



Review & Preview

AM Best's 31st Annual *Review & Preview* Conference
March 18-20, 2024 • San Antonio, Texas



A Look at the Heightened Pressures Facing Property Insurers

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Stefan Holzberger – Chief Rating Officer, AM Best

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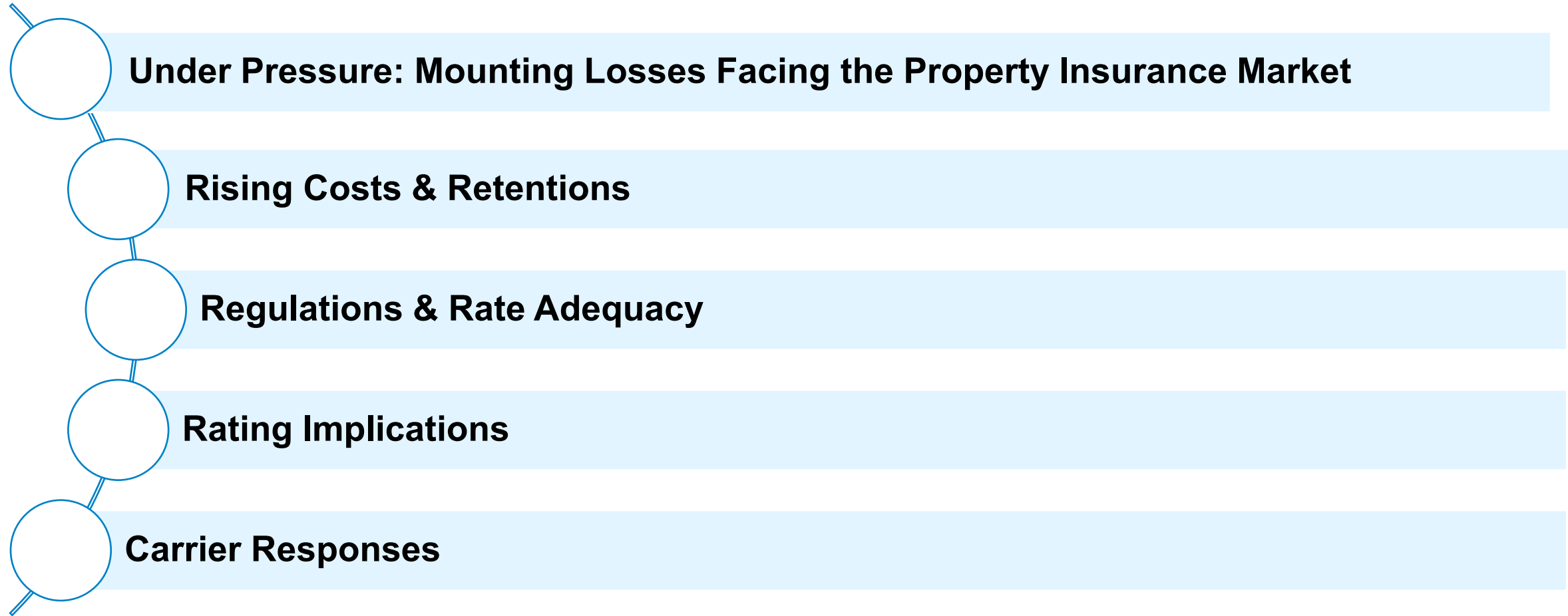


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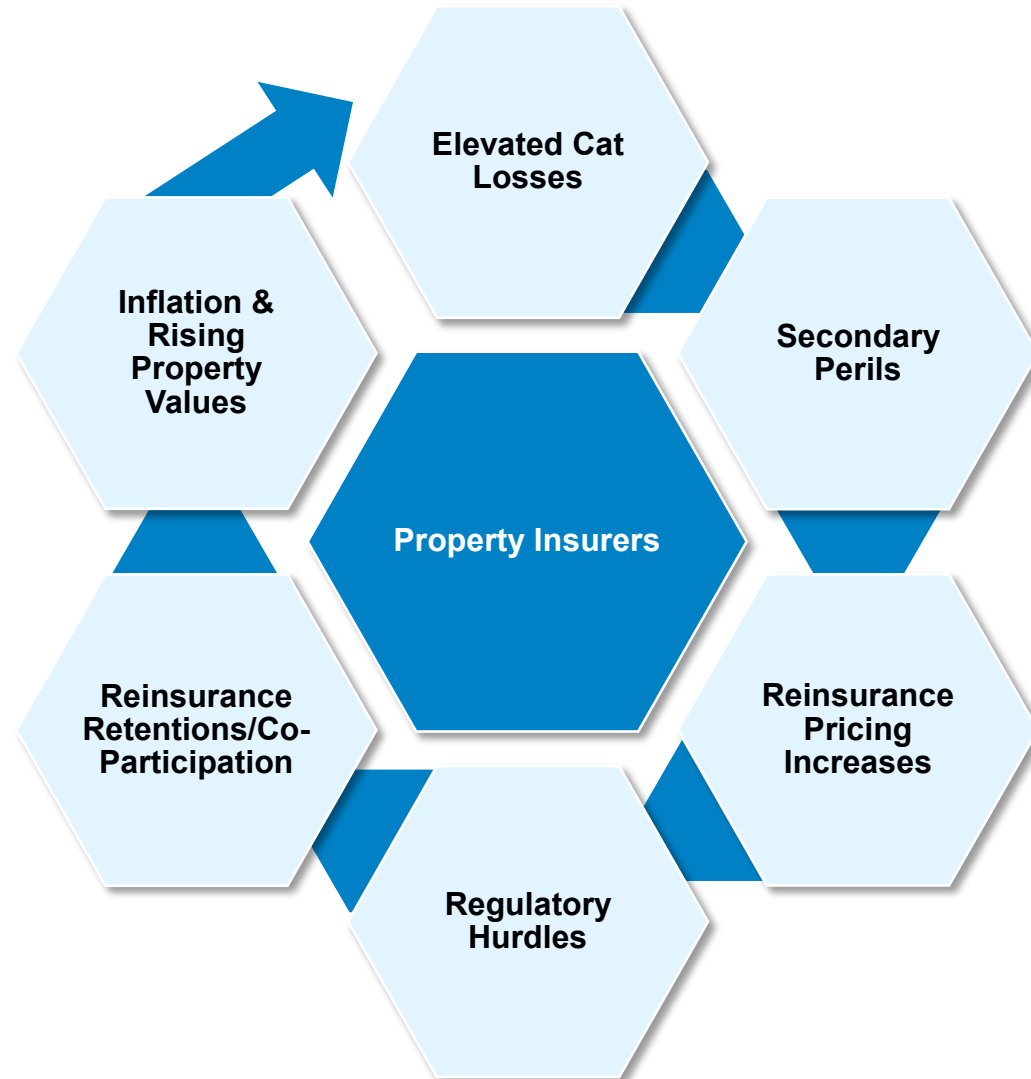
This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar



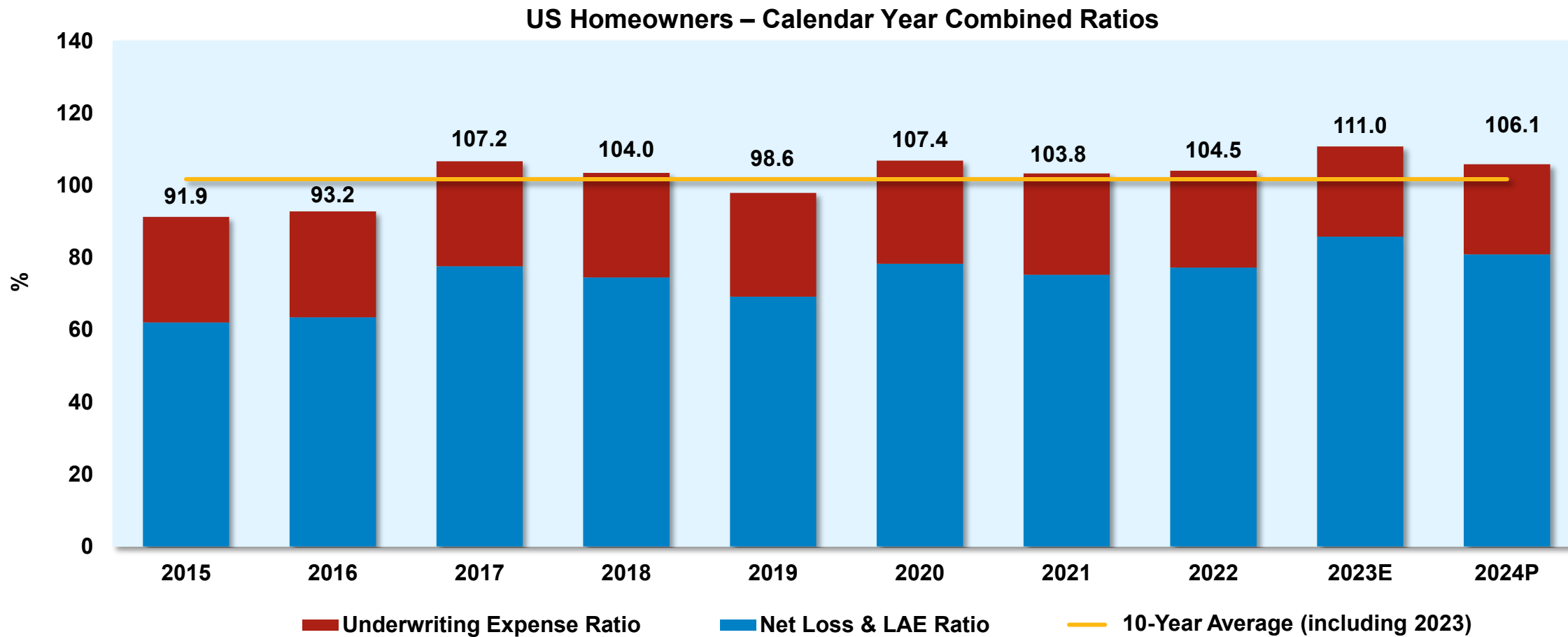
Agenda



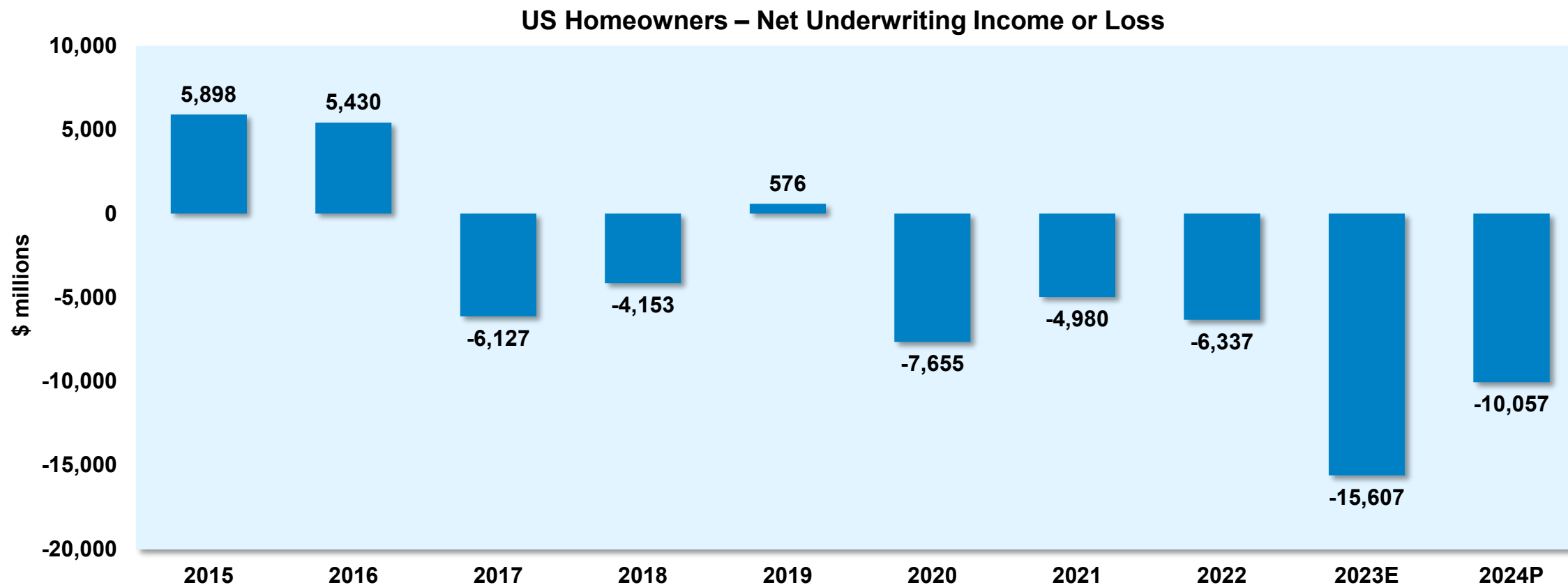
A Perfect Storm



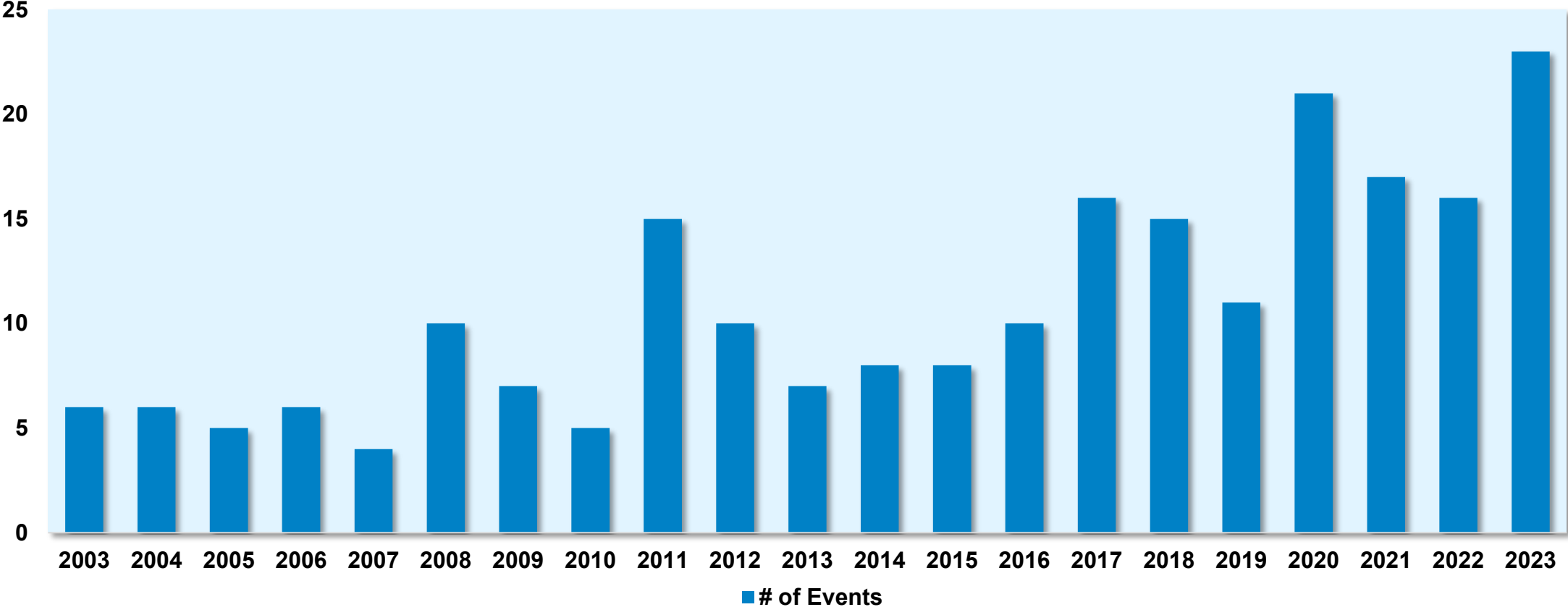
Performance Challenges



Performance Challenges

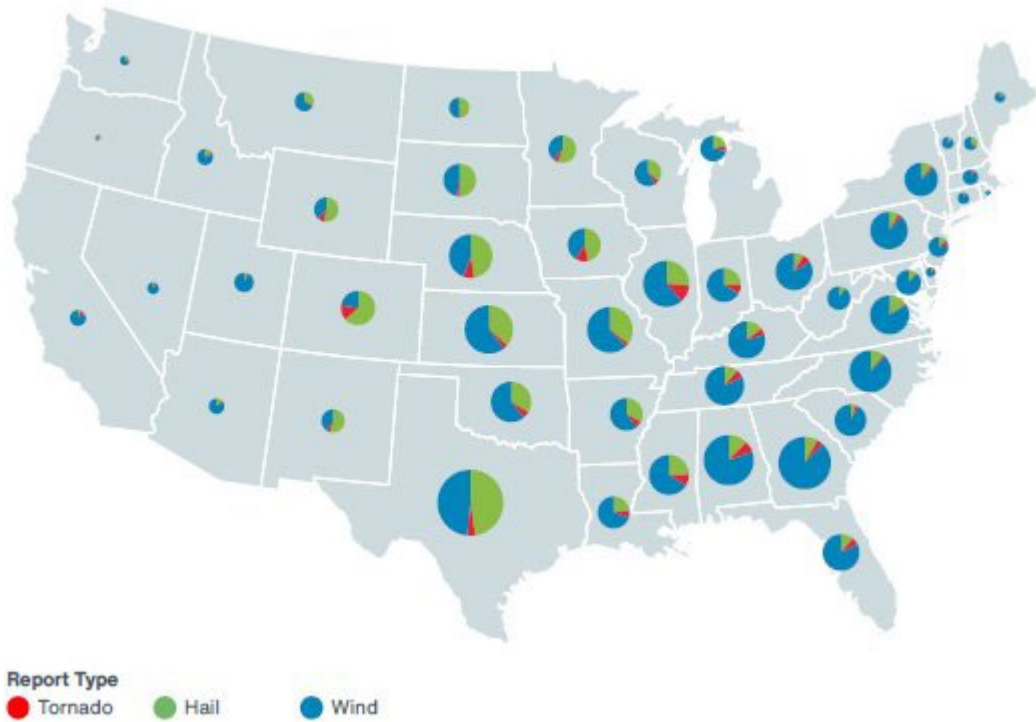


Elevated Large Loss Events



Source: NOAA

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

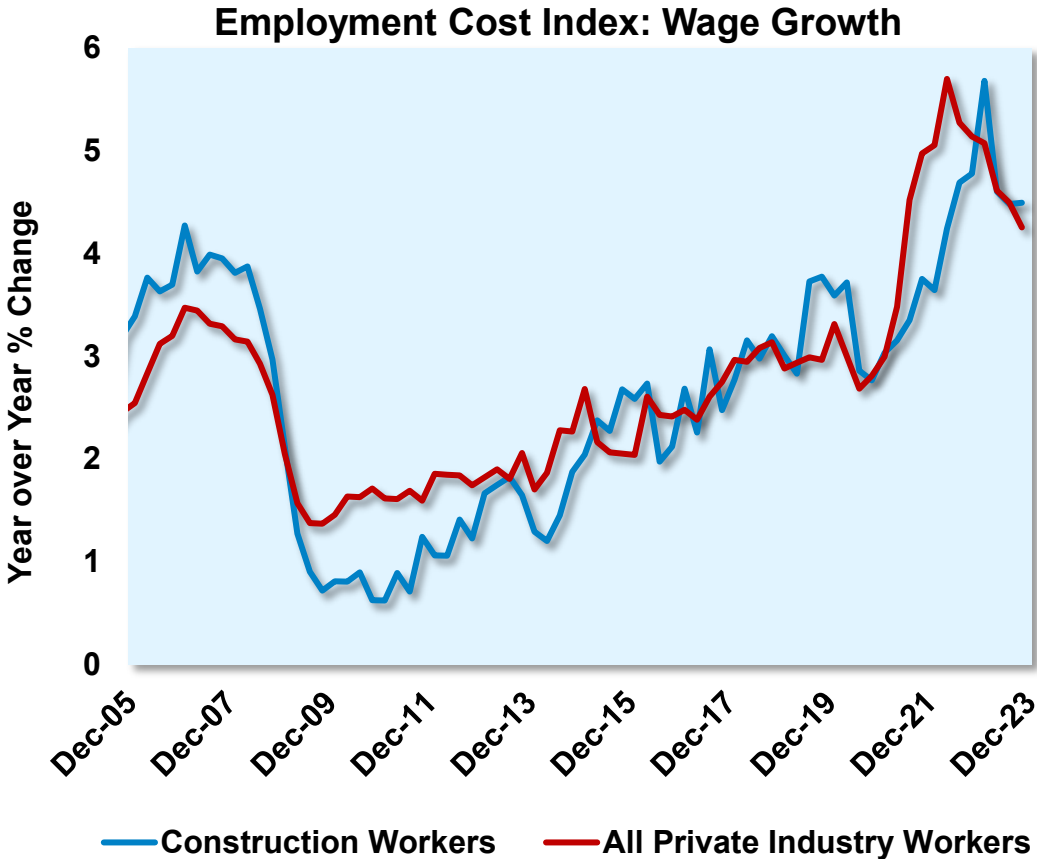
