

# AMBEST

## **Gen Re Executive Forum**

**Andrea Keenan – Executive Vice President & Chief Strategy Officer**

**January 14, 2025**

# Agenda

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**2025 Market Segment Outlooks**

**Update: Innovation**

**Status: DUAЕ**

**Trend: Ratings Pressure**

**Looking Ahead in 2025**

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***"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."***

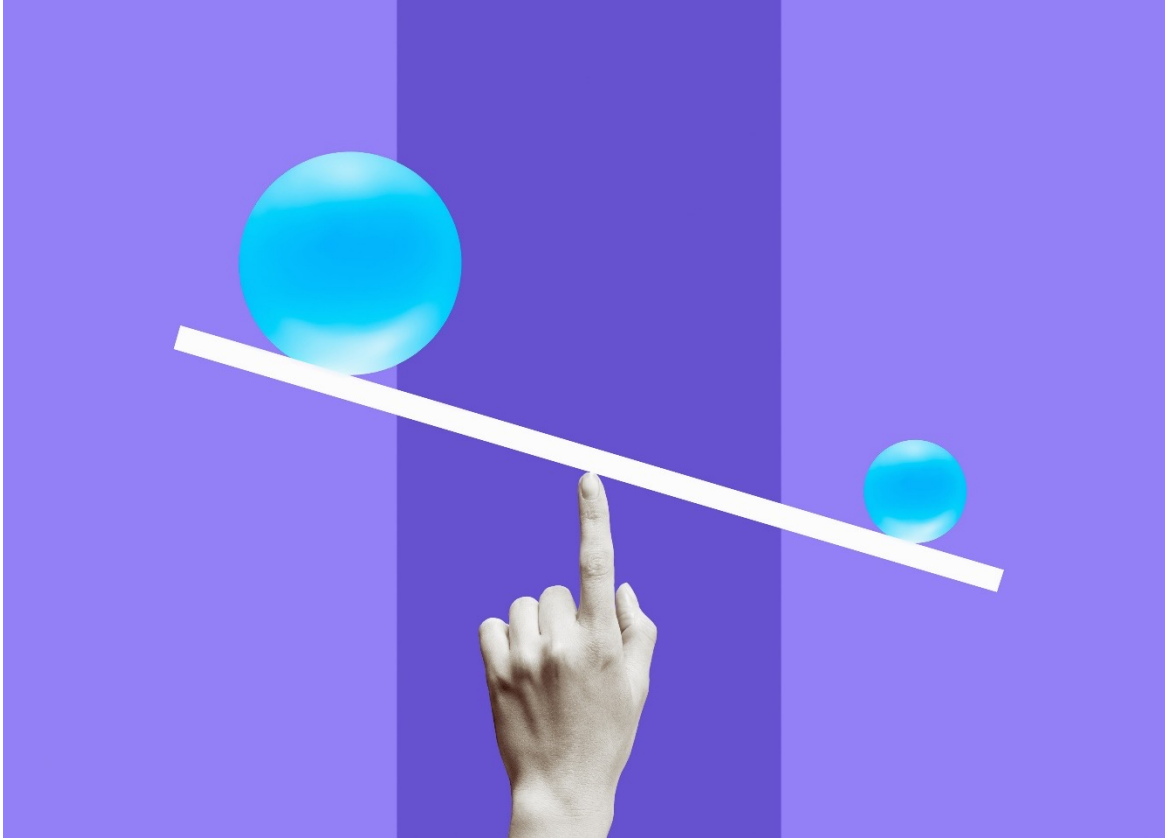
— John Maynard Keynes

# 2025 AM Best Outlook



# “Market Segment Outlooks”

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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 regulatory environment; 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 a change.

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®

December 2, 2024

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

## BEST'S MARKET SEGMENT REPORT

### 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

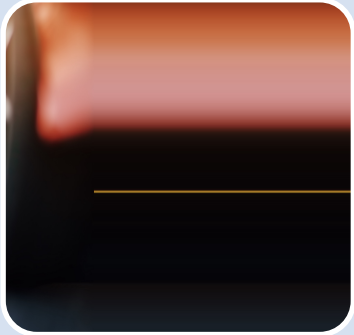
#### Rate and Refined Underwriting Gain Traction

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



# Outlook: Personal Lines

# US Personal Lines: Moving from Negative outlook to Stable



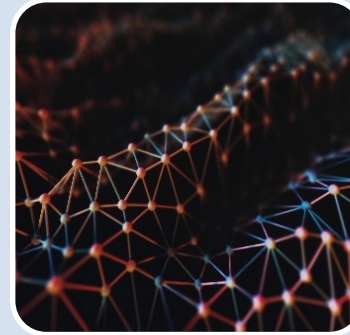
Improved  
personal auto  
underwriting



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



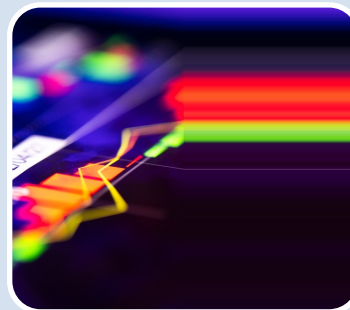
Persistently strong underwriting performance



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



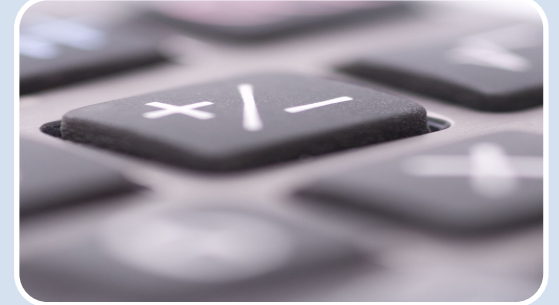
Elevated casualty  
claims



High property  
claims



Geo-political risks  
following US  
elections



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



# Outlook: Global Reinsurance

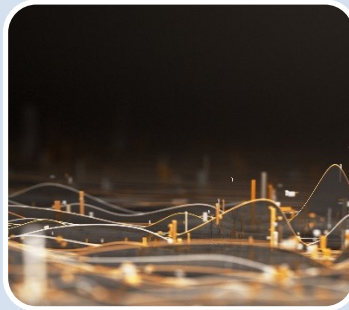
# Global Reinsurance: Moving from Stable outlook to Positive



