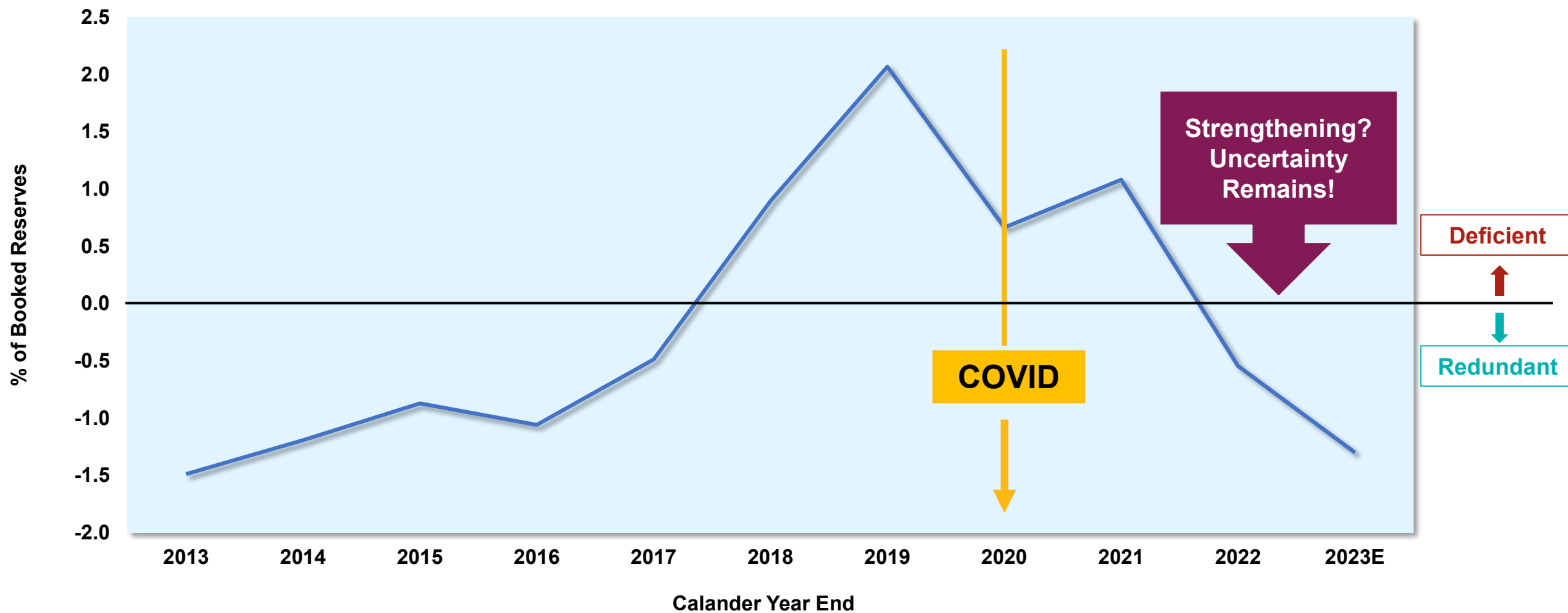


Loss Reserves

One-Year Development on Prior Accident Years



Trends in Loss Reserve Adequacy



Note: Includes statutory discount