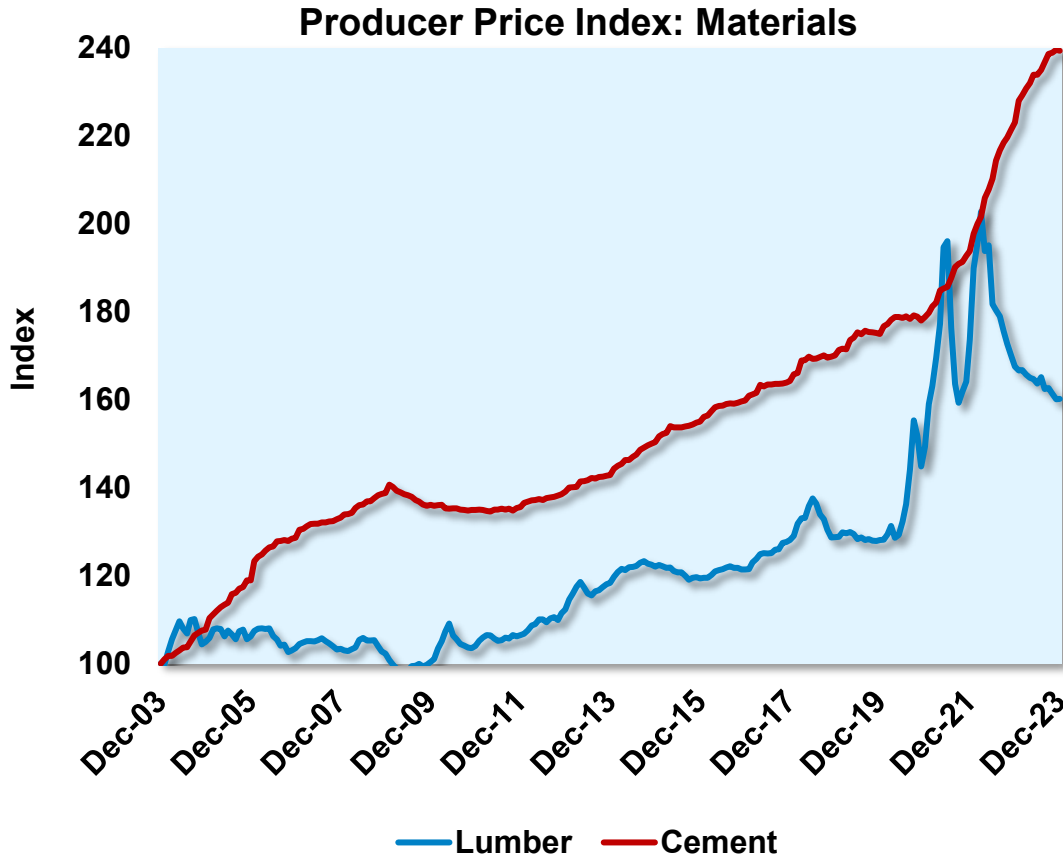


Date	Event	Location	Insured Loss (Nominal \$ billion)	Insured Loss (2023 \$ billion)
August 2020	Midwest Derecho	United States	9.2	10.9
April 2011	2011 Super Outbreak	United States	7.6	10.3
May 2011	Joplin/SCS	United States	7.0	9.5
May 2003	United States SCS	United States	3.3	5.5
July 2013	Storm Andreas	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