Not just re-  
pricing but  
de-risking



Sustainable  
underwriting  
margins



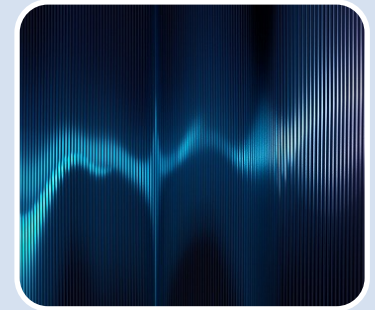
Capital  
protection  
instead of  
earnings  
stabilizers



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

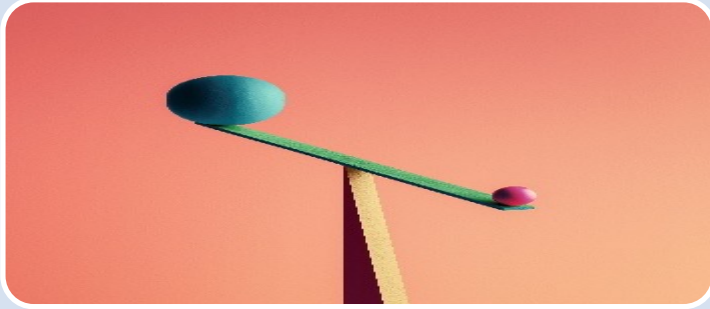


Top line growth in most core lines of business



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



## US Health: Factors Countering Positives



## Pressured Medicare advantage and Medicaid managed care earnings



## Ongoing growth of specialty medications and GLP-1s



## **Outlook: Delegated Underwriting Authority Enterprises (DUAEs)**

# Delegated Underwriting Authority Enterprises (DUAЕ): Maintain at Positive



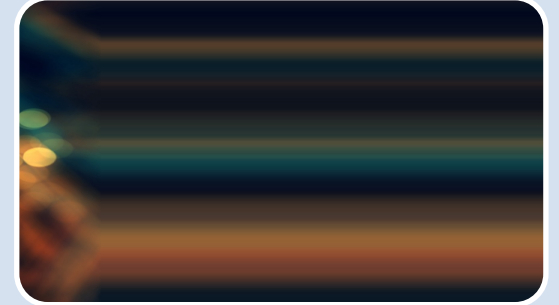
Sustained growth  
and resilience  
globally



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

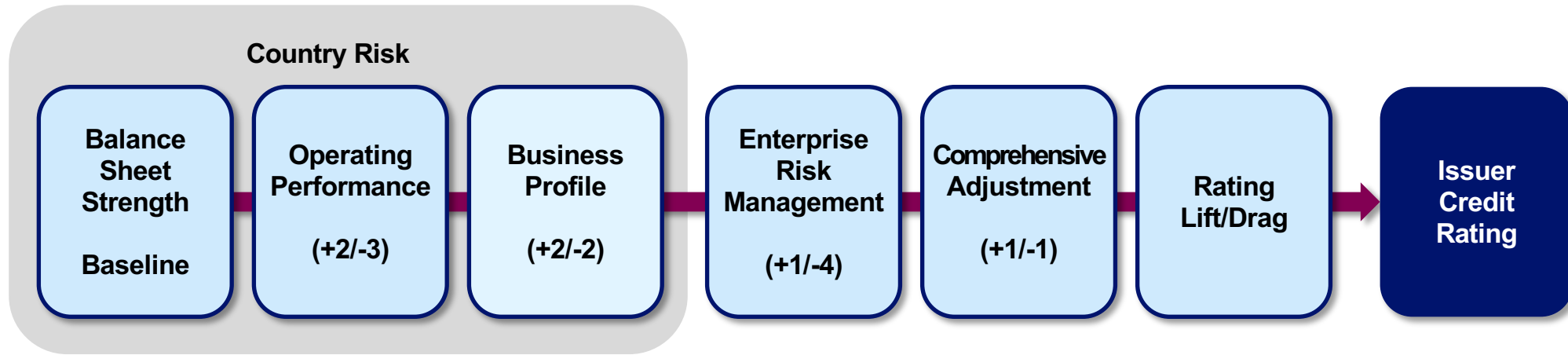
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## AM Best Market Segment Outlooks

