

AMBEST

Gen Re Executive Forum

Andrea Keenan – Executive Vice President & Chief Strategy Officer

January 14, 2025

Agenda

- 2025 Market Segment Outlooks
- Update: Innovation
- Status: DUAЕ
- Trend: Ratings Pressure
- Looking Ahead in 2025

"The importance of insurance lies in its ability to spread risk and provide security to individuals and businesses, enabling them to take risks and invest in the future."

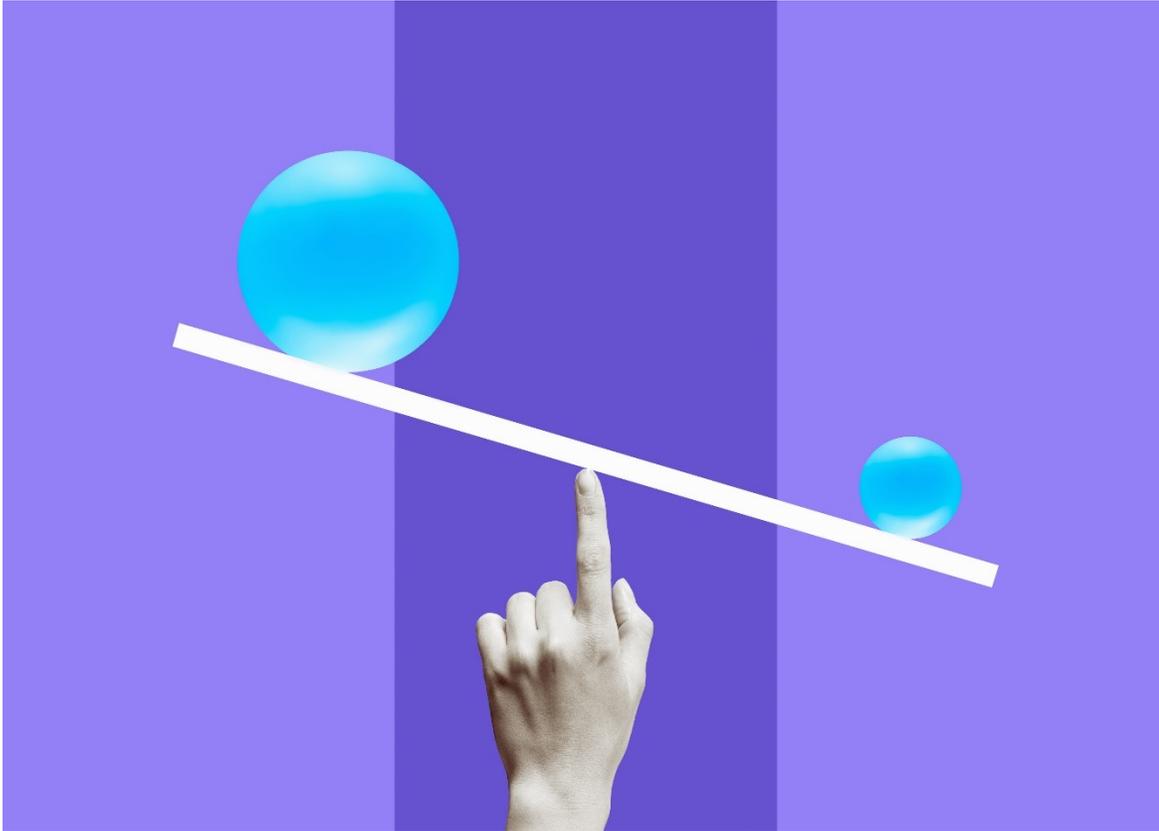
— John Maynard Keynes



2025 AM Best Outlook



“Market Segment Outlooks”



A Best’s Market Segment Outlook, can be Positive, Negative, or Stable.

- A **Positive / Negative market segment outlook** indicates that AM Best expects market trends to have a positive / *negative* influence on companies operating in the market over the next 12 months. (However, a Positive / *Negative* outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Positive / *Negative*.)
- A **Stable market segment outlook** indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

...find them online



Best's Market Segment Outlooks

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry. Factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes in the industry; and issues that could impact the success of these companies. Best's ratings take into account the manner in which companies manage risk. A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be Positive, Negative, or Stable.

- A **Positive market segment outlook** indicates that AM Best expects market trends to have a positive influence on companies in the segment over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies in the segment is Positive.
- A **Negative market segment outlook** indicates that AM Best expects market trends to have a negative influence on companies in the segment over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies in the segment is Negative.
- A **Stable market segment outlook** indicates that AM Best expects market trends to have a neutral influence on companies in the segment over the next 12 months.

We update our market segment outlooks annually, but may revisit them at any time during the year if regulatory, financial, or other factors warrant.

Market Segment	Outlook
Global Markets	Positive
Global Reinsurance	Stable
Global Life Reinsurance	Positive
Global Non-Life Reinsurance	Stable
Global Cyber Insurance	Positive
London Market Insurance	Positive
Delegated Underwriting Authority Enterprises (DUAEs)	Positive
North America - Property/Casualty Markets	Stable
US Personal Lines	Negative
Homeowners	Stable
Personal Auto	Stable
US Commercial Lines	Negative
Commercial Auto	Stable
Commercial Property	Stable



Our Insight, Your Advantage®

BEST'S MARKET SEGMENT REPORT

December 2, 2024

Market Segment Outlook: US Personal Lines

AM Best's outlook for the US personal lines segment has been revised to Stable from Negative, in line with a corresponding change in the personal auto outlook to Stable from Negative. In March 2024, the outlook for the homeowners line remained at Negative. The revised outlook reflects the following factors:

- An aggressive push for rate and improved pricing segmentation has led to improved underwriting performance, particularly for personal auto writers
- More accommodating regulatory treatment of rate requests
- Solid risk-adjusted capitalization with sufficient liquidity
- Rising investment yields as lower-yielding bonds mature and are reinvested at higher rates
- Accelerated technology adoption
- Improving catastrophe risk management practices

Factors counterbalancing these positives include the following:

- Ongoing volatility in reported results, particularly for the homeowners line of business
- Elevated loss cost severity owing to inflation and more expensive parts in newer vehicles
- Heightened severe weather activity
- Elevated reinsurance costs and tightened terms and conditions, including higher overall retentions and co-participation on property lines, driving higher net losses