Source: AON – 2023 Natural Peril Review

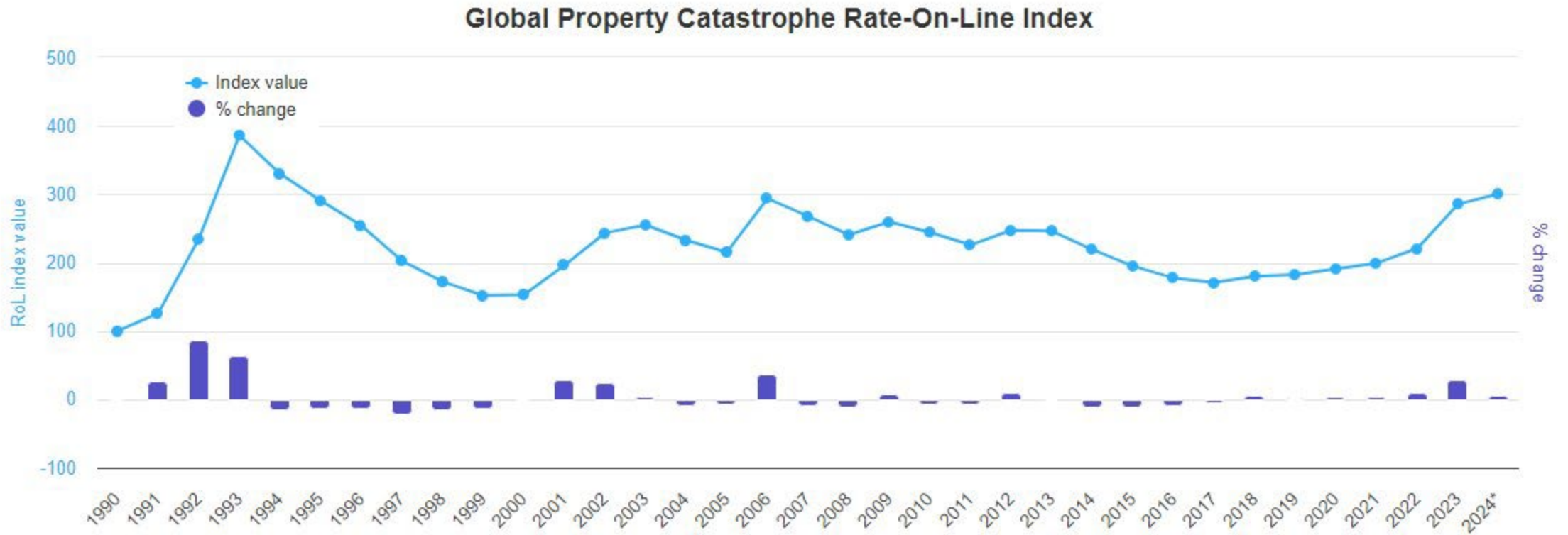
Rising Costs & Retentions

Inflationary Pressures – Materials & Wages



Source: Bureau of Labor Statistics

Significant Increase in Reinsurance Costs



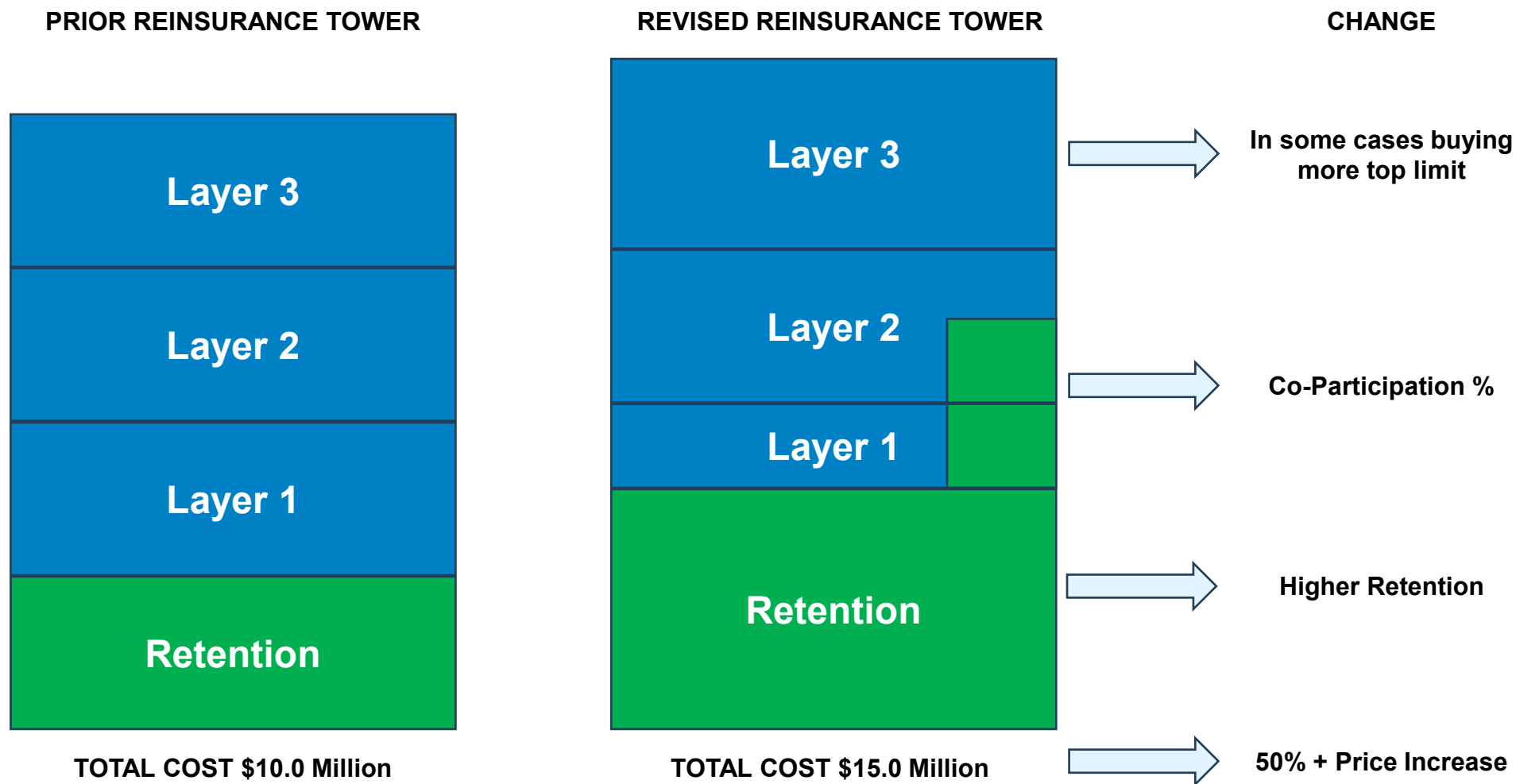
Source: Guy Carpenter, presented by Artemis.com
 *Guy Carpenter US Property Rate on Line Index

Reinsurance Market Pressures

- 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



Reinsurance Program Changes – Material Impact

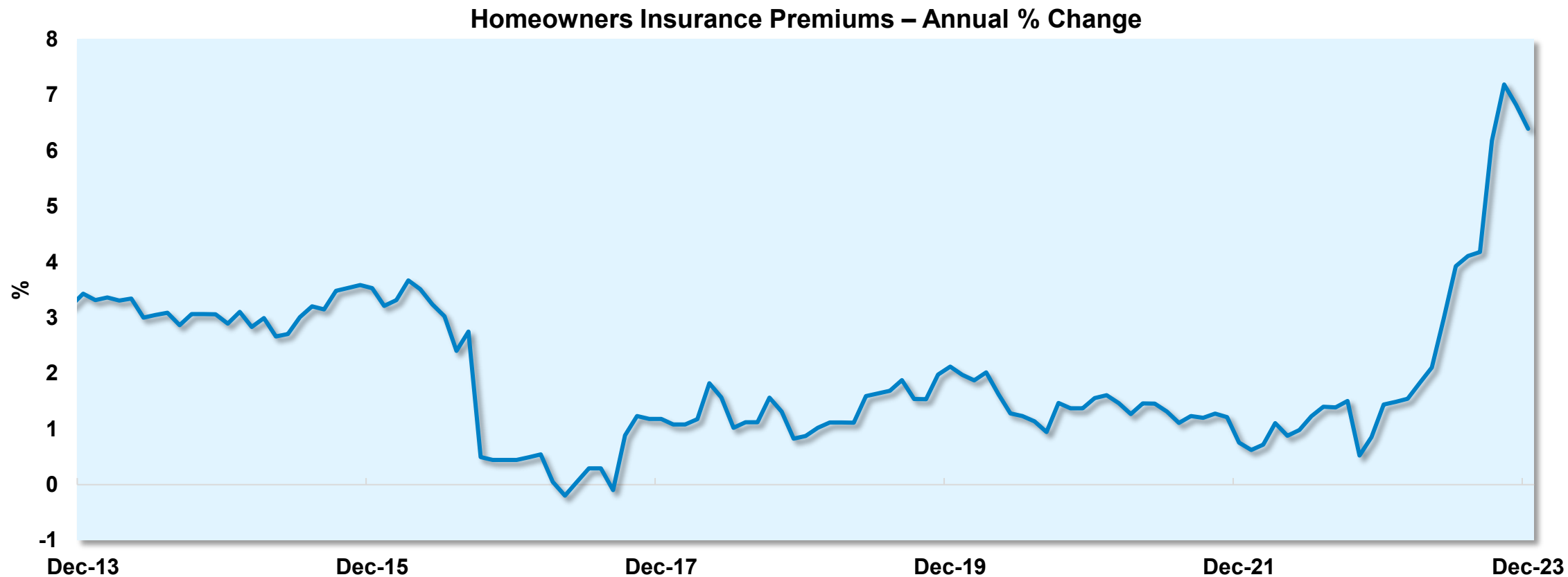


Regulation & Rate Adequacy

Regulatory/Operational Challenges

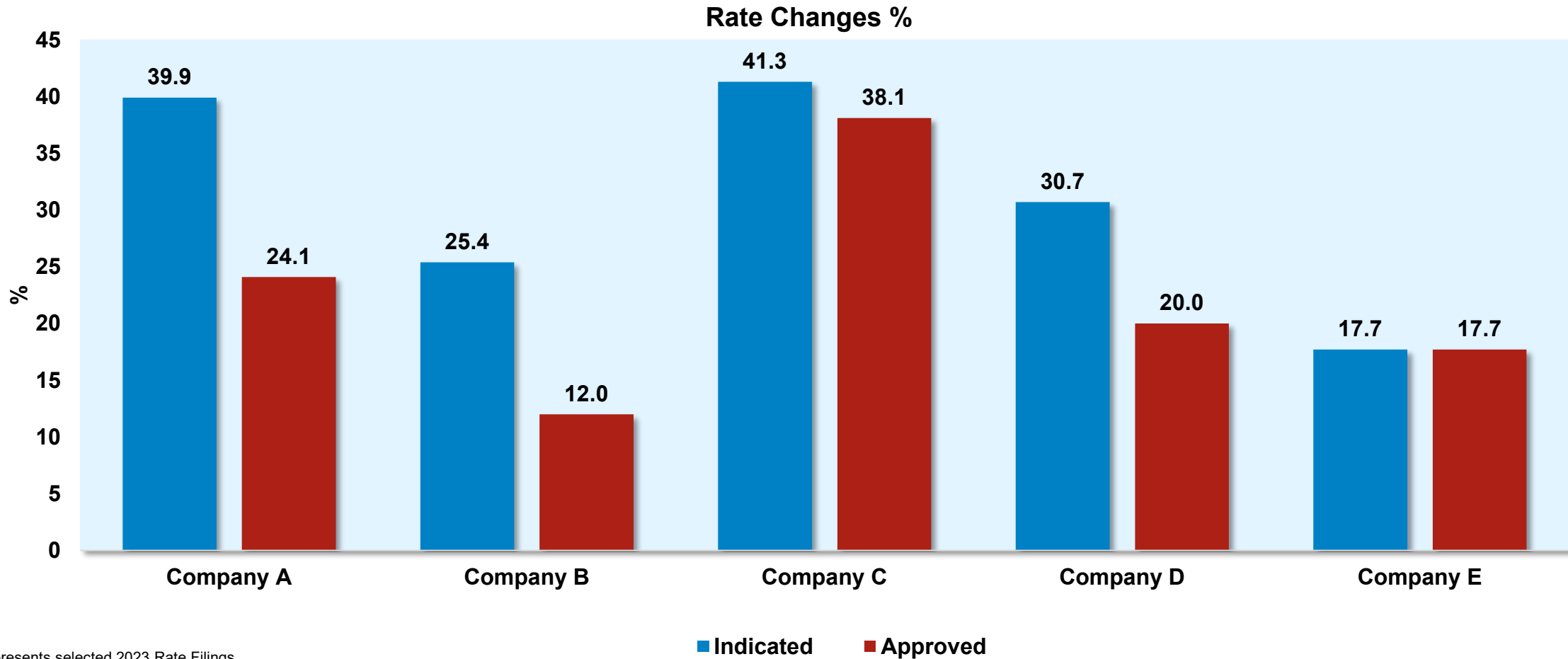
- Regulator – balance affordability with coverage availability
 - Increased scrutiny given magnitude & frequency
 - Staffing challenges slows response
- Time lag in identifying rate need vs. approval and implementation
- Earning premium takes time – 12-month property policies
- Companies need to balance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