- ✓ 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

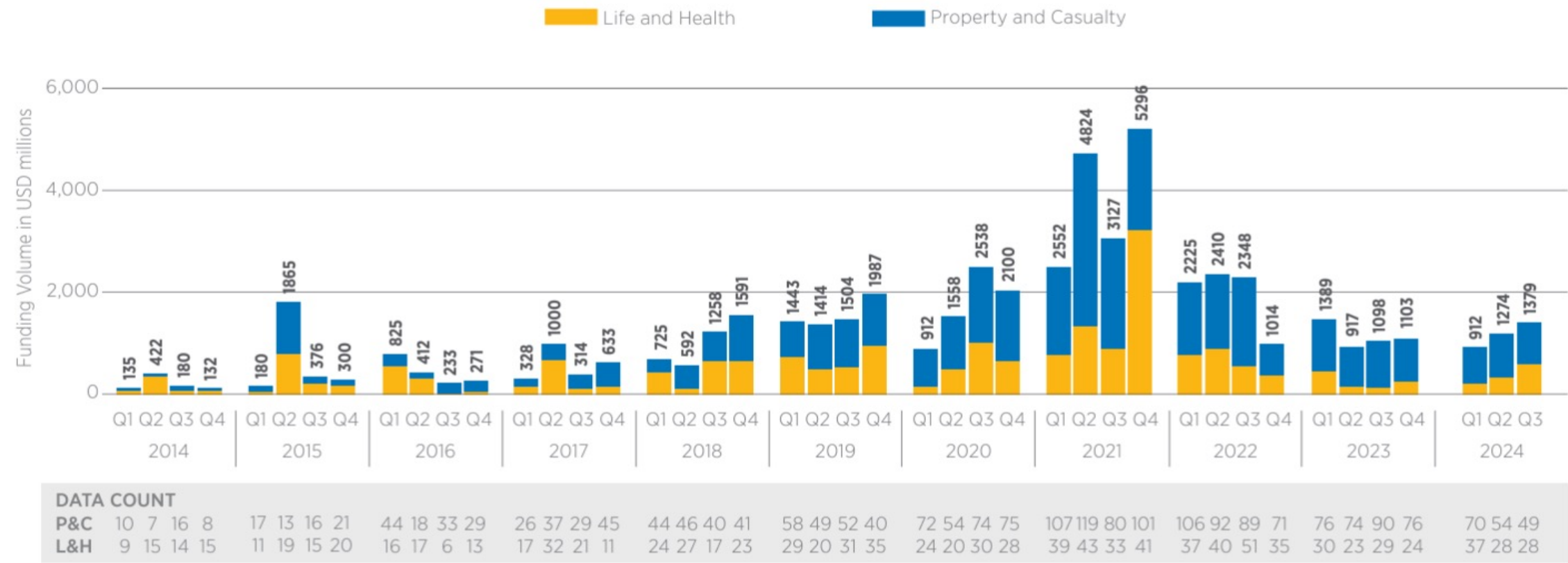
# Where Innovation Fits in AM Best Methodology for Ratings



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
• <b>Innovation</b>	

# Deepening Relationships to Drive the Digital Transformation

Quarterly InsurTech Funding Volume — All Stages



Source: Gallagher Re





# Innovation: Recurring Themes

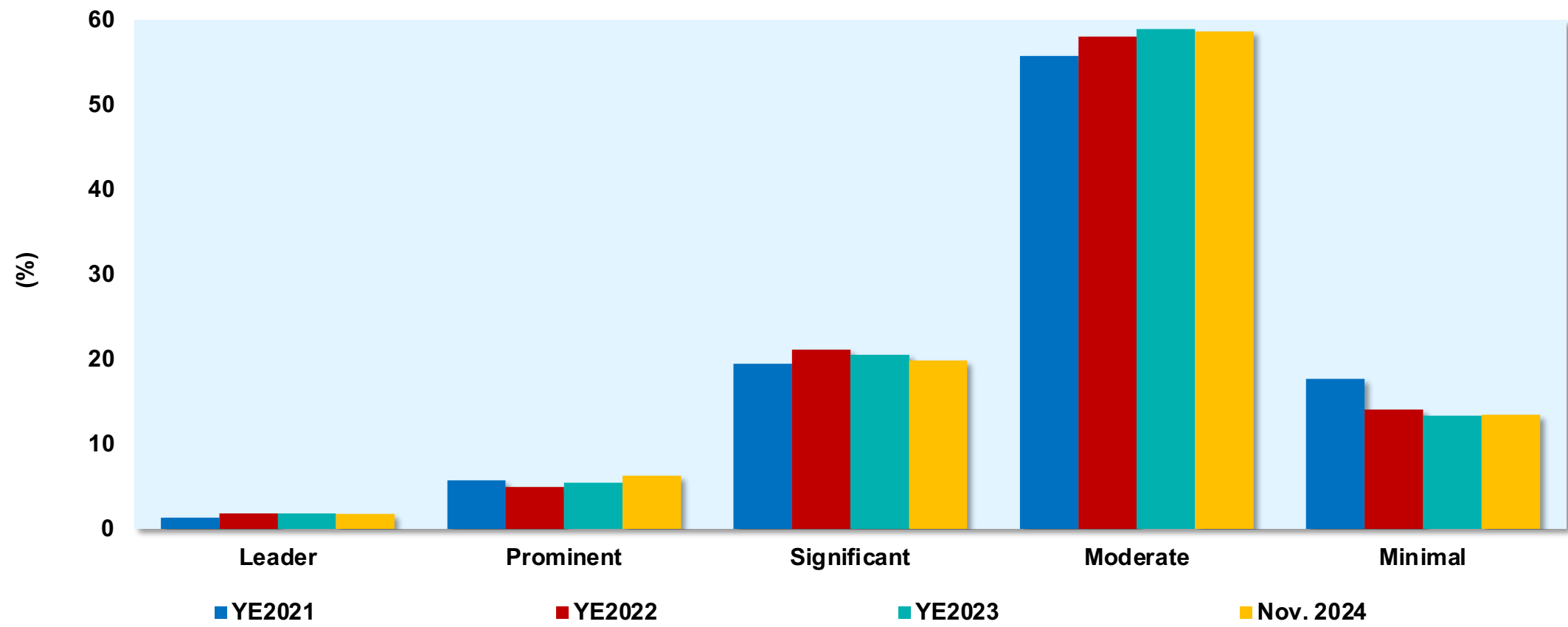
- Enhancing the customer experience
- Unlocking operating efficiencies
- Improving underwriting performance
- Deepening relationships to drive the digital transformation
- Expanding digital ecosystems