Rate and Refined Underwriting Gain Traction

The Stable outlook on the personal lines segment follows a similar change in the personal auto outlook as the subsegment reflects over half of the premium in the personal lines space. Personal

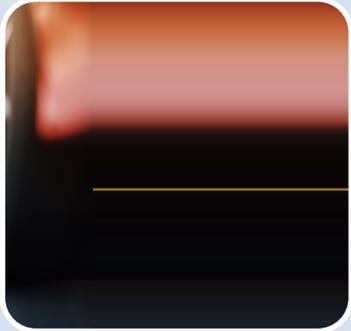
The outlook for the personal lines segment improves to Stable owing to improved rate and pricing conditions, particularly in the auto space, as well as solid risk-adjusted capitalization, among other factors



Outlook: Personal Lines



US Personal Lines: Moving from Negative outlook to Stable



Improved personal auto underwriting



Regulatory treatment more adapting



Good capitalization and liquidity



Accelerated technology adoption



Rising investment yields



Improving catastrophe risk management

US Personal Lines: Factors countering positives



Volatility in reported results, mostly for homeowners LOB



Heightened severe weather activity



Macro-economic inflation including labor, materials, and parts cost



Higher reinsurance costs and tightened terms

Outlook: Commercial Lines



US Commercial Lines segment: Maintaining at Stable



Persistently strong underwriting performance



Sustained risk-adjusted pricing strength and moderating inflation



Improved investment returns bolstering profitability



Adequate and stable reserves



Disciplined risk selection, terms and conditions and capacity development



Stable outlook for Workers Comp, Commercial Property/ Positive E&S Outlook

US Commercial Lines: Factors Countering Positives



Elevated casualty
claims



High property
claims



Geo-political risks
following US
elections



Negative Outlooks
for General
Liability,
Commercial Auto,
D&O

Outlook: Global Reinsurance

Global Reinsurance: Moving from Stable outlook to Positive



Not just re-
pricing but
de-risking



Sustainable
underwriting
margins



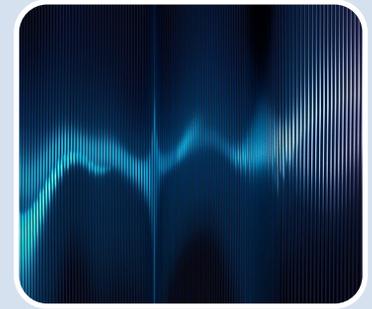
Capital
protection
instead of
earnings
stabilizers



No capital
depletion



Claims
activity
driven by
secondary
perils



Investor
pressure
behind
underwriting
discipline
longer

Outlook: Life & Annuity

US Life & Annuity: Maintaining at Stable



Strong capitalization across the industry



Top line growth in most core lines of business



Consistent profitability

US Life & Annuity: Factors Countering Positives



Increased allocation to higher risk assets



Potential for further interest rate cuts



Ongoing drag of legacy liabilities

Outlook: Health Outlook

US Health segment: Maintaining at Stable



Good capitalization
and liquidity



Solid commercial
segment



Moderating rate
pressures at
provider contract
renewals



Continued
favorable net
investment
outcome

Outlook: Delegated Underwriting Authority Enterprises (DUAEs)

Delegated Underwriting Authority Enterprises (DUAЕ): Maintain at Positive



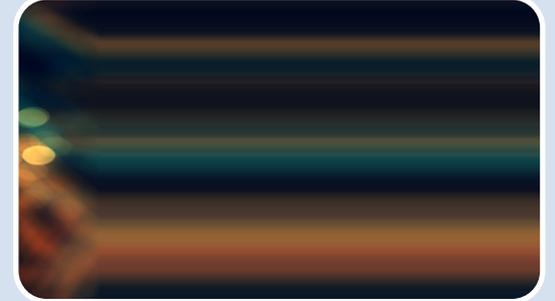
Sustained growth
and resilience
globally



Capacity continues
to be sufficient



Offer niche
expertise and
tailored solutions



Continued
Investment in talent
and tech

DUAE: Factors Countering Positives



Greater dependence on reinsurance and more stringent underwriting conditions in the Lloyd's market



Execution risks for DUAE startup operations and fronting carriers



Scrutiny of DUAEs by market participants

2025 AM Best Market Segment Outlooks Summary

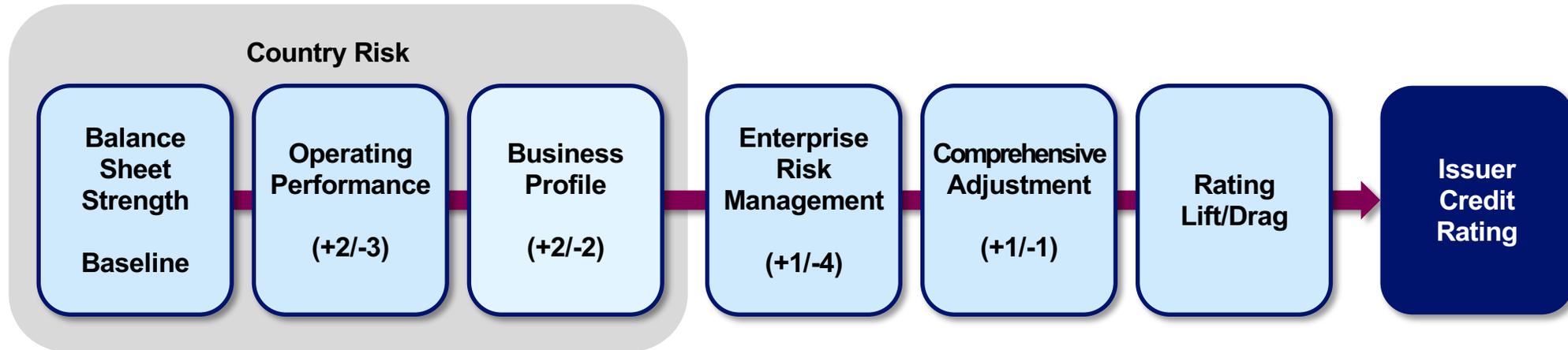
AM Best Market Segment Outlooks

- ✓ Revised the outlook to **Stable** from **Negative** for **US Personal Lines**
- ✓ Revised the outlook to **Positive** from **Stable** for **Global Reinsurance**
- ✓ Maintaining a **Stable** outlook for the **US Commercial Lines**
- ✓ Maintaining a **Stable** outlook for the **US Life & Annuity**
- ✓ Maintaining a **Stable** outlook for the **US Health segment**
- ✓ Maintaining a **Positive** outlook for the **Delegated Underwriting Authority Enterprises (DUAE)**