Accelerated Rate Trend



Source: Bureau of Labor Statistics

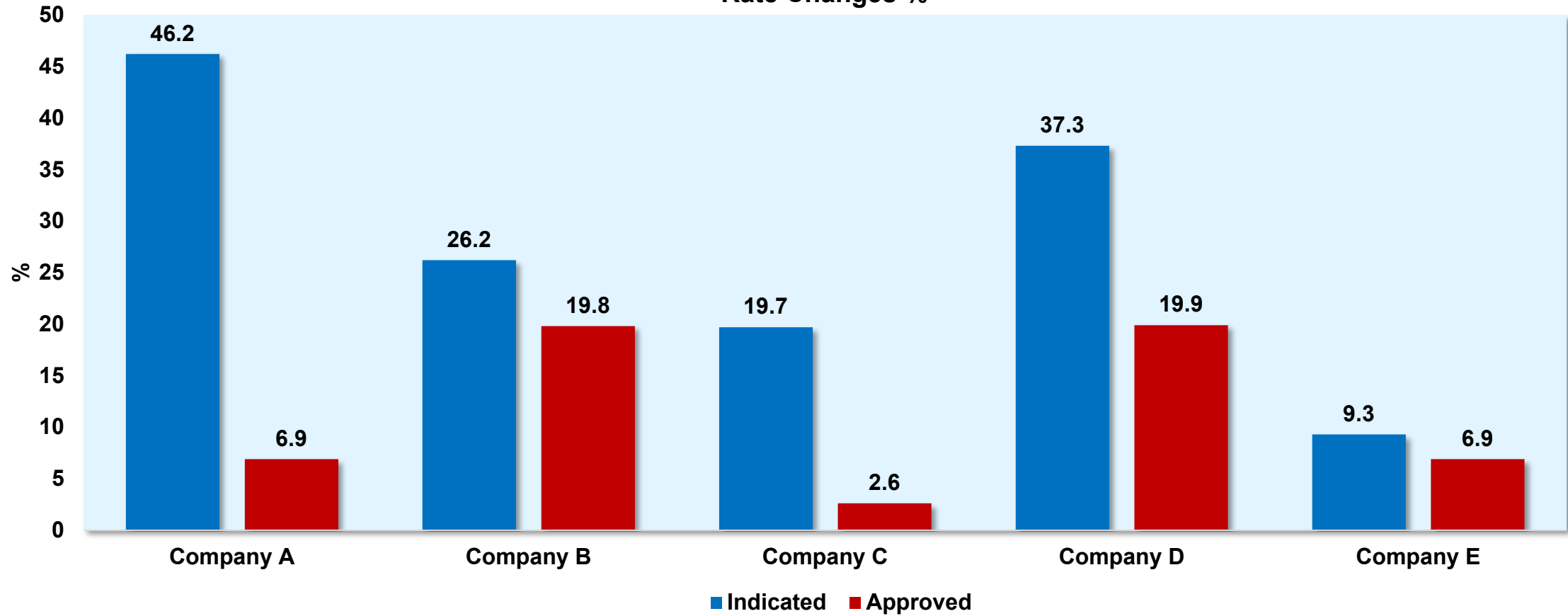
Actual Rate Change vs. Indication – Texas 2023



Note: Represents selected 2023 Rate Filings
Source: Best's State Rate Filings

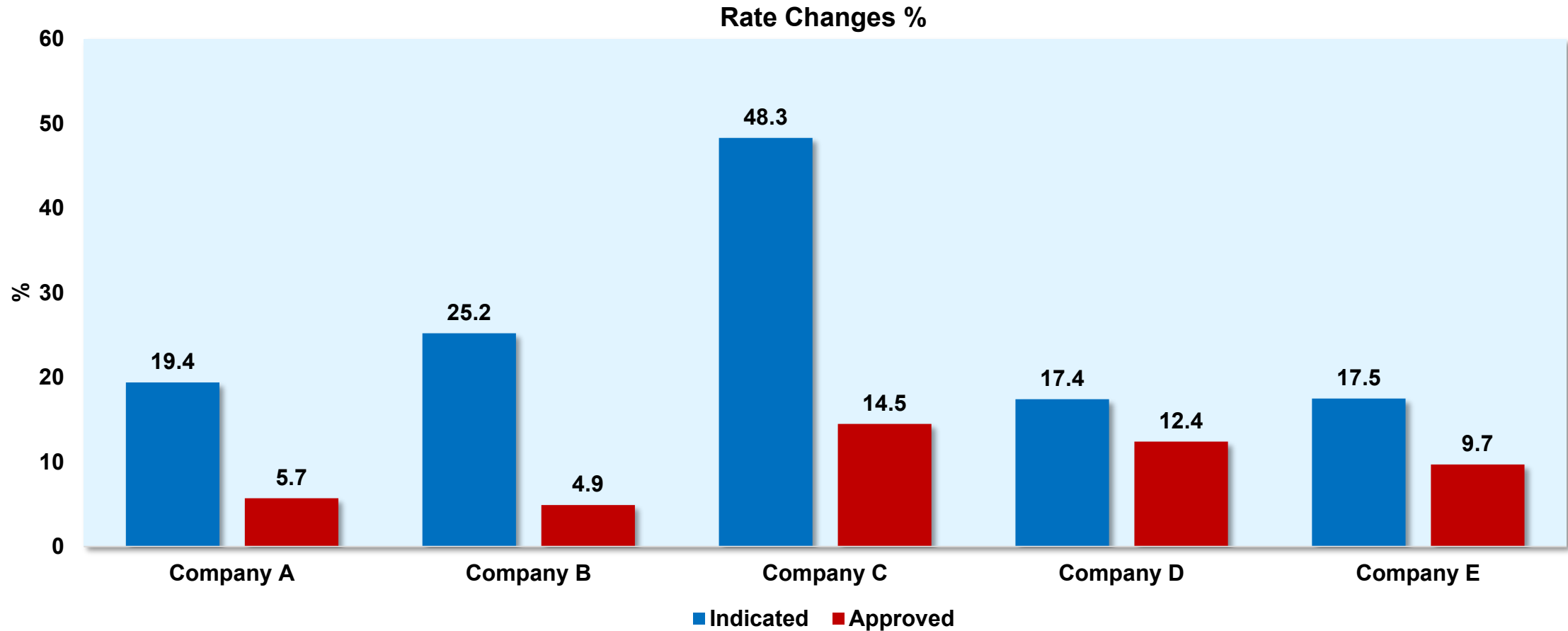
Actual Rate Change vs. Indication – California 2023

Rate Changes %



Note: Represents selected 2023 Rate Filings
Source: Best's State Rate Filings

Actual Rate Change vs. Indication – Florida 2023



Note: Represents selected 2023 Rate Filings
Source: Best's State Rate Filings

Challenging Market Conditions

Costs accelerate:

- Labor
- Materials
- Reinsurance
- Insured Value
- Weather

Regulatory environment

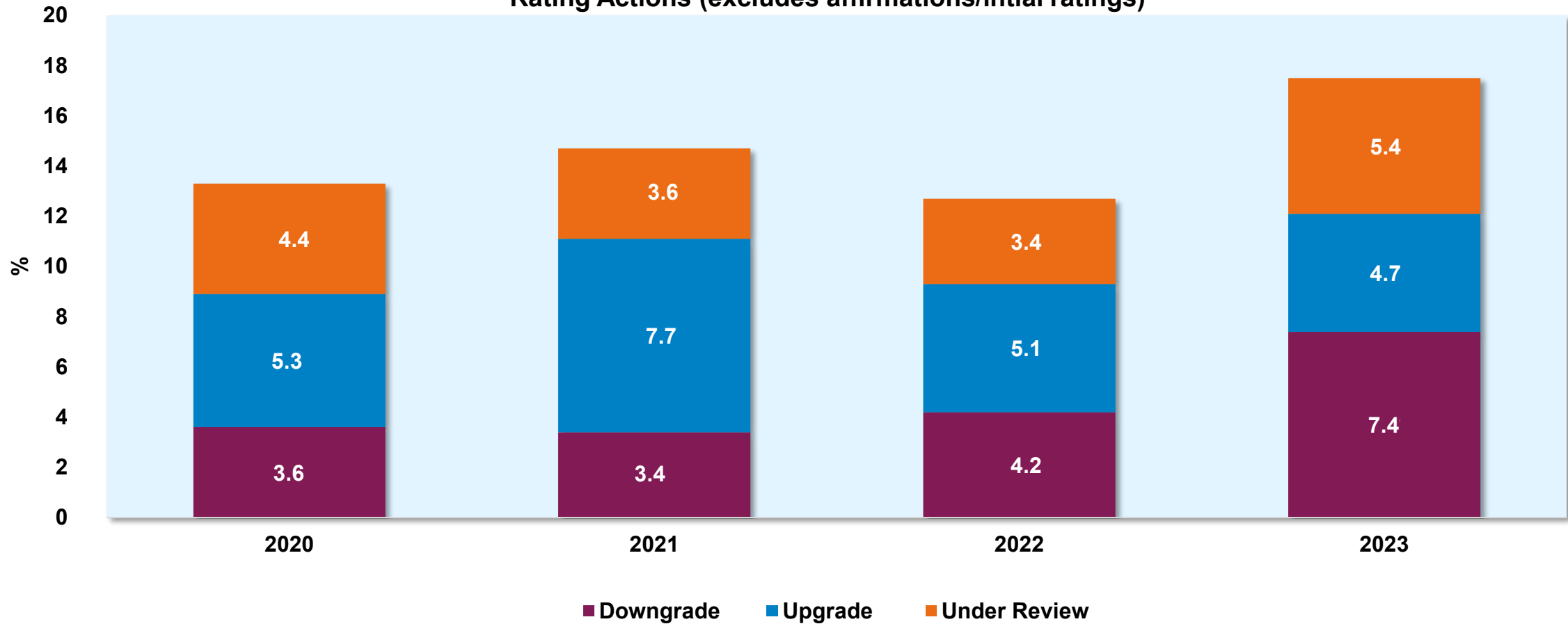
Time horizon to reflect loss cost trends