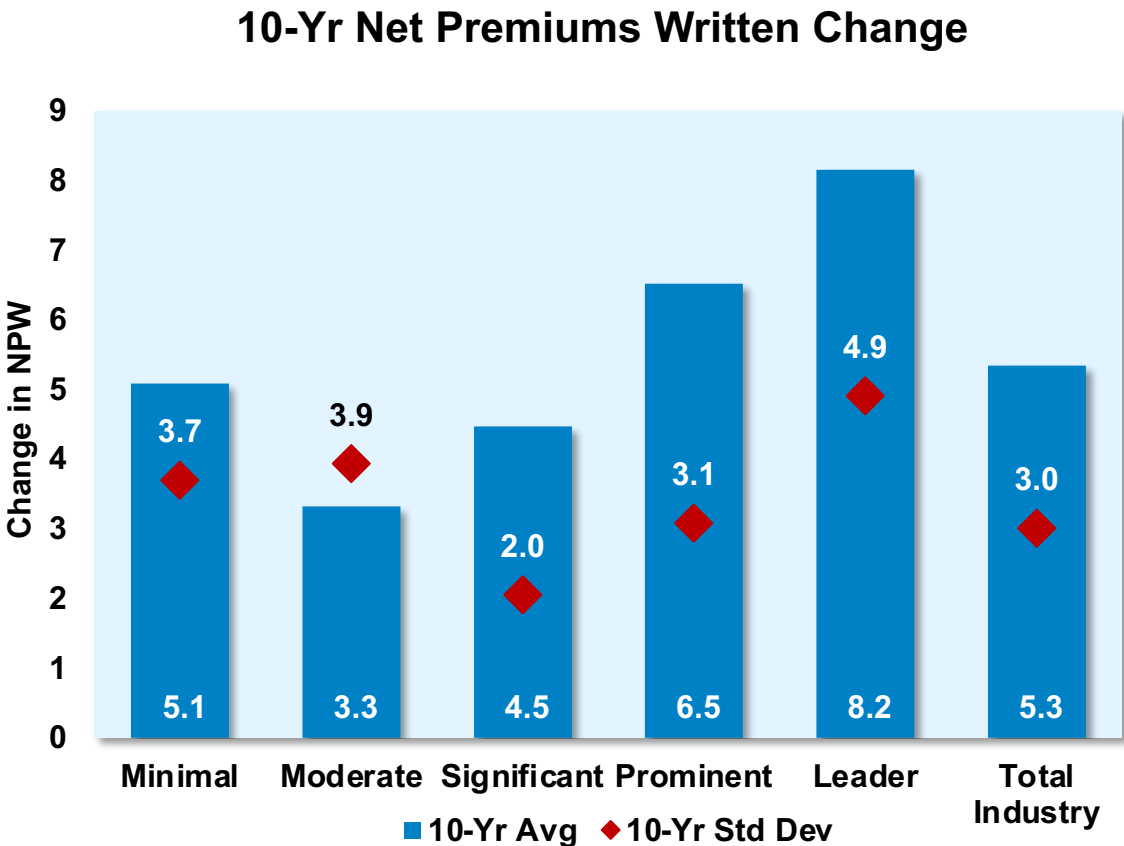
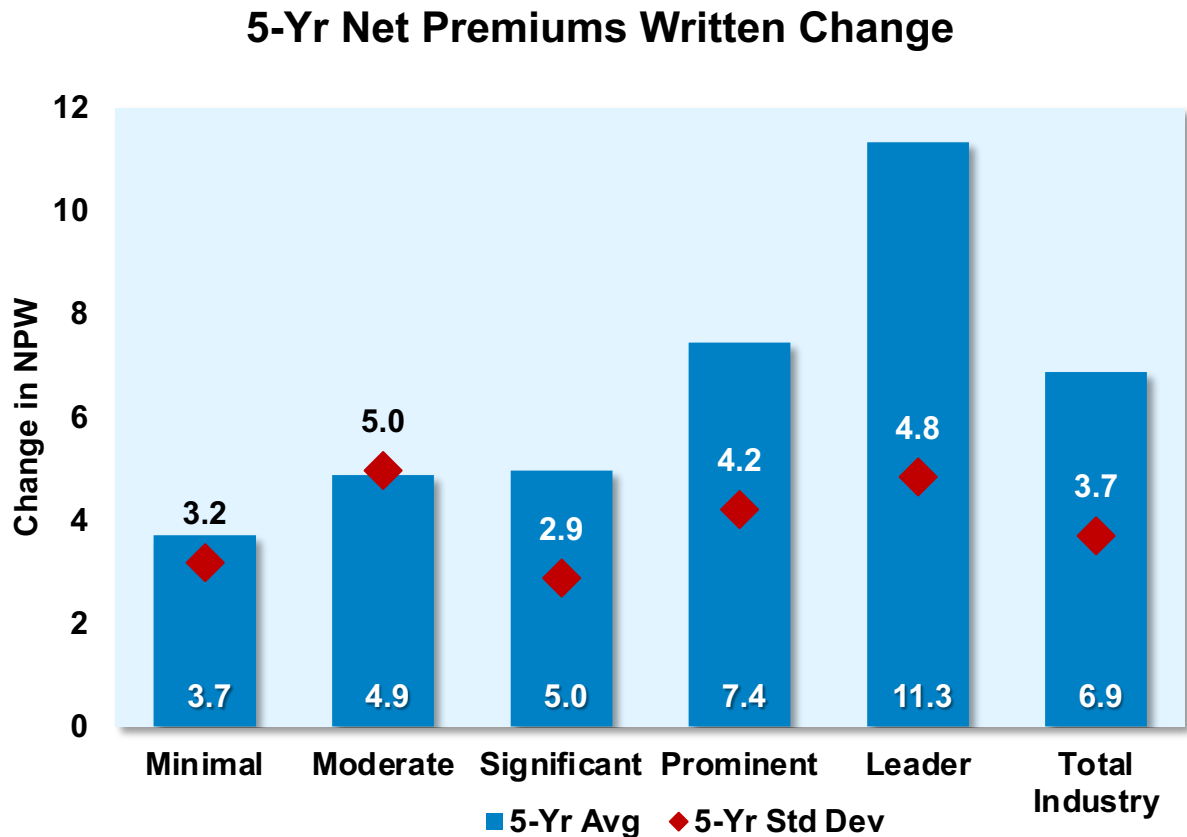