Innovation



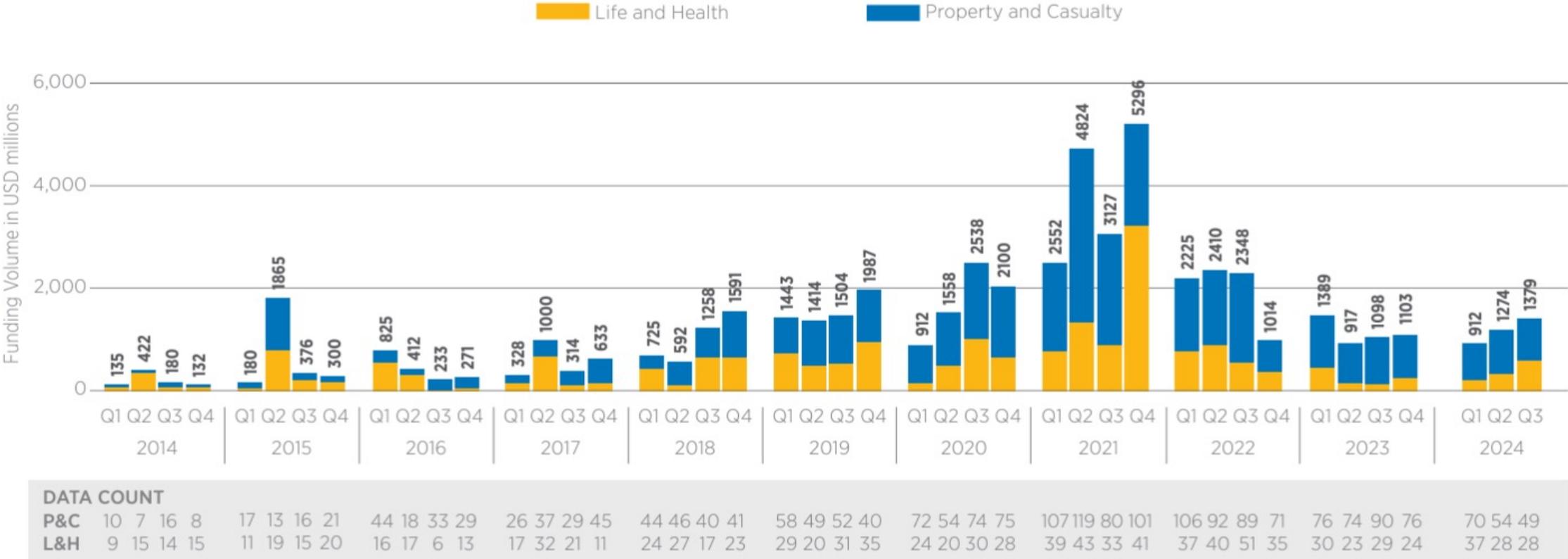
Where Innovation Fits in AM Best Methodology for Ratings



Business Profile Components	
• Market Position	• Management Quality
• Pricing Sophistication & Data Quality	• Regulatory, Event and Country Risks
• Product Risk	• Distribution Channels
• Degree of Competition	• Product/Geographic Concentration
• Innovation	

Deepening Relationships to Drive the Digital Transformation

Quarterly InsurTech Funding Volume – All Stages



Source: Gallagher Re



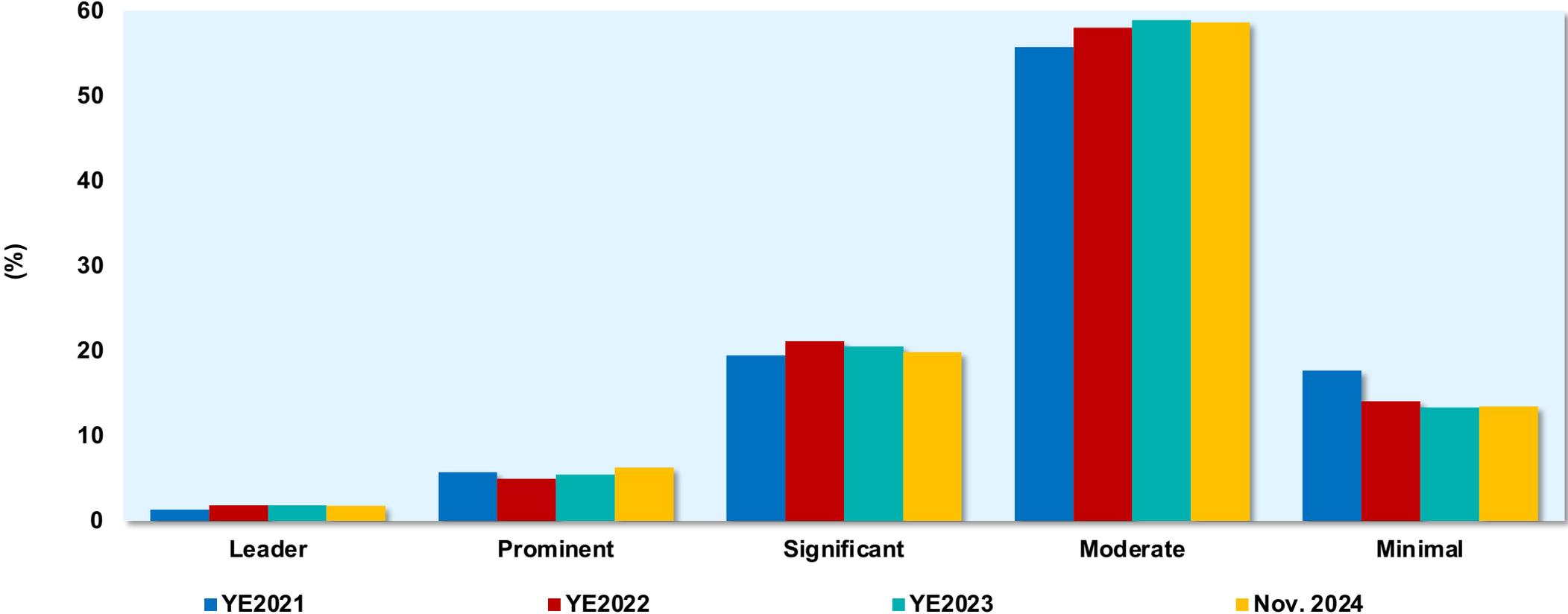
Innovation: Recurring Themes

- Enhancing the customer experience
- Unlocking operating efficiencies
- Improving underwriting performance
- Deepening relationships to drive the digital transformation
- Expanding digital ecosystems