Potential Impacts of Inflation on Reserve Position & PHS

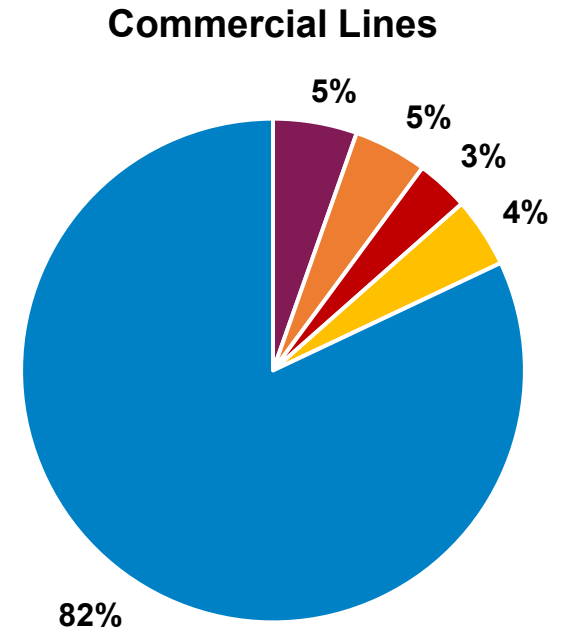
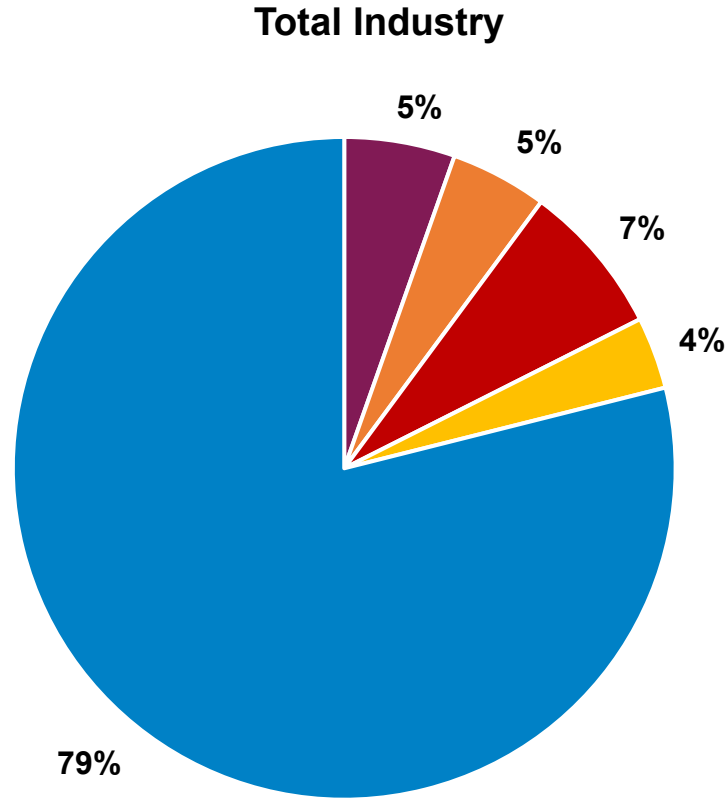
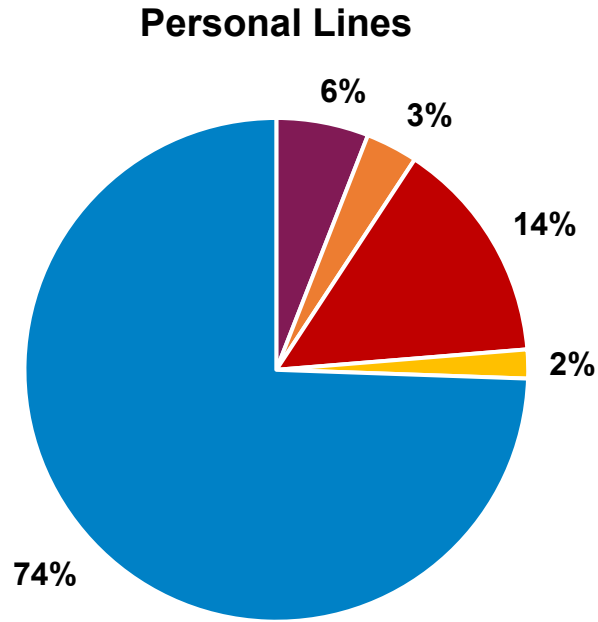
Based On CY Inflation Increase of:

<u>LOB</u>	<u>+1%</u>		<u>+3%</u>		<u>+5%</u>	
	<u>% Impact on Deficiency*</u>	<u>% Impact on PHS</u>	<u>% Impact on Deficiency*</u>	<u>% Impact on PHS</u>	<u>% Impact on Deficiency*</u>	<u>% Impact on PHS</u>
Property Lines	1.6%	(0.5%)	4.9%	(1.6%)	8.4%	(2.8%)
PPA Liability	2.1%	(0.8%)	6.4%	(2.6%)	11.0%	(4.4%)
Commercial Auto	2.6%	(3.0%)	8.1%	(9.2%)	13.8%	(15.7%)
MPL (CM)	2.9%	(2.5%)	9.1%	(7.8%)	15.9%	(13.6%)
Other Liability (CM)	3.8%	(5.3%)	12.1%	(16.7%)	21.2%	(29.4%)
Other Liability (Occ)	5.0%	(7.0%)	16.1%	(22.3%)	28.8%	(39.9%)
Workers' Comp.	5.5%	(6.2%)	17.7%	(20.0%)	31.8%	(36.0%)

* Undiscounted basis

Rating Activity

2023 Rating Activity



■ Under Review

■ Upgrade

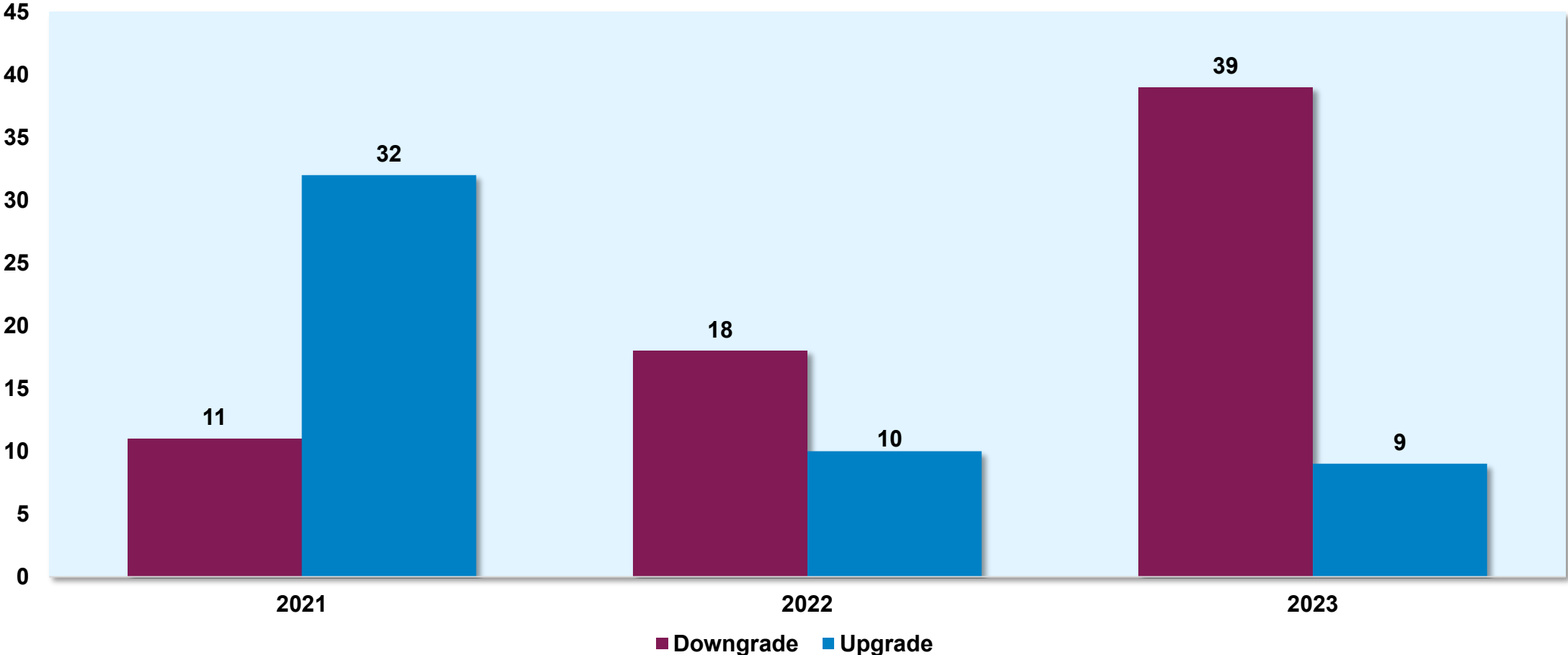
■ Downgrade

■ Initial

■ Affirmation

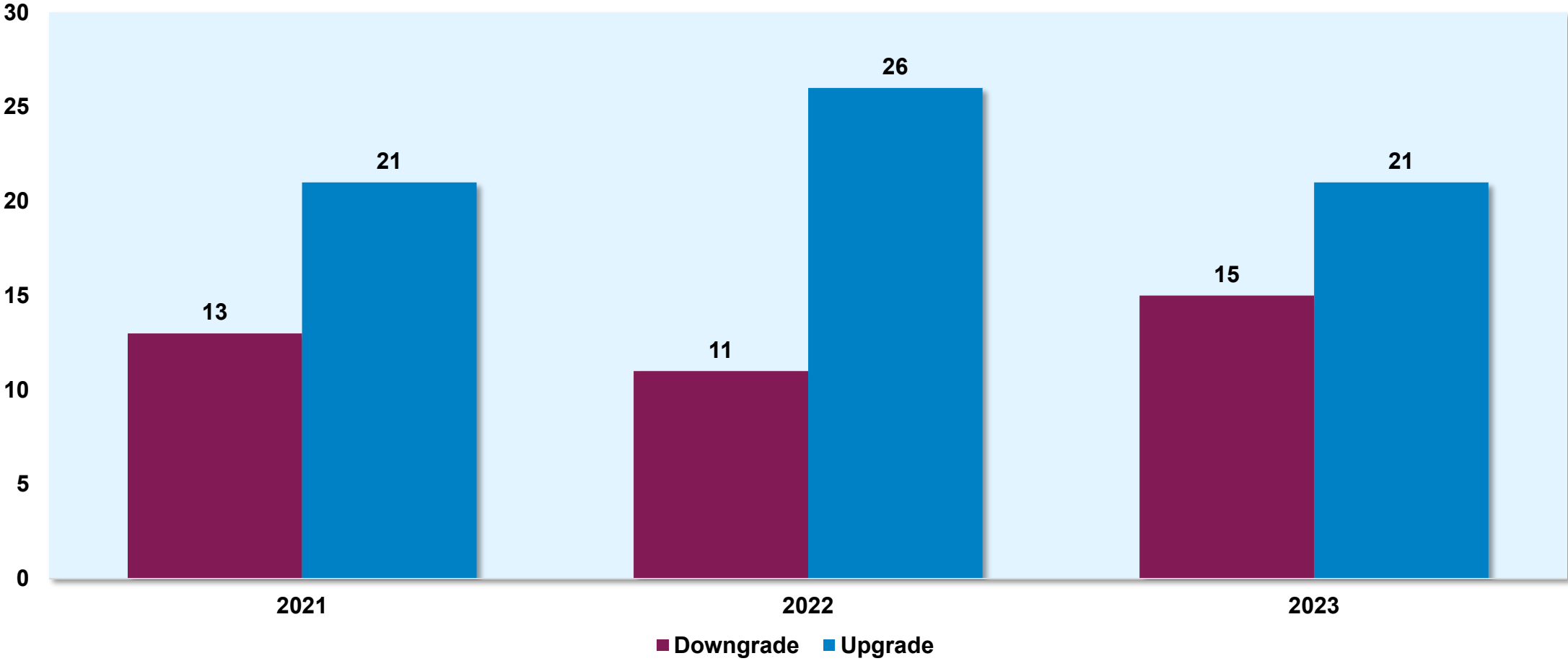
Personal Lines

Upgrades vs. Downgrades



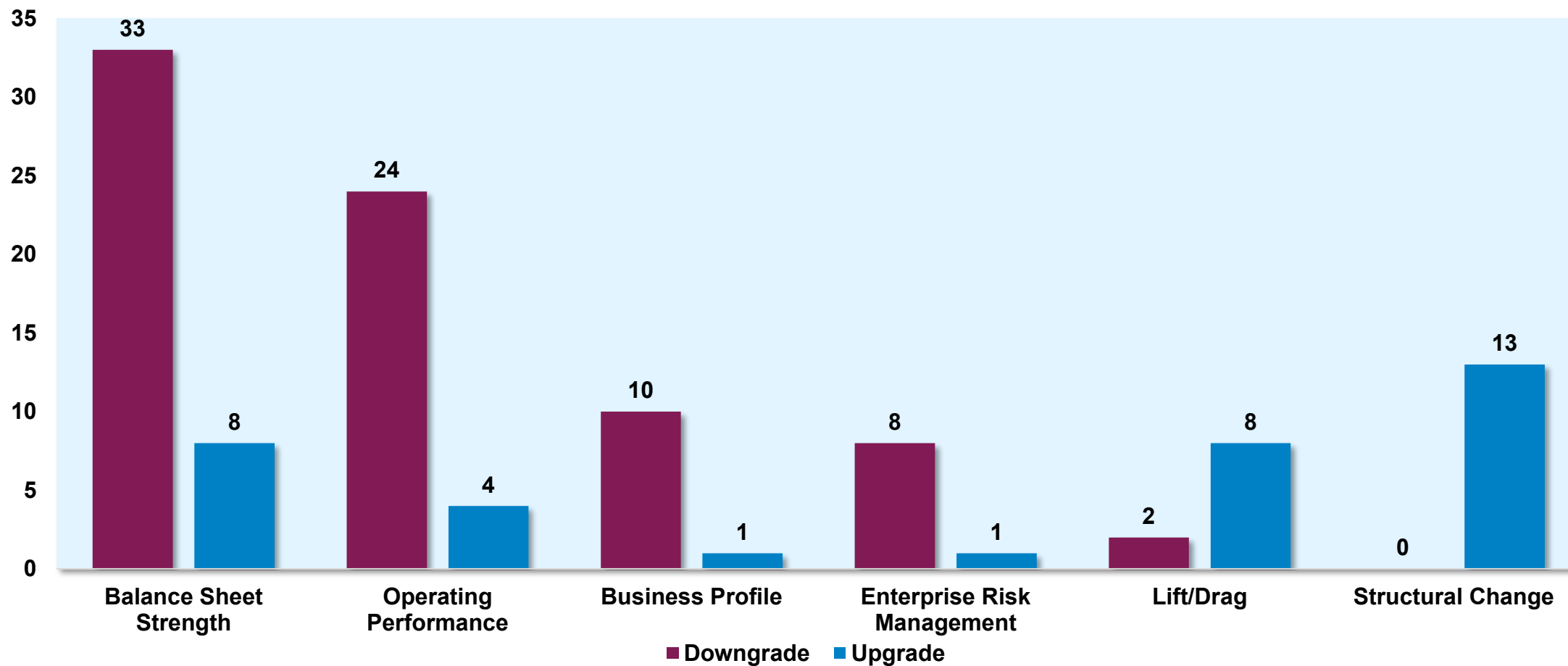
Commercial Lines

Upgrades vs. Downgrades







2023 Rating Actions

Total Industry



Note: Some rating changes impacted more than one assessment.

Outlook Changes

		<u>Personal Lines</u>		<u>Commercial Lines</u>	
		2022	2023	2022	2023
Stable to Positive		6	2	11	22
Negative to Stable		12	10	6	6
Positive to Stable		12	8	11	8
Stable to Negative		15	31	4	10

Note: Data represents change in outlook only.

Polling Question #3

Do you think there will be more _____ in 2024 compared to 2023 for the industry?

- a) Upgrades
- b) Downgrades
- c) Affirmations



Q&A



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