# Innovation Distribution Median “Moderate”

Innovation Assessment Distribution

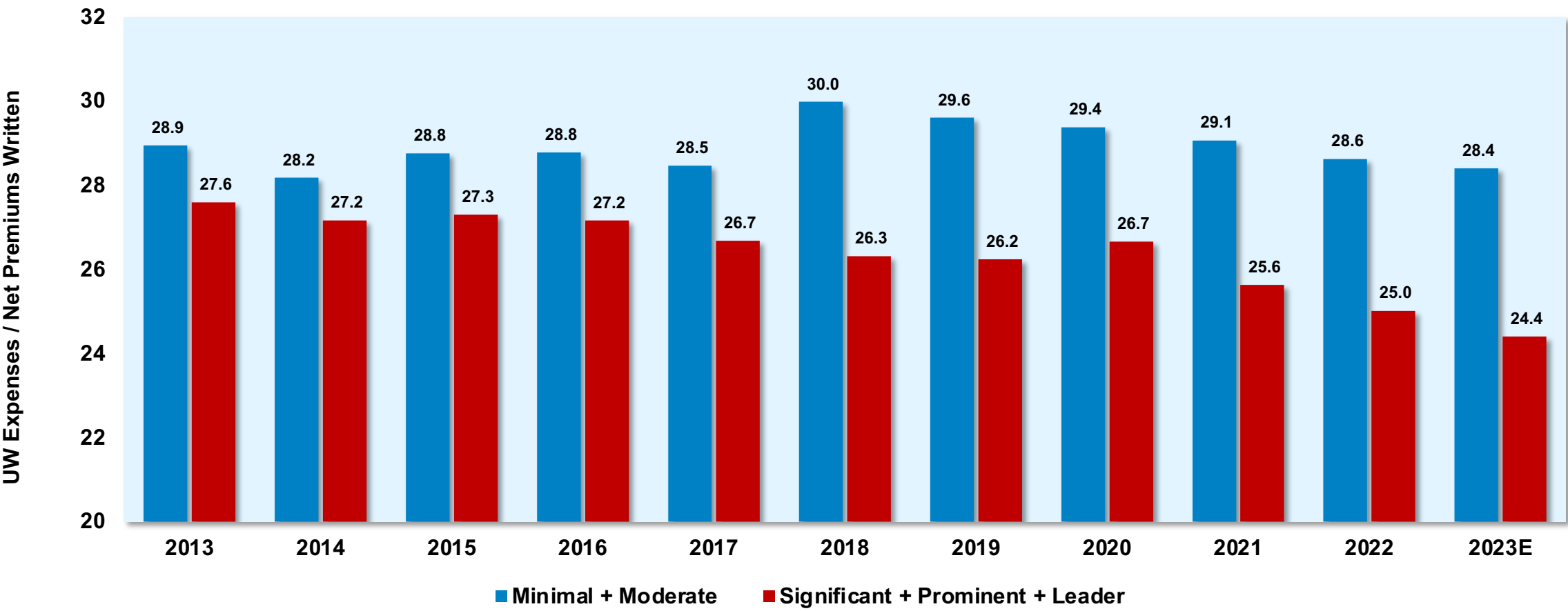


# P/C Industry: NPW Change by Level of Innovation

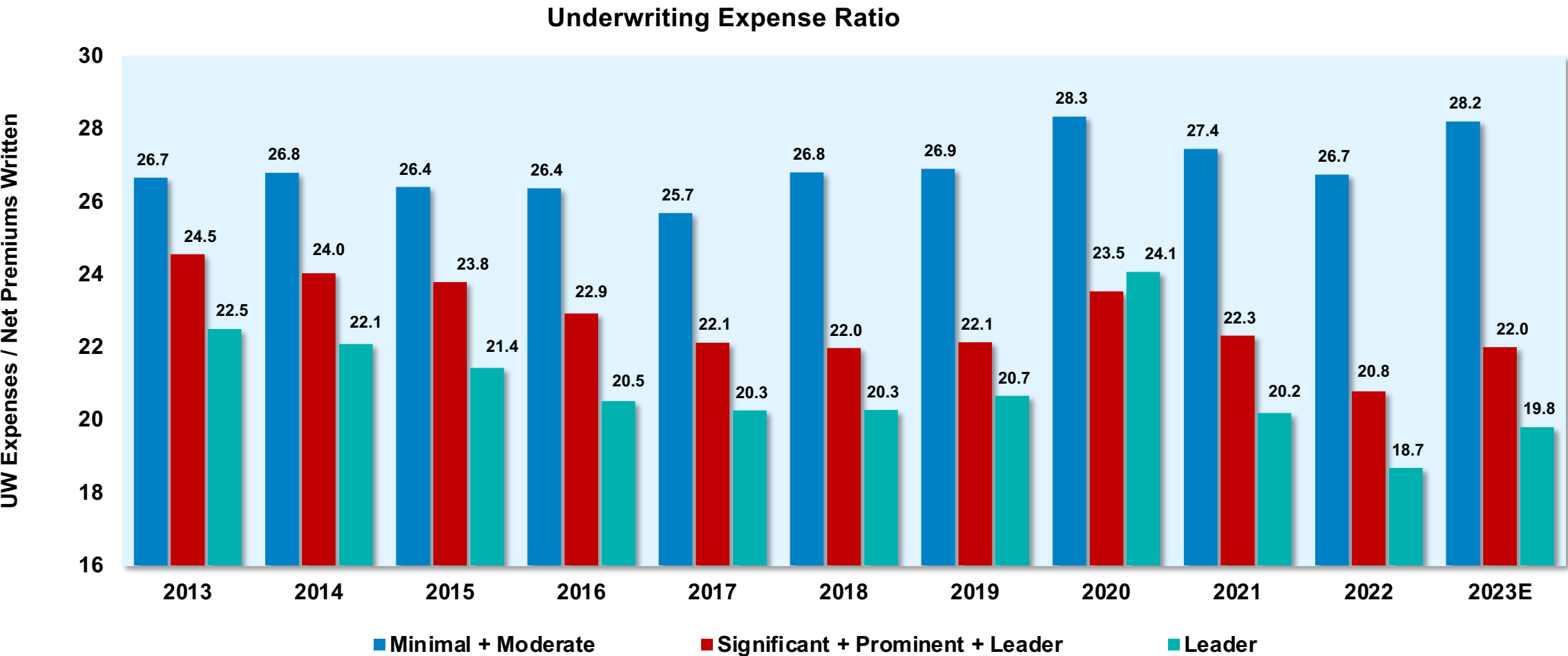


# P/C Industry: Expense Ratio by Level of Innovation

Underwriting Expense Ratio