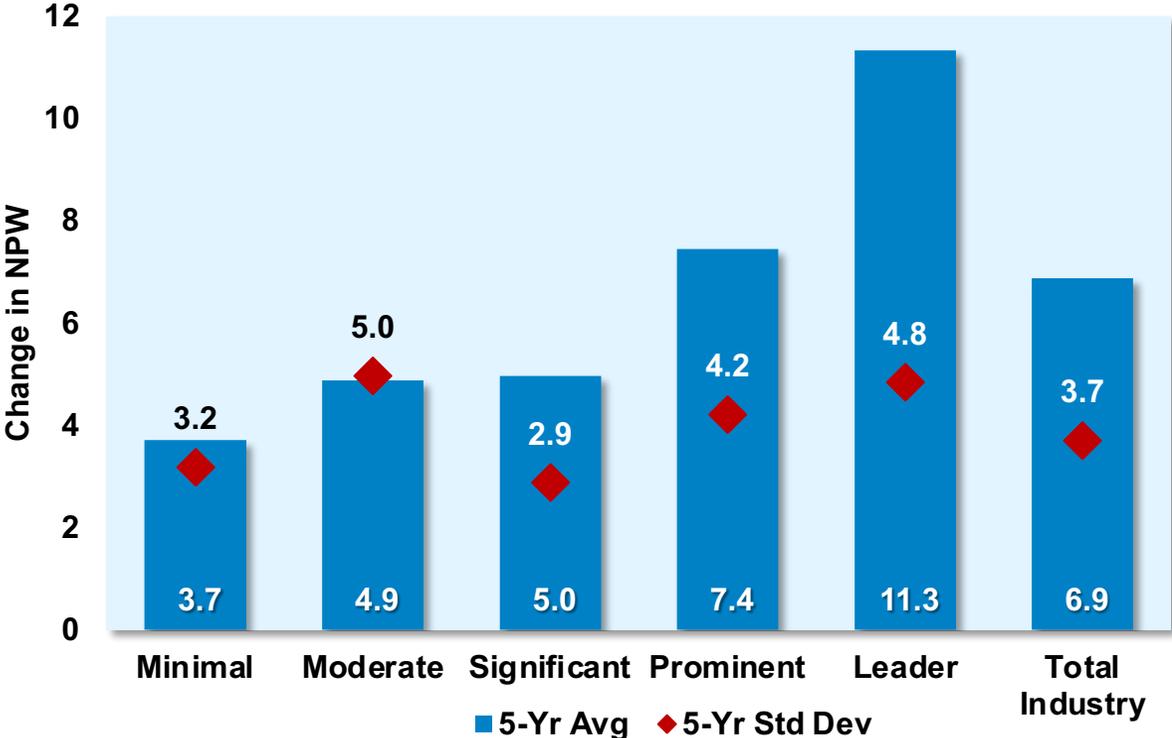
Innovation Distribution Median “Moderate”