Personal property insurers

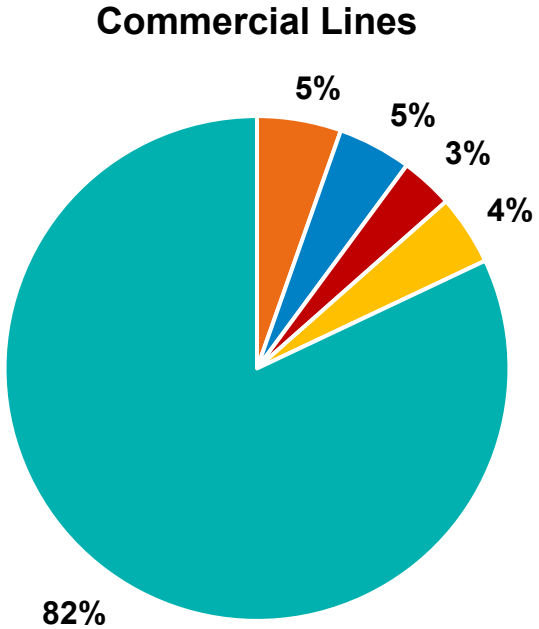
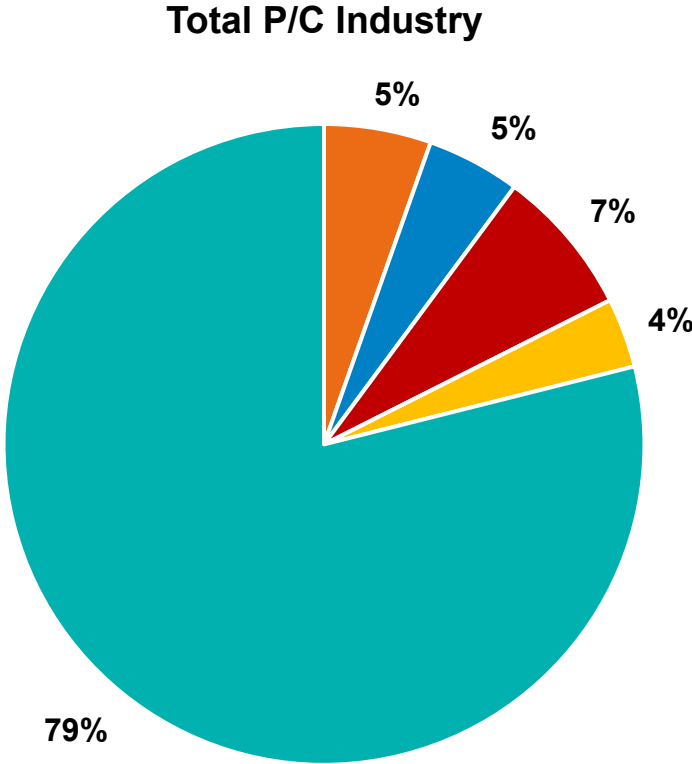
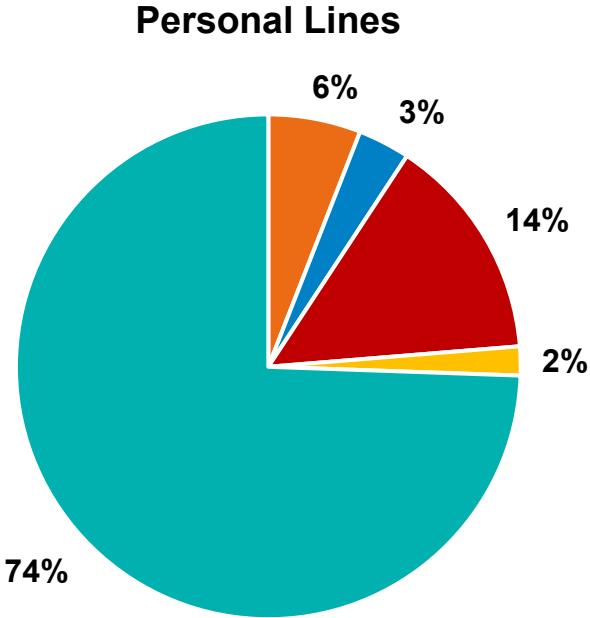
Rating Implications

Rating Actions – US Property/Casualty

Rating Actions (excludes affirmations/initial ratings)