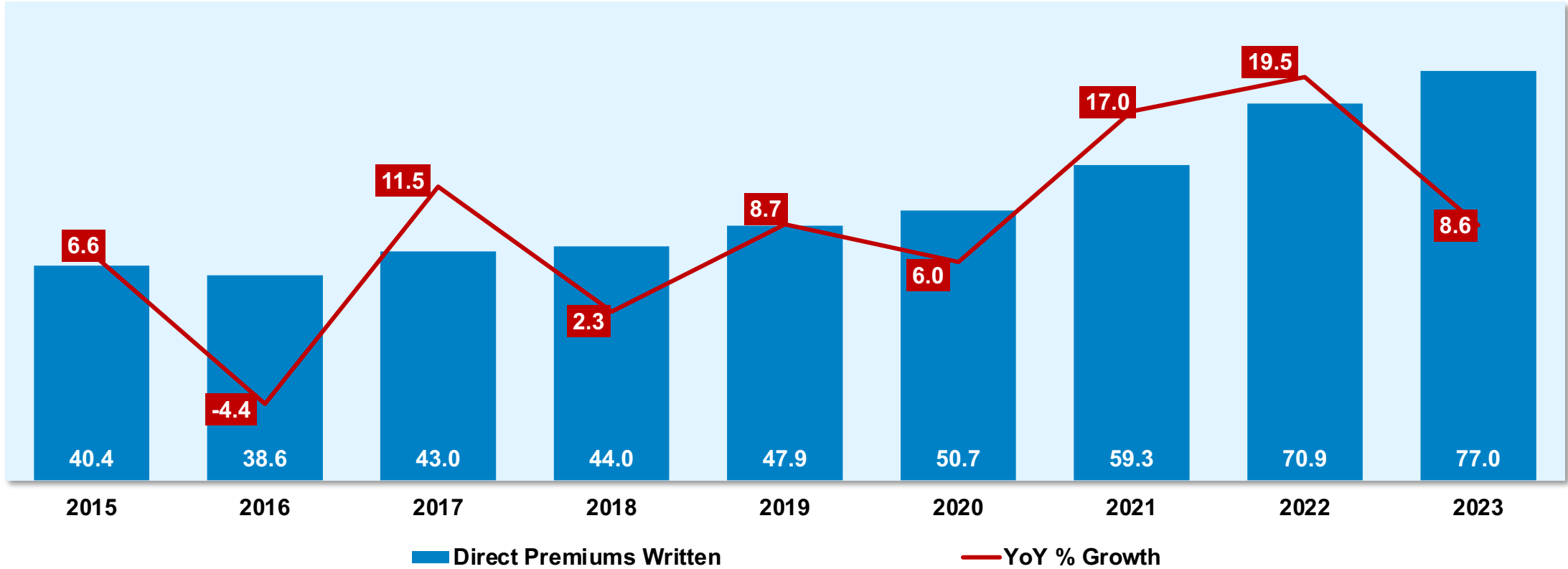
# Personal Auto Example: Expense Ratio by Level of Innovation



## DUAE Status

# Growth of DUAEs/MGAs

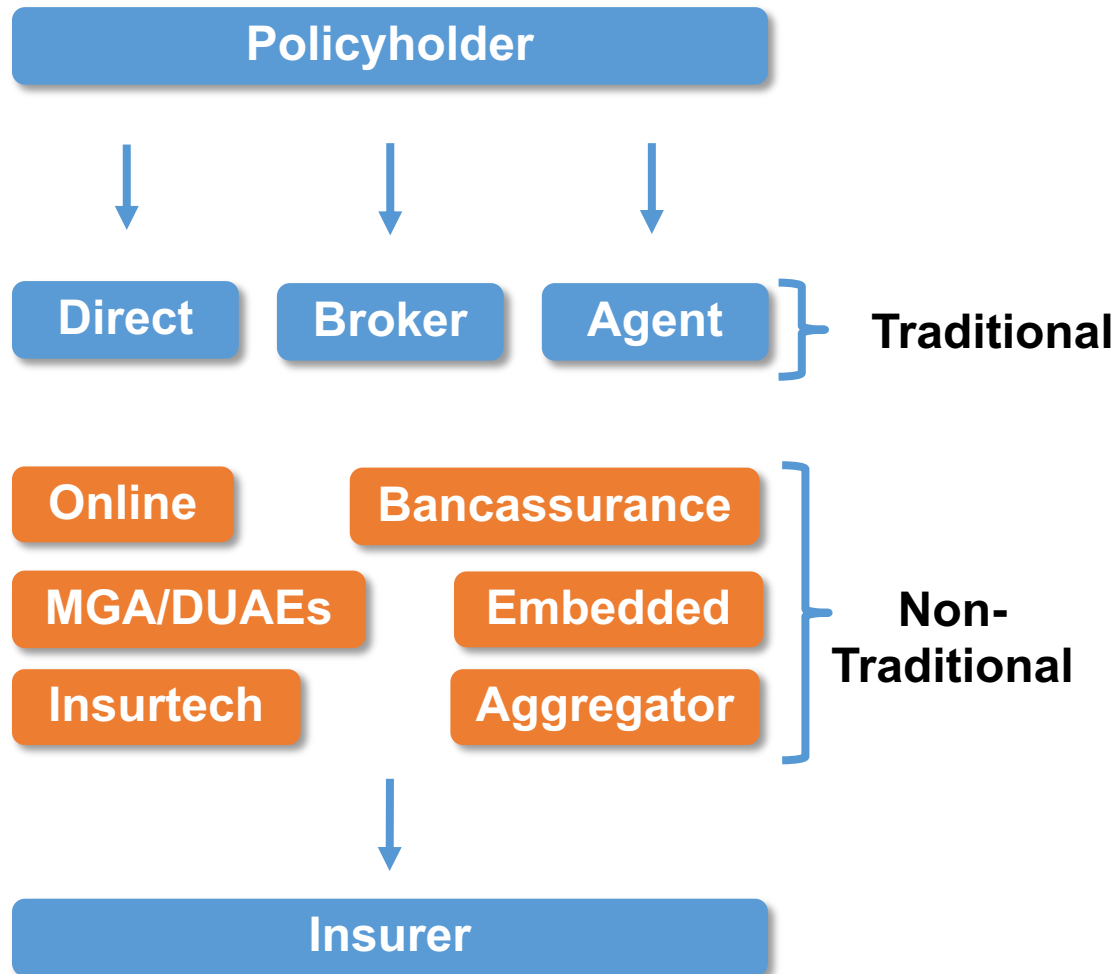
US Property & Casualty  
MGA Direct Premiums Written (USD billions)