Innovation Assessment Distribution

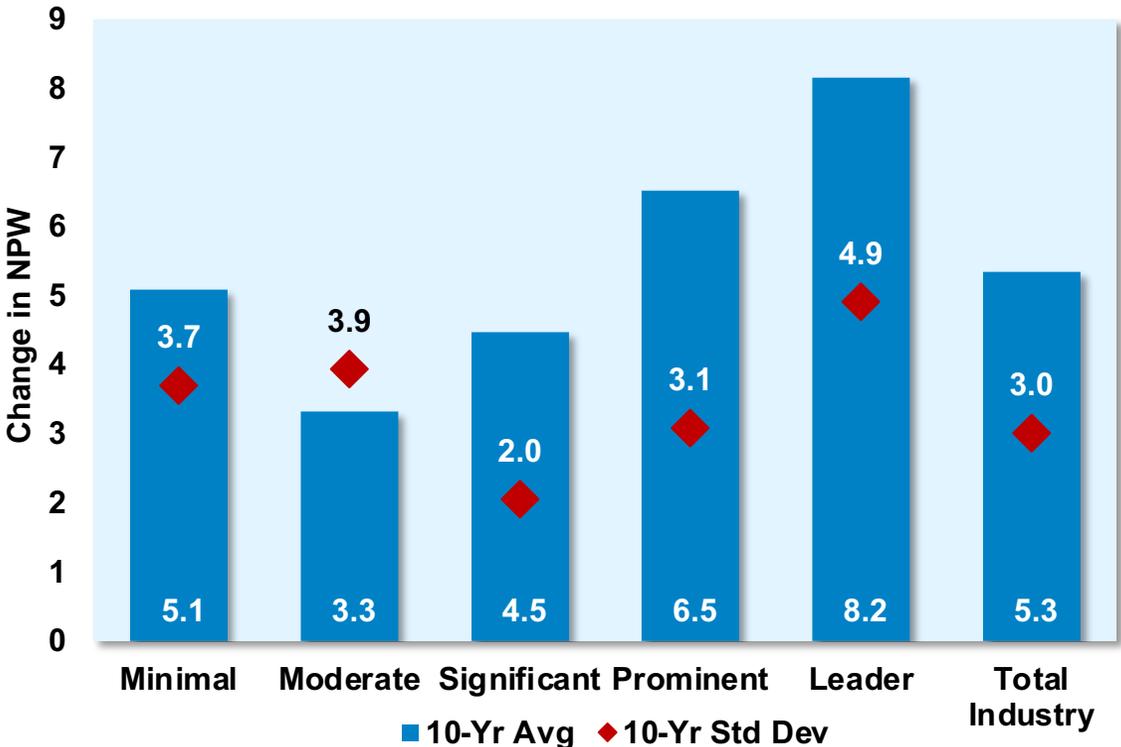


P/C Industry: NPW Change by Level of Innovation

5-Yr Net Premiums Written Change

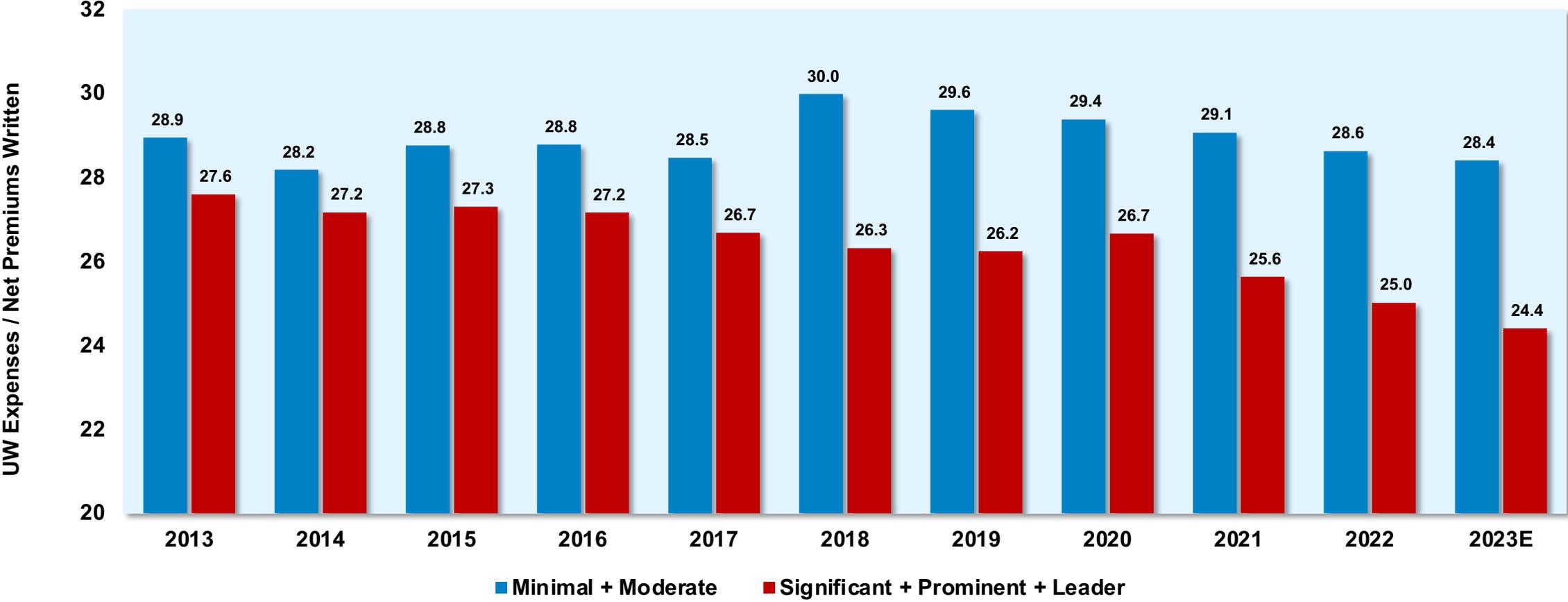


10-Yr Net Premiums Written Change



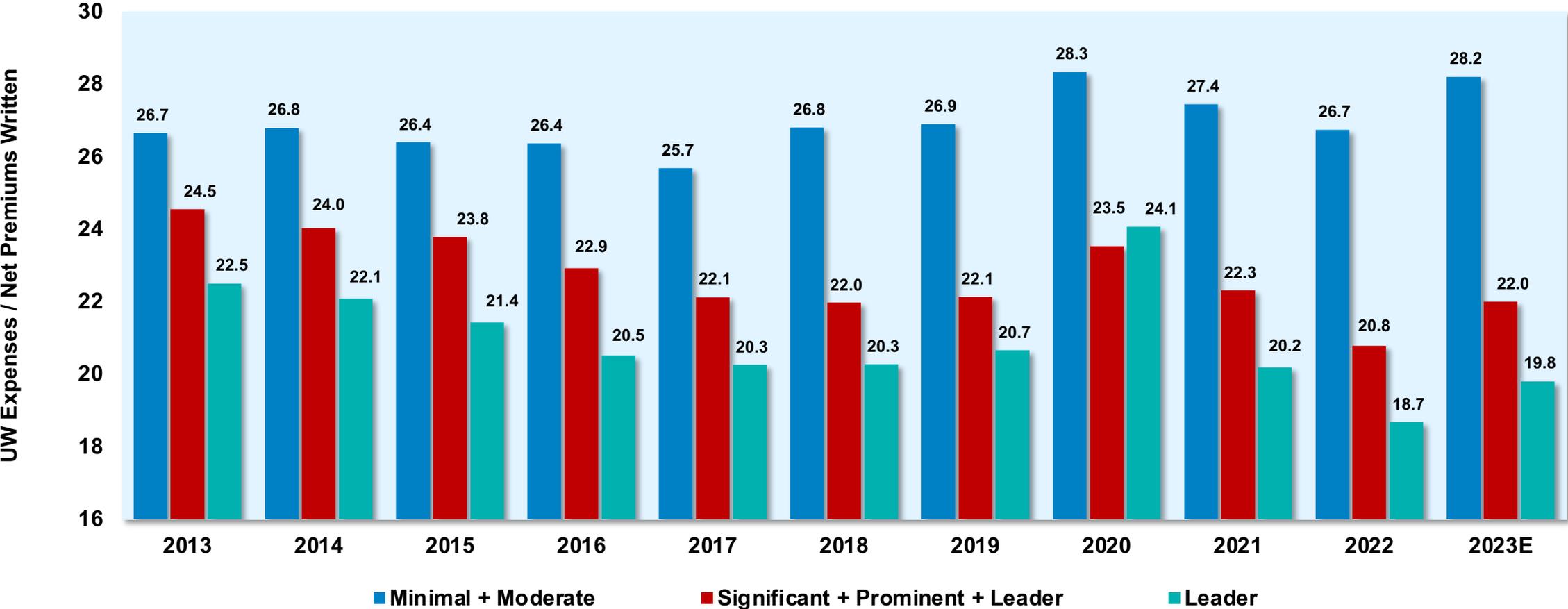
P/C Industry: Expense Ratio by Level of Innovation