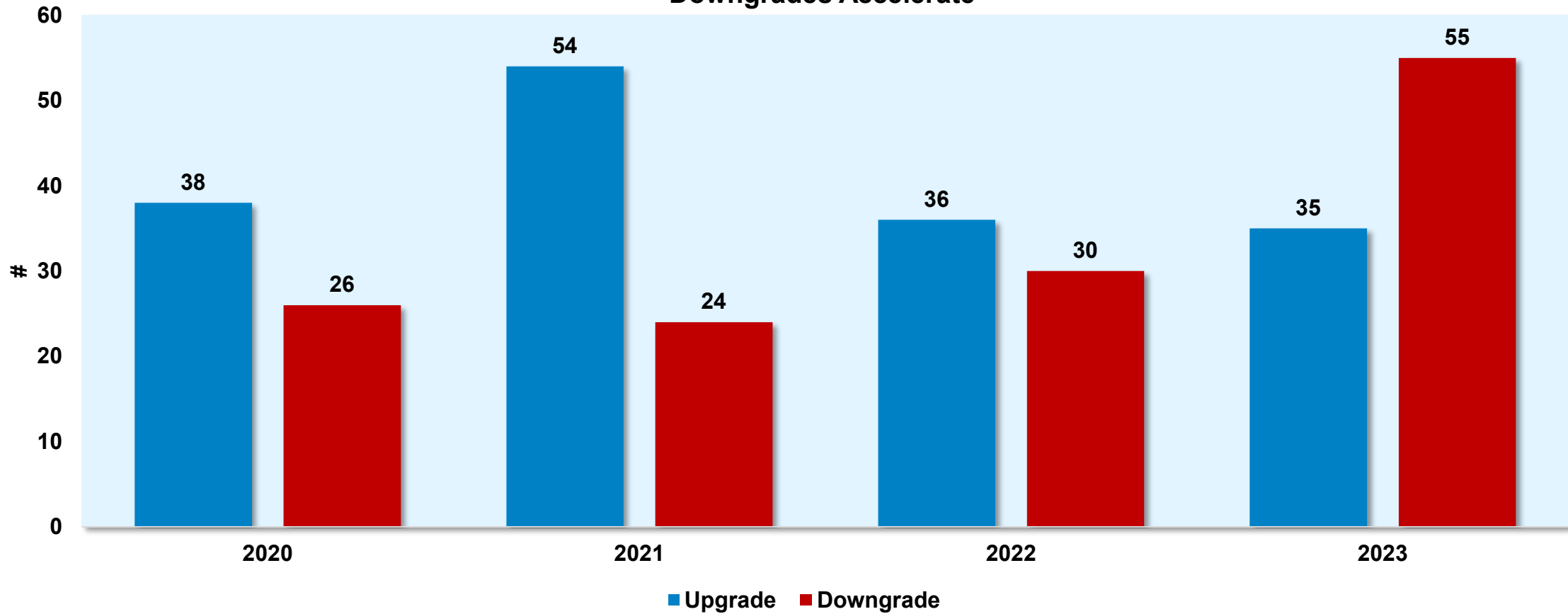
2023 Rating Activity



■ Under Review
 ■ Upgrade
 ■ Downgrade
 ■ Initial
 ■ Affirmation

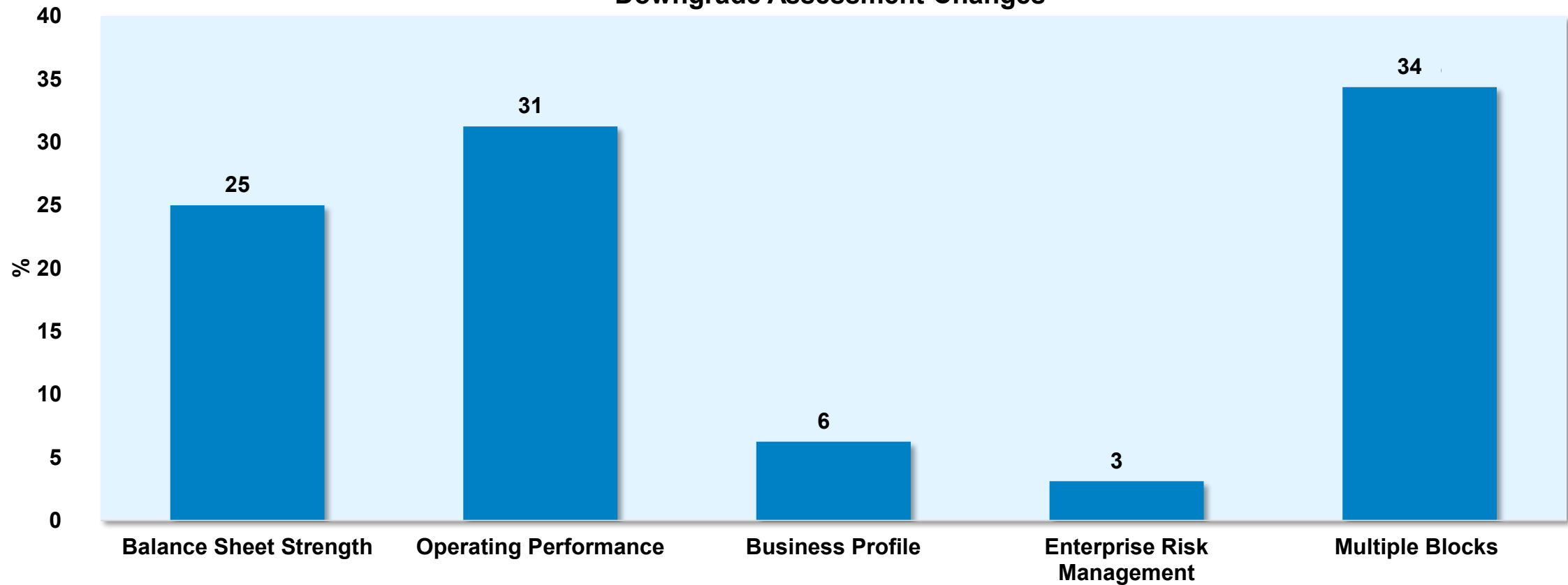
Rating Actions – US Property/Casualty

Downgrades Accelerate



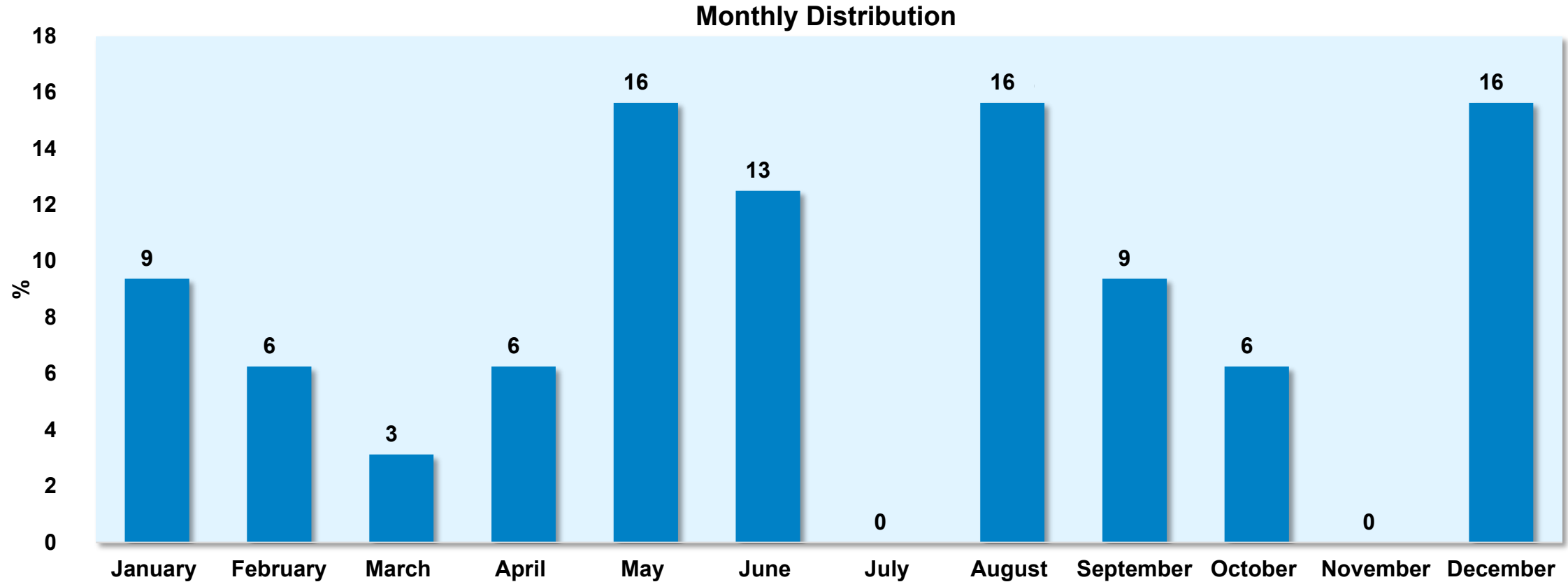
Assessment Category Changes – Property-Exposed Composites (Personal Lines)

Downgrade Assessment Changes



2023 Downgrades by Month

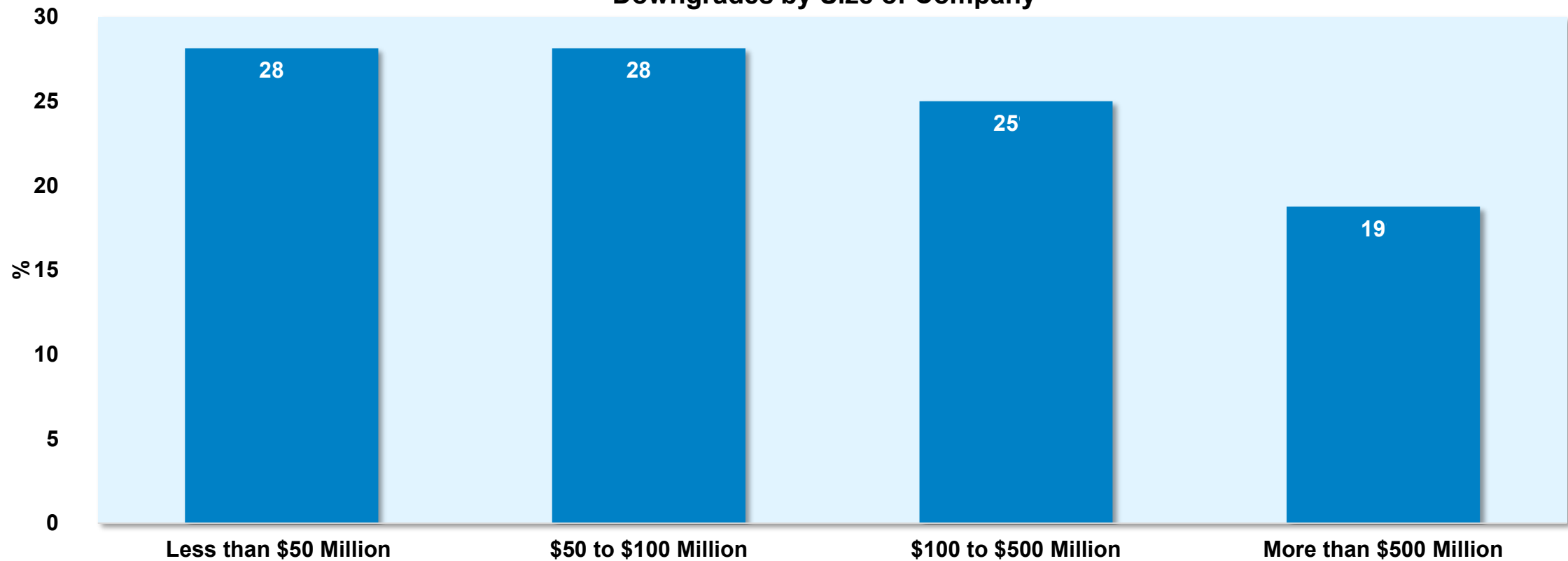
Property-Exposed Composites (Personal Lines)



Size Not a Major Factor

Property-Exposed Composites (Personal Lines)

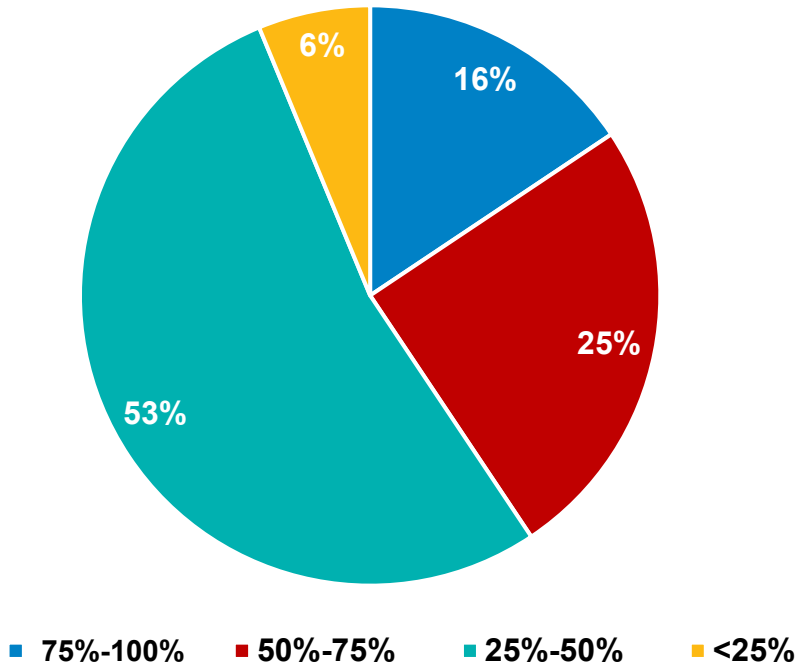
Downgrades by Size of Company



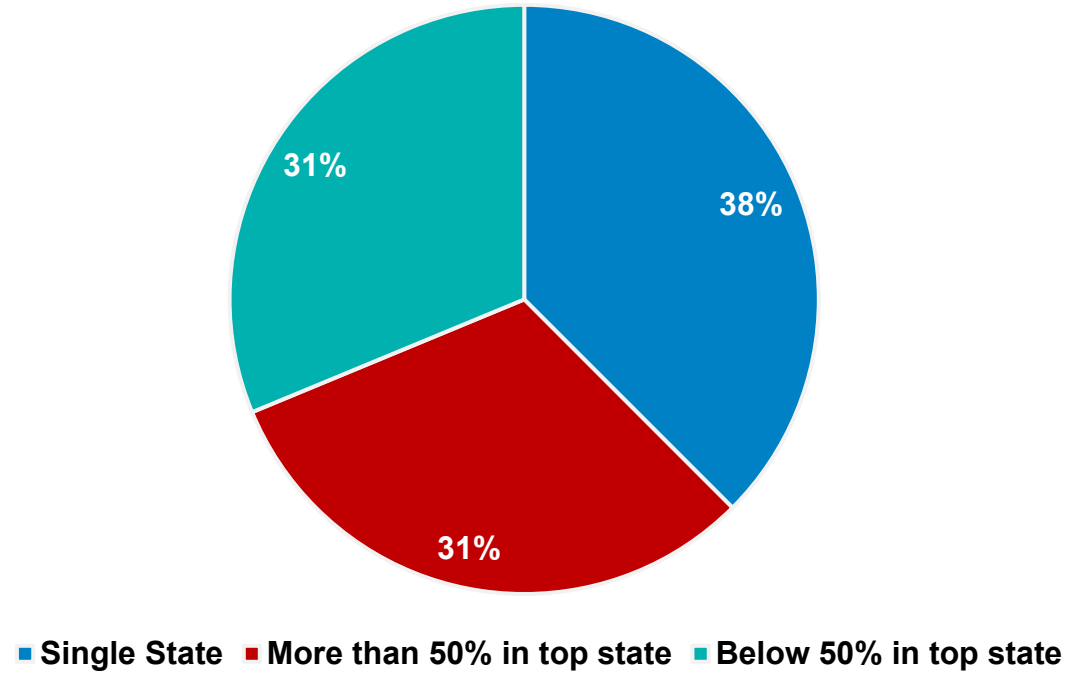
Concentration Matters

Property-Exposed Composites (Personal Lines)