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



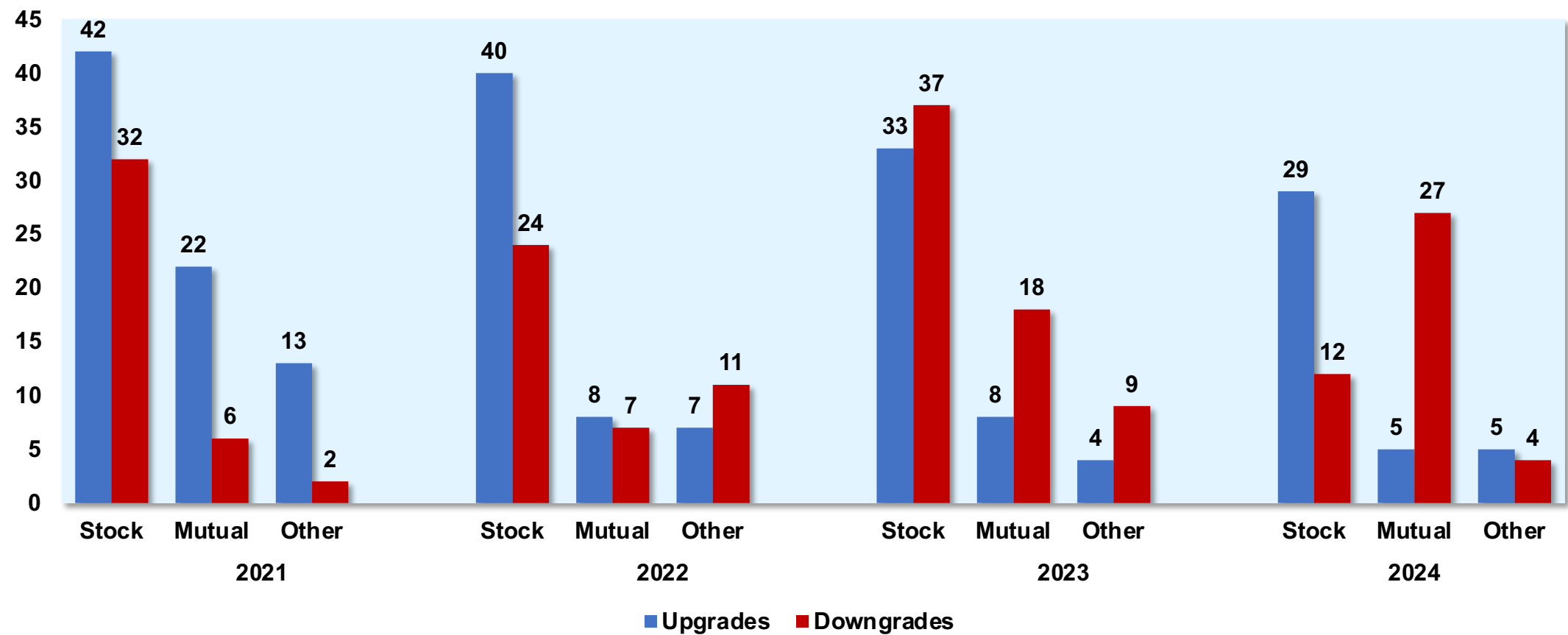
# A Perfect Storm for US PC Insurers

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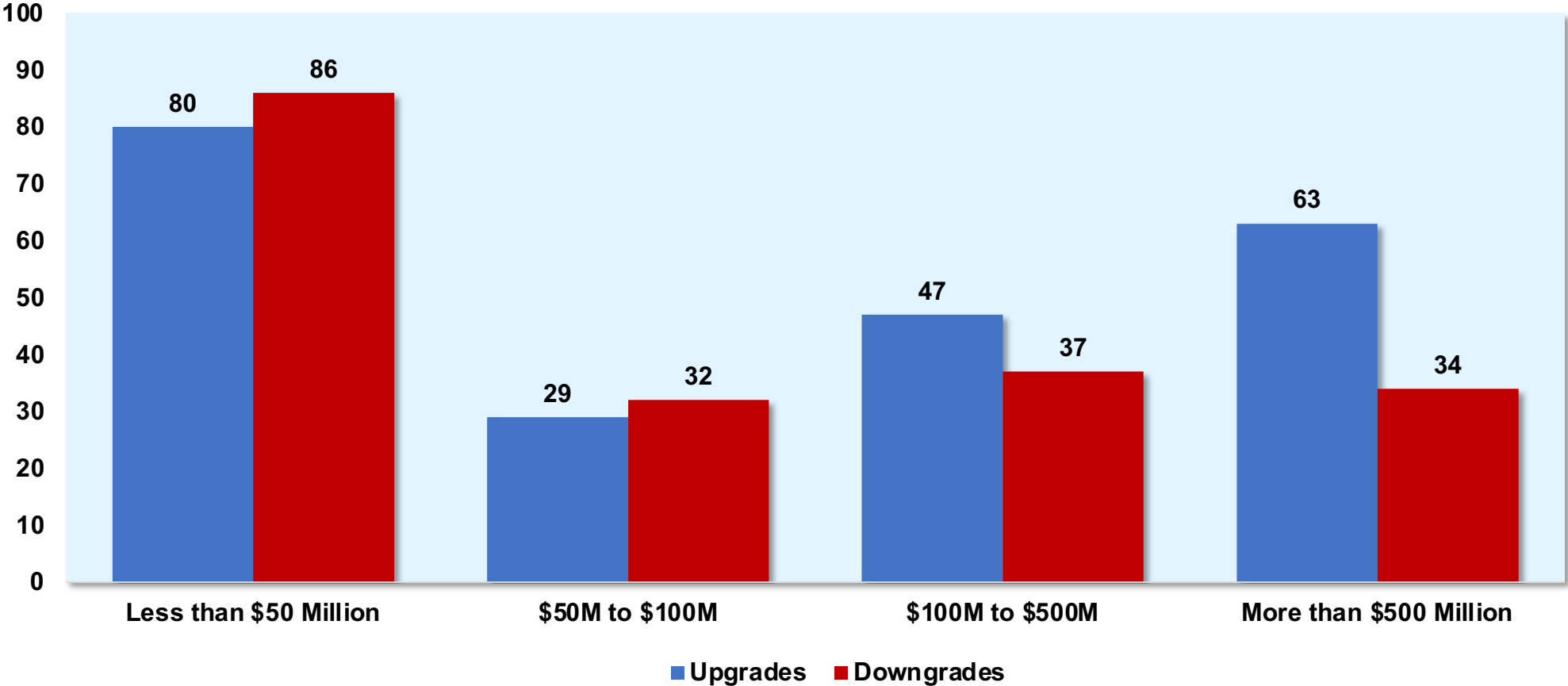


# Ratings Movement by US P/C Org Type

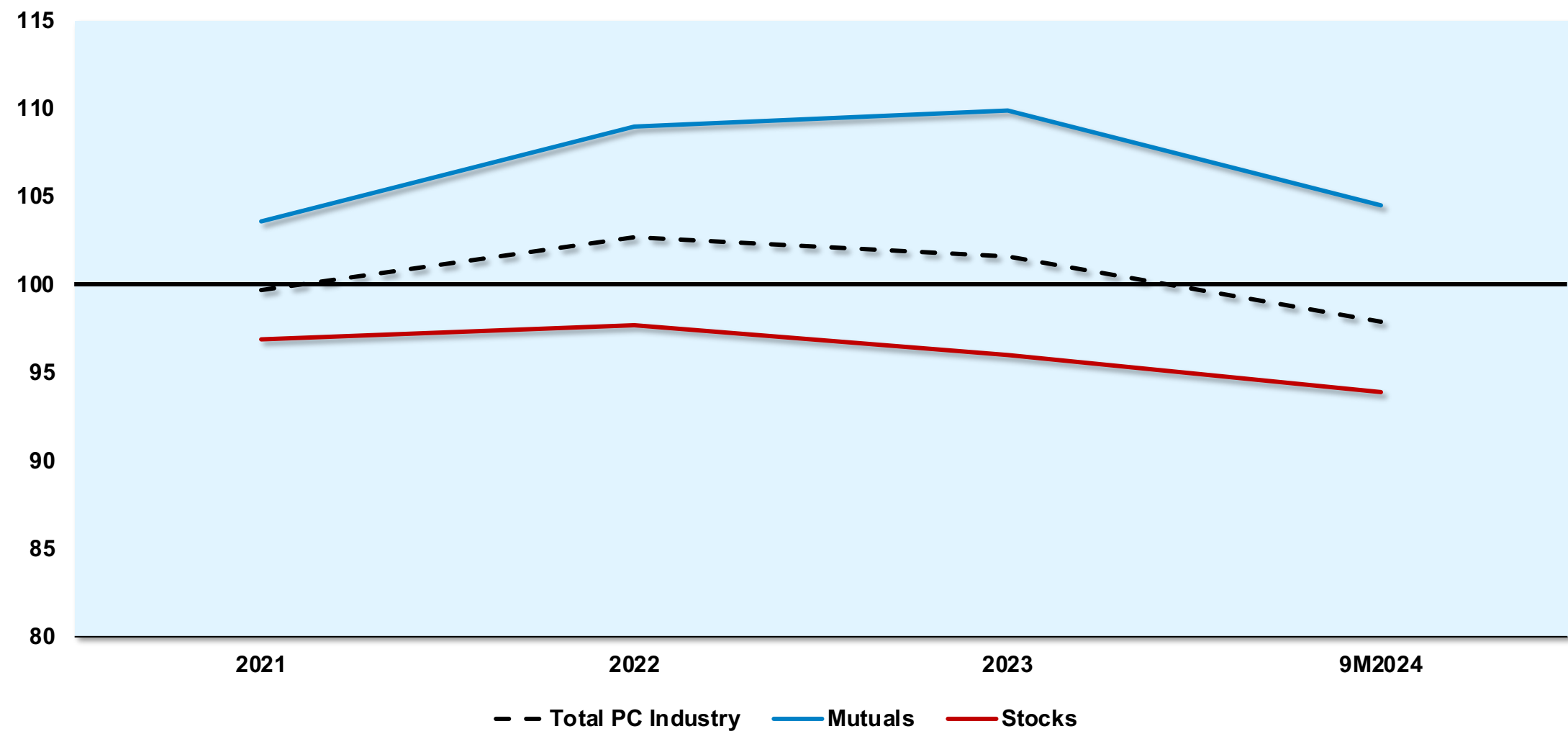
ICR Changes Per Organization Type 2021-2024



# 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

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~~***"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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