Underwriting Expense Ratio



Personal Auto Example: Expense Ratio by Level of Innovation

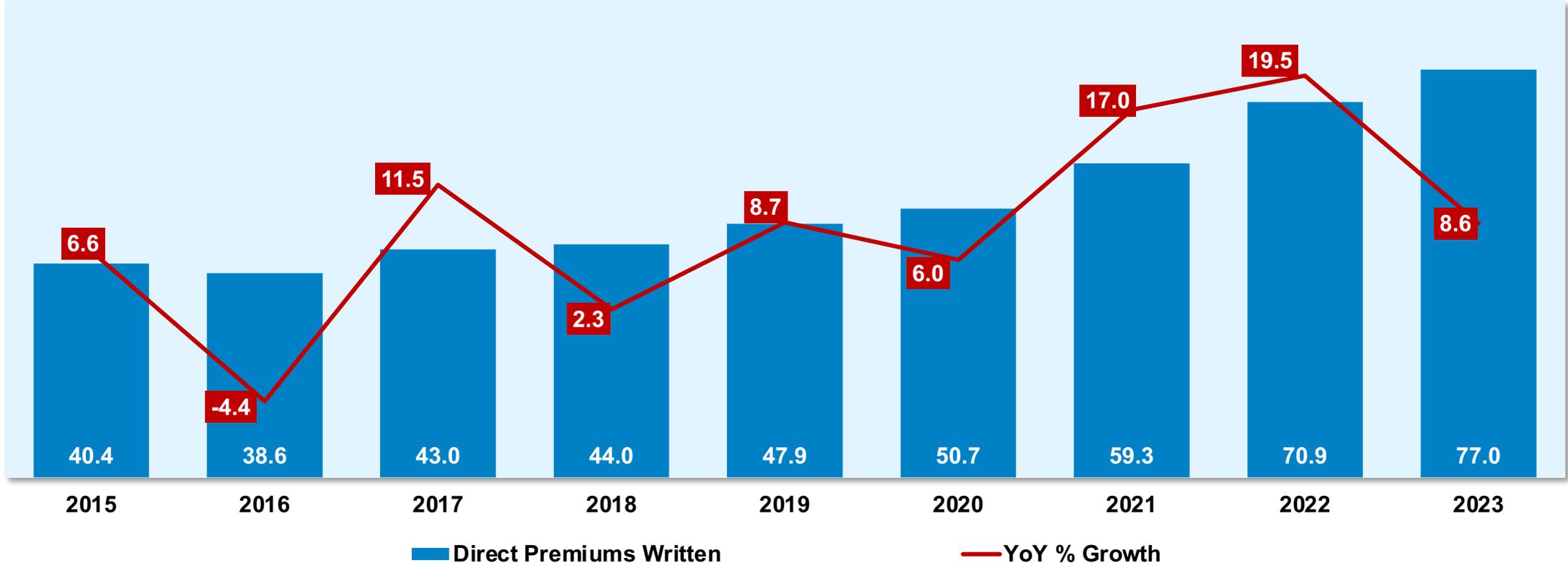
Underwriting Expense Ratio



DUAE Status

Growth of DUAEs/MGAs

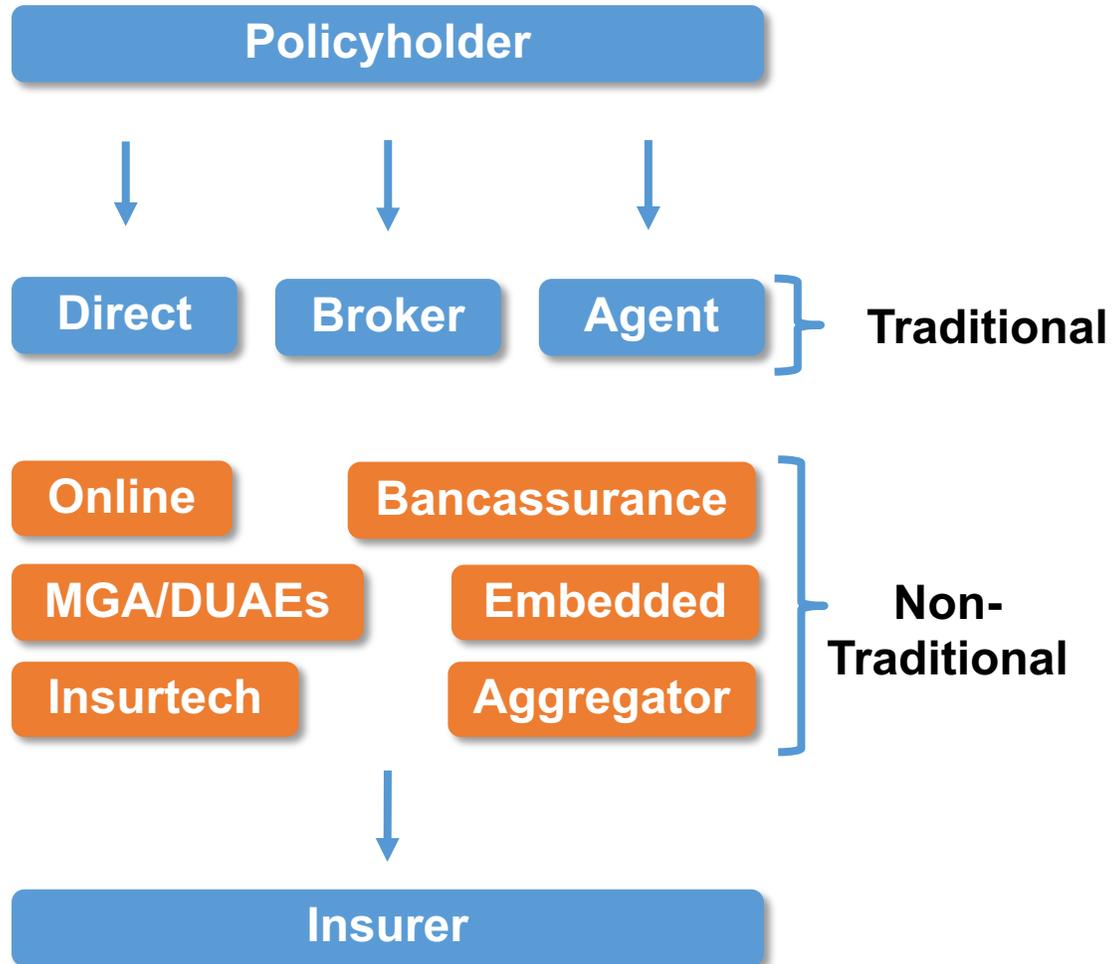
US Property & Casualty MGA Direct Premiums Written (USD billions)