Homeowners as % of Total Premium



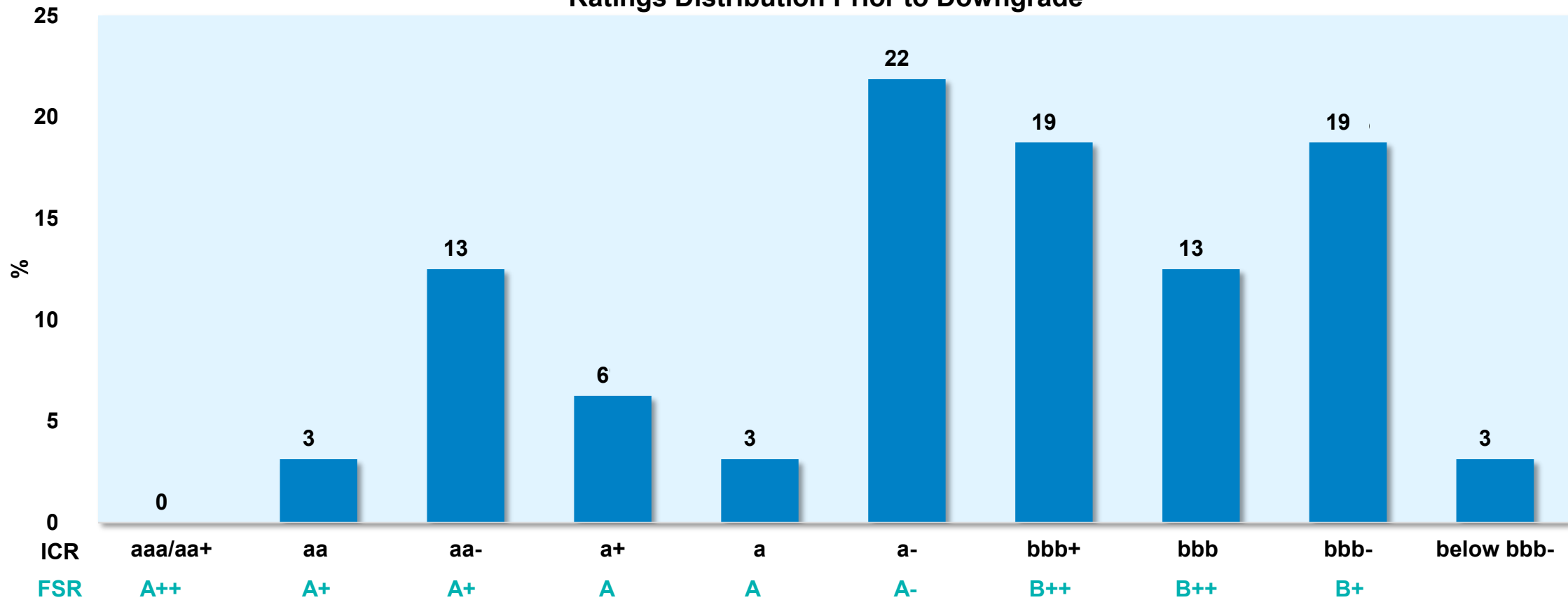
Geographic Concentration



Actions Across the Ratings Spectrum

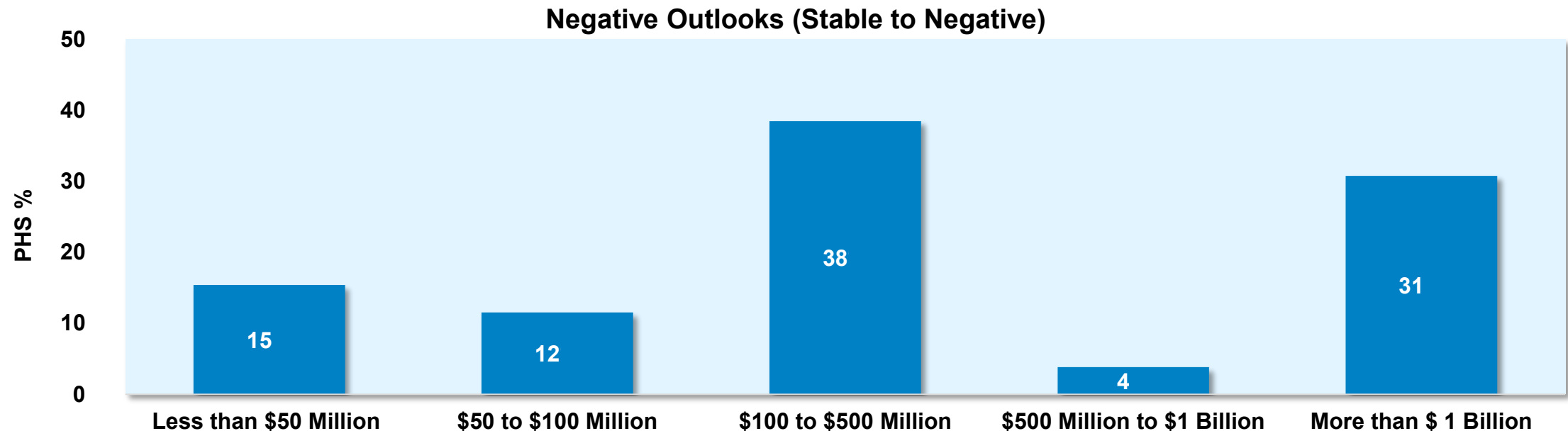
Property-Exposed Composites (Personal Lines)

Ratings Distribution Prior to Downgrade



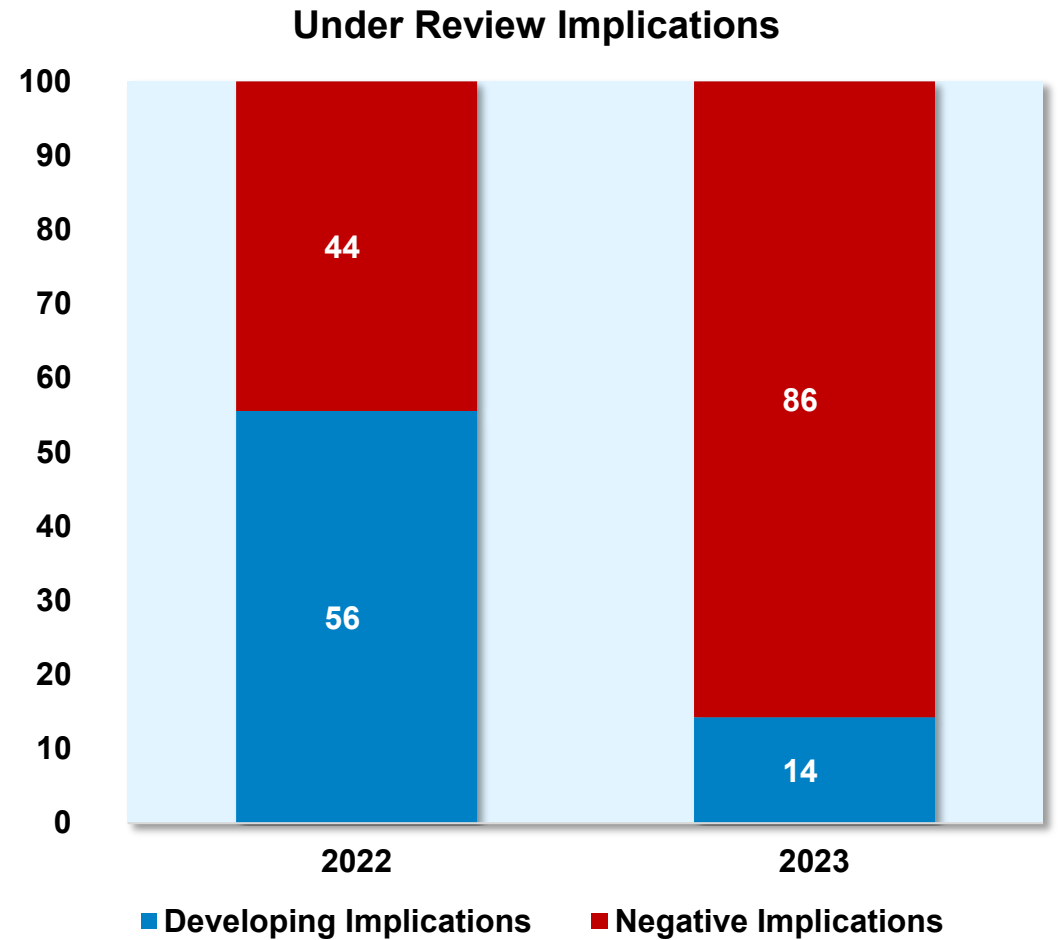
Negative Outlooks Increase Property-Exposed Composites (Personal Lines)

- Total personal lines segment – Negative outlooks increase by 60+%
- More than ½ of PL segment Negative outlooks are property-exposed
- Characteristics in line with downgrades (concentration, volatile results, capital declines, etc.)
- Larger size does allow more time to course correct



Under Review Implications Shift Materially Property-Exposed Composites (Personal Lines)

- Under review indicates potential for near-term change
- 2023 property-exposed under reviews increase by 50+%
- Vast majority negative implications



Carrier Responses

Carrier Responses – Balance Sheet Strength



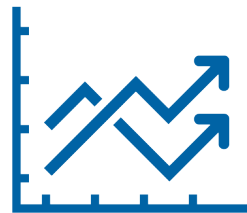
Capital Injection



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



Longer-Term Remedies

- Property resilience incentives
- Building codes
- Greater consumer co-participation
- Potential government back-stop
- E&S growth opportunities
- A break from Mother Nature would go a long way



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



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