Source: BestLink, AM Best data and research



Evolution of Insurance Distribution



Distribution Trends

- Multi-channel
- Non-traditional channels
- Technology
- Delegated authority

Channel Considerations

- Growth & Access
- Cost
- Segment
- Competition

AM Best Rating Movements

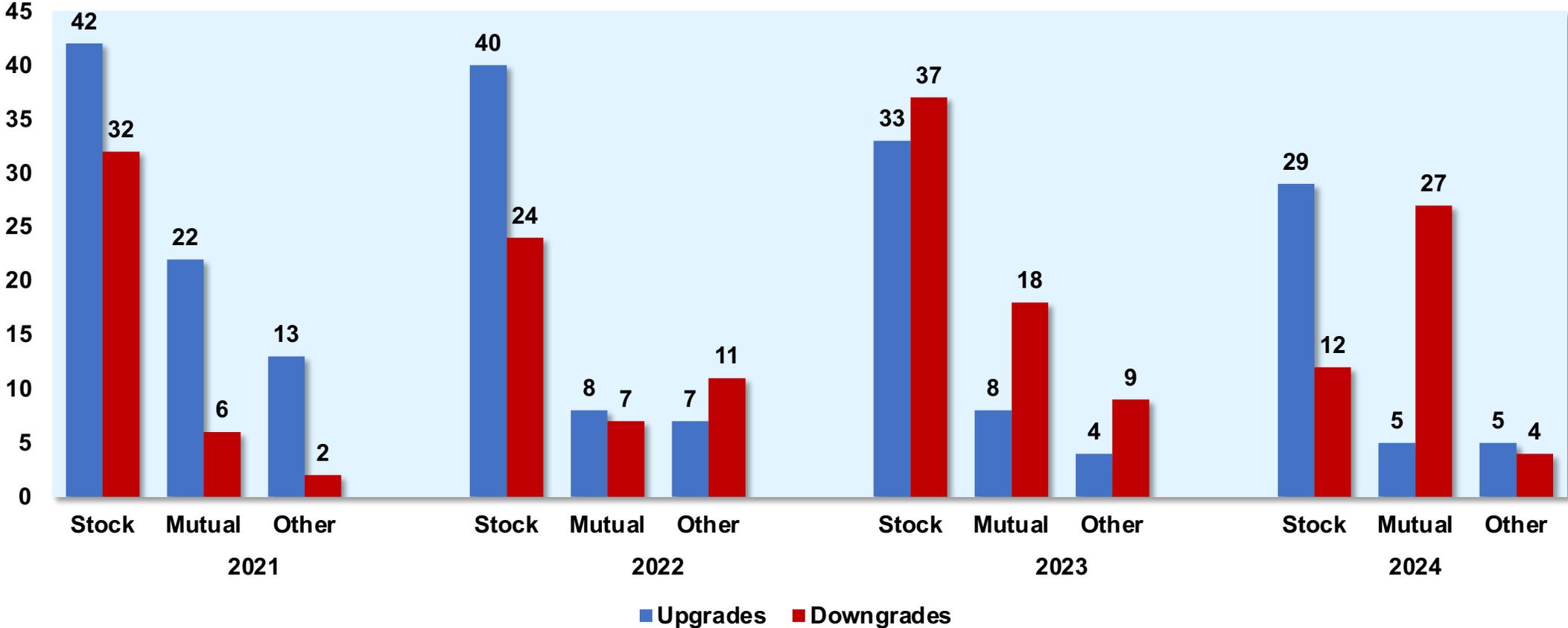


A Perfect Storm for US PC Insurers

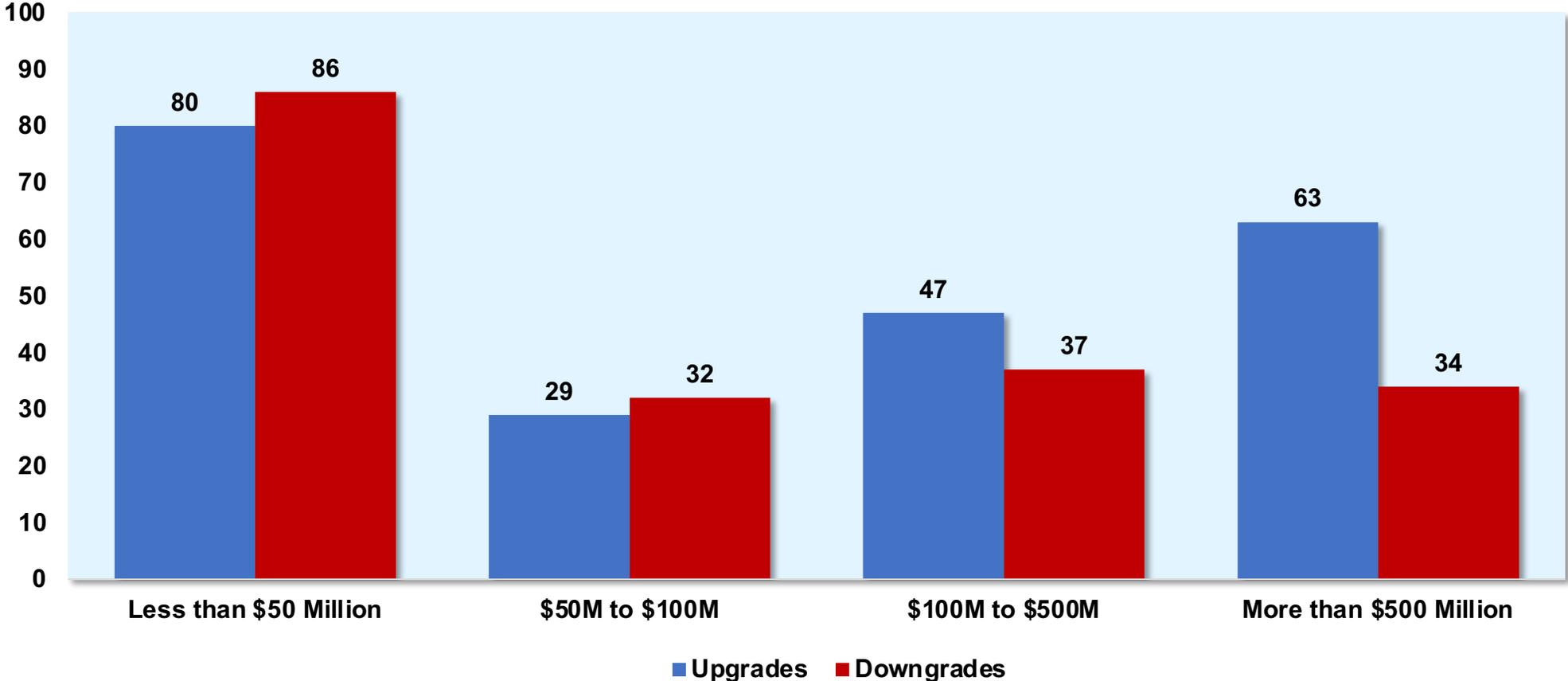


Ratings Movement by US P/C Org Type

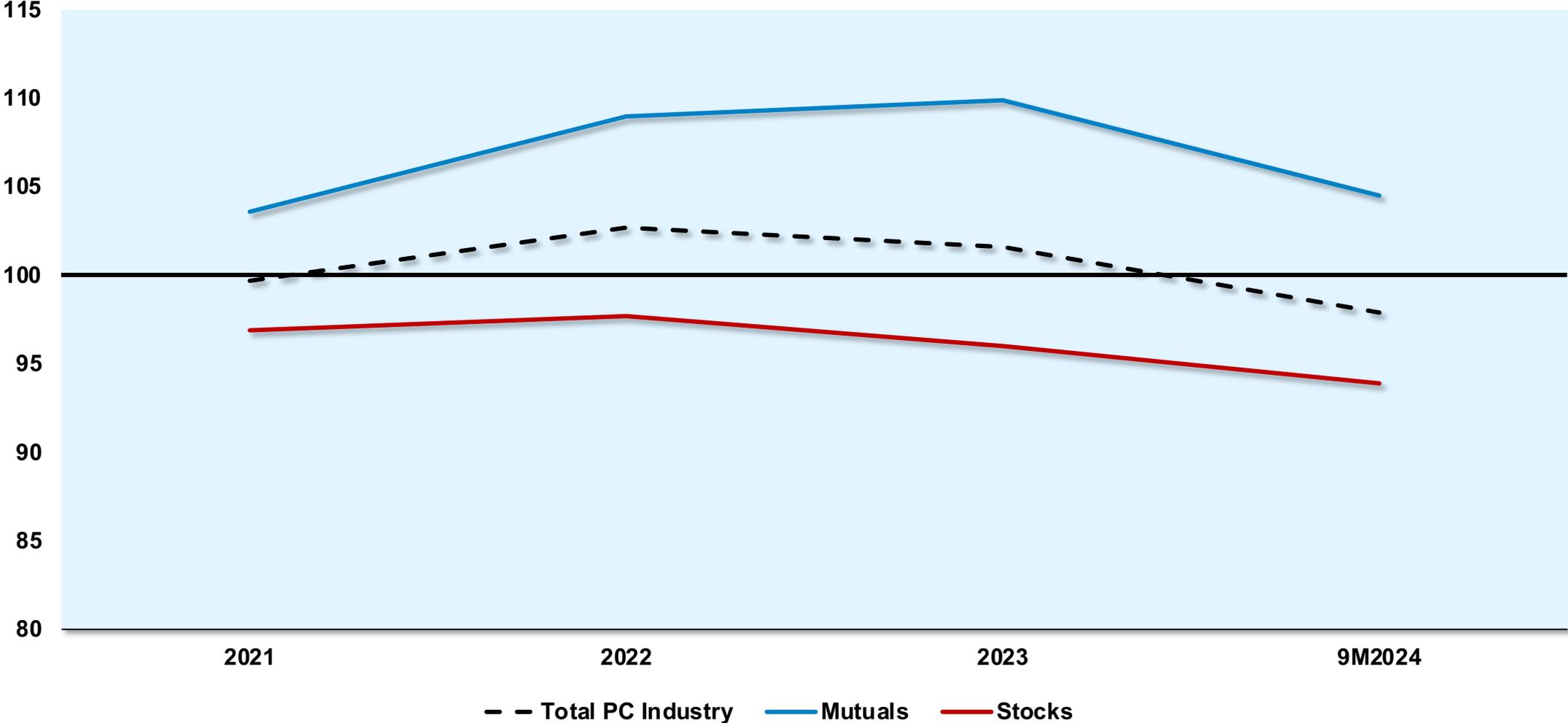
ICR Changes Per Organization Type 2021-2024



Ratings Movement by US P/C Capital & Surplus (2021-2024)



Combined Ratio by Organization Type



Looking ahead in 2025

Trends Starting the Year

- Insurance Continues to Evolve
- Change in Rate of Innovation has been Substantial
- ESG Trend is Deteriorating
- Financial Strength Stable
- Insurance is Currently Suffering a Public Relations Problem

"Insurance is the only product that both the buyer and seller hope is never used."

— Unknown



...and from a wiser man

~~**"In the long run we are all dead."** — John Maynard Keynes~~

"In the business world, the rearview mirror is always clearer than the windshield. That's why insurance exists."
— Warren Buffett



Questions